

# **The Royal Conservatory of Music**

**Consolidated financial statements  
August 31, 2019**

# Independent auditor's report

To the Members of  
**The Royal Conservatory of Music**

## Opinion

We have audited the consolidated financial statements of **The Royal Conservatory of Music** [the "RCM"], which comprise the consolidated balance sheet as at August 31, 2019, the consolidated statement of operations, the consolidated statement of changes in net assets and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the RCM as at August 31, 2019, and its consolidated results of operations and its consolidated 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 for not-for-profit organizations. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the RCM in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other 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.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the RCM'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 RCM or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 RCM'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 RCM'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 consolidated 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 RCM to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the RCM to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Toronto, Canada  
October 24, 2019



Chartered Professional Accountants  
Licensed Public Accountants

# The Royal Conservatory of Music

## Consolidated balance sheet

[in thousands of dollars]

As at August 31

	2019	2018
	\$	\$
<b>Assets</b> <i>[note 7[d]]</i>		
<b>Current</b>		
Cash	6,710	7,323
Accounts receivable <i>[notes 3 and 16]</i>	6,622	4,289
Inventory <i>[note 4]</i>	1,599	1,199
Prepaid expenses	127	112
<b>Total current assets</b>	<b>15,058</b>	<b>12,923</b>
Investments, fair value <i>[note 5]</i>	38,394	32,706
Capital assets, net <i>[note 6]</i>	116,622	119,597
	<b>170,074</b>	<b>165,226</b>
<b>Liabilities and net assets</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 7[e]]</i>	4,848	4,627
Deferred revenue	5,462	5,128
Deferred contributions <i>[note 9]</i>	7,457	6,898
Current portion of long-term indebtedness <i>[note 7[a]]</i>	754	681
<b>Total current liabilities</b>	<b>18,521</b>	<b>17,334</b>
Accrued benefit liability <i>[note 14]</i>	1,745	1,557
Long-term indebtedness <i>[note 7[a]]</i>	64,450	65,204
<b>Total liabilities</b>	<b>84,716</b>	<b>84,095</b>
Deferred capital contributions <i>[note 10]</i>	45,123	46,113
Commitments <i>[note 8]</i>		
<b>Net assets</b>		
Endowments <i>[note 11]</i>	42,114	39,143
Deficit	(1,879)	(4,125)
<b>Total net assets</b>	<b>40,235</b>	<b>35,018</b>
	<b>170,074</b>	<b>165,226</b>

See accompanying notes

On behalf of the Board:

Director

Director

## The Royal Conservatory of Music

### Consolidated statement of operations

[in thousands of dollars]

Year ended August 31

	2019	2018
	\$	\$
<b>Revenue</b>		
Tuition and examination fees <i>[note 13]</i>	22,429	21,641
Publication sales	6,259	6,784
Other earned revenue <i>[notes 5[c] and 12]</i>	7,079	7,054
<b>Total earned revenue</b>	<b>35,767</b>	<b>35,479</b>
Restricted contributions <i>[note 9]</i>	9,700	10,633
Other donations and bequests <i>[note 11[b]]</i>	5,481	6,873
	<b>50,948</b>	<b>52,985</b>
<b>Expenses</b>		
Program costs	34,582	33,508
Fundraising and general support	5,915	6,567
Cost of goods sold related to publication sales <i>[note 4]</i>	1,482	1,570
Scholarships and bursaries <i>[note 13]</i>	2,832	2,764
	<b>44,811</b>	<b>44,409</b>
Excess of revenue over expenses before the following	6,137	8,576
Interest expense, net <i>[note 7[e]]</i>	(1,784)	(1,906)
Amortization of capital assets	(3,803)	(3,935)
Amortization of deferred capital contributions <i>[note 10]</i>	1,768	1,798
<b>Excess of revenue over expenses for the year</b>	<b>2,318</b>	<b>4,533</b>

See accompanying notes

The Royal Conservatory of Music

**Consolidated statement of changes in net assets**

[in thousands of dollars]

Year ended August 31

	2019			2018		
	Endowments	Deficit	Total	Endowments	Deficit	Total
	\$	\$	\$	\$	\$	\$
	<i>[note 11]</i>			<i>[note 11]</i>		
<b>Net assets, beginning of year</b>	<b>39,143</b>	<b>(4,125)</b>	<b>35,018</b>	32,017	(8,658)	23,359
Excess of revenue over expenses for the year	—	<b>2,318</b>	<b>2,318</b>	—	4,533	4,533
Endowment contributions	<b>3,605</b>	—	<b>3,605</b>	3,901	—	3,901
Income related to endowment net assets in excess (deficiency) of amount available for spending <i>[note 11[b]]</i>	<b>(634)</b>	—	<b>(634)</b>	3,225	—	3,225
Remeasurement related to employee future benefits <i>[note 14]</i>	—	<b>(72)</b>	<b>(72)</b>	—	—	—
<b>Net assets, end of year</b>	<b>42,114</b>	<b>(1,879)</b>	<b>40,235</b>	39,143	(4,125)	35,018

See accompanying notes

## The Royal Conservatory of Music

### Consolidated statement of cash flows

[in thousands of dollars]

Year ended August 31

	2019	2018
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses for the year	2,318	4,533
Add (deduct) items not involving cash		
Amortization of capital assets	3,803	3,935
Amortization of deferred capital contributions	(1,768)	(1,798)
Unrealized investment income	(112)	(540)
Increase in deferred benefit cost	116	110
	<u>4,357</u>	<u>6,240</u>
Net change in non-cash working capital balances related to operations <i>[note 15]</i>	<u>(2,729)</u>	<u>(1,613)</u>
<b>Cash provided by operating activities</b>	<u>1,628</u>	<u>4,627</u>
<b>Investing activities</b>		
Purchase of capital assets <i>[note 6[b]]</i>	(701)	(112)
Proceeds from sale of capital assets	—	6
Purchase of investments, net	<u>(5,115)</u>	<u>(5,305)</u>
<b>Cash used in investing activities</b>	<u>(5,816)</u>	<u>(5,411)</u>
<b>Financing activities</b>		
Repayment of long-term indebtedness	(681)	(612)
Contributions received for capital purposes <i>[note 6[b]]</i>	651	—
Endowment contributions	<u>3,605</u>	<u>3,901</u>
<b>Cash provided by financing activities</b>	<u>3,575</u>	<u>3,289</u>
<b>Net increase (decrease) in cash during the year</b>	<u>(613)</u>	<u>2,505</u>
Cash, beginning of year	<u>7,323</u>	<u>4,818</u>
<b>Cash, end of year</b>	<u>6,710</u>	<u>7,323</u>

See accompanying notes

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

#### 1. Description of the organization

The Royal Conservatory of Music [the "RCM"] is an educational institution dedicated to developing human potential through music and arts education.

The RCM was established in 1886. From 1919 to 1991, it operated as a division of the University of Toronto. It was incorporated in its present form in 1991 by *Special Act* of the Legislature of the Province of Ontario. In 1991, the University of Toronto transferred certain assets and liabilities to the RCM and autonomous operations commenced.

The RCM is a registered charitable organization under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes under Registration Number 10793 5413 RR0001.

The RCM operates principally from [REDACTED] for Performance and Learning [REDACTED] located at [REDACTED] includes classrooms and studios, a media centre, a library, a multipurpose rehearsal hall and [REDACTED], an acoustically excellent 1,135 seat concert hall that provides the venue in which the RCM presents performances by accomplished artists to its students and the community.

The RCM's Conservatory School provides programs for children and adults. [REDACTED] and the [REDACTED] for Young Artists provide training for students working toward performance and teaching careers. As of 2019, [REDACTED] secured Bachelor of Music degree granting status. The Learning Through the Arts program provides national and international leadership in integrated arts education. The RCM also develops print music and pedagogical material for teaching and learning and conducts examinations in music nationally and internationally.

In the United States, examinations are conducted through [REDACTED] a tax-exempt New York not-for-profit corporation of which the RCM is the sole member.

The RCM holds the shares of the [REDACTED] in trust pursuant to an agreement made in December 1944 with the late [REDACTED] publishes and sells music publications for music teachers and their students and is the exclusive publisher of all materials designated as publications of the RCM and the RCM Certificate Program. [REDACTED] is incorporated under the laws of Ontario. It is a not-for-profit corporation and, as such, has claimed exemption from income taxes under Section 149(1)(l) of the *Income Tax Act* (Canada). Under Amended Articles of Incorporation, [REDACTED] is not permitted to pay dividends but may distribute funds for charitable, social or civic purposes. The net earnings of [REDACTED] are to be used for the support of musical education.

The RCM has three other related organizations: Royal Conservatory of Music Foundation [in Canada], which is controlled by the RCM, the [REDACTED] and the [REDACTED] [REDACTED] which are not controlled by the RCM. These incorporated, non-taxable organizations raise and hold funds for the benefit of the RCM.



# The Royal Conservatory of Music

## Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

### 2. Summary of significant accounting policies

These consolidated financial statements were prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies described hereafter.

#### Controlled not-for-profit entities

██████ the shares of which are held in trust, ██████ and the Royal Conservatory of Music Foundation [in Canada] are controlled organizations and are consolidated into the accounts of the RCM.

#### Financial instruments

Investments reported at fair value consist of investments in pooled funds and any investments in fixed income securities that the RCM designates upon purchase to be measured at fair value. Transactions are recorded on a trade-date basis, and transaction costs are expensed as incurred.

Investments in fixed income securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

Other financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities and long-term indebtedness, are initially recorded at fair value, net of transaction costs, and are subsequently measured at amortized cost, less any reduction for impairment.

#### Inventory

Inventory is recorded at the lower of cost [first-in, first-out basis] and net realizable value.

#### Capital assets

Capital assets are recorded at cost. For contributed capital assets, cost is considered to be fair value at the date of contribution. The cost of capital assets with limited lives is amortized and recognized as an expense over the useful lives of the assets on a straight-line basis at the following annual rates:

<i>Tangible</i>	
Building and building improvements	2.5% to 5%
Furniture, equipment and computers	20% to 33%
Musical instruments	5%
<i>Intangible</i>	
Software	33%

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to the RCM are accounted for as capital leases as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

Antique musical instruments and rarities held by the RCM are difficult to value, and as such, these are recorded at nominal value and are included in the musical instruments in the consolidated financial statements.

#### Life insurance policies

The cash surrender value of donated life insurance policies is recorded as an asset and annual increments are recognized in other earned revenue.

#### Revenue recognition

The RCM follows the deferral method of accounting for contributions, which include donations and government grants. Grants and bequests are recorded 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, except endowment contributions, are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Externally restricted endowment contributions are recognized as direct increases in net assets when recorded in the accounts.

Tuition and examination fees are recognized as revenue when courses or examinations are held. Performance and rental revenue is recognized on the date of the performance or event. Publication sales and other revenue is recognized at point of sale or when the service has been provided.

#### Contributed materials and services

Contributed materials and services are not recognized in these consolidated financial statements.

#### Foreign currency translation

Foreign currency transactions and the translation of the results and financial position of [REDACTED] which has a US dollar functional currency, are translated as follows:

Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect as at the consolidated balance sheet date, and non-monetary items are translated at the prevailing historical rate at the time of the transaction. Revenue and expenses arising from foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date.

Exchange gains and losses are included in the consolidated statement of operations.

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

#### Employee future benefits

The RCM accounts for its obligations under a defined benefit retirement compensation arrangement using as the immediate recognition approach. The RCM recognizes the amount of the accrued benefit obligation measured at the consolidated balance sheet date. Current service and finance costs are expensed during the year, while re-measurements and other items representing actuarial gains and losses and past service costs are recognized as a direct increase or decrease in the deficit. The accrued benefit obligation is determined based on an actuarial valuation report prepared using accounting assumptions. This report is required to be prepared at least on a triennial basis. During those years where an actuarial valuation is not prepared, the RCM estimates the obligation.

#### Allocation of expenses

The costs of each function include the costs of personnel and other expenses that are directly related to the function. Building costs are attributed based on square footage of use. Information technology costs are attributed based on the functional application of software or number of people employed, as appropriate. General support and other costs are not allocated.

### 3. Accounts receivable

Accounts receivable consist of the following:

	2019	2018
	\$	\$
Publishing	2,335	2,031
Tuition fees	1,493	1,400
Performing arts/rentals	525	240
Bequests	1,459	—
Other receivables	810	618
	<b>6,622</b>	<b>4,289</b>

### 4. Inventory

Inventory consists of the following:

	2019	2018
	\$	\$
Prepublication costs	65	41
Finished goods	1,534	1,158
	<b>1,599</b>	<b>1,199</b>

The cost of inventory recognized in cost of goods sold amounts to \$992 [2018 – \$1,088]. Included in this amount is a decrease in the provision for inventory obsolescence of \$8 [2018 – \$7 increase].

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

#### 5. Investments

[a] Investments, at fair value, consist of the following:

	2019	2018
	\$	\$
Investments held for endowment net assets <i>[note 5[b]]</i>	35,956	30,370
Secured loan <i>[note 5[c]]</i>	82	76
Term deposits	9	20
Life insurance policy	2,347	2,240
	<u>38,394</u>	<u>32,706</u>

[b] The underlying mix of the RCM's investments held for endowments, which include units in pooled funds, is as follows:

	2019		2018	
	\$	%	\$	%
Cash	2,423	6.7	2,926	9.6
Canadian equities	2,501	7.0	1,773	5.9
Foreign equities	31,032	86.3	25,671	84.5
	<u>35,956</u>	<u>100.0</u>	<u>30,370</u>	<u>100.0</u>

[c] The secured loan receivable is interest free and matures in 2022 with a repayment value of \$100. Interest income of \$6 [2018 – \$6] is included in other earned revenue in the consolidated statement of operations.

#### 6. Capital assets

[a] Capital assets consist of the following:

	2019		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
<b>Tangible</b>			
Land	17,000	—	17,000
Building and building improvements	139,289	42,244	97,045
Furniture, equipment and computers	3,968	3,518	450
Musical instruments <i>[note 6[b]]</i>	4,562	2,823	1,739
<b>Tangible</b>			
Software	4,259	3,871	388
	<u>169,078</u>	<u>52,456</u>	<u>116,622</u>

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
<b>Tangible</b>			
Land	17,000	—	17,000
Building and building improvements	139,289	38,733	100,556
Furniture, equipment and computers	3,659	3,410	249
Musical instruments <i>[note 6[b]]</i>	4,426	2,644	1,782
<b>Intangible</b>			
Software	3,876	3,866	10
	168,250	48,653	119,597

During 2018, the RCM wrote off \$6 of fully amortized capital assets.

- [b] Contributed capital assets with a fair value of \$127 [2018 – \$63] have been recorded as tangible capital assets offset by an equal increase in deferred capital asset contributions *[note 10]*.

#### 7. Bank and other indebtedness

- [a] Bank and other indebtedness consists of the following:

	2019		
	Current	Long-term	Total
	\$	\$	\$
Debenture 003, due February 26, 2048 <i>[note 7[b]]</i>	754	64,450	65,204
	754	64,450	65,204
	2018		
	Current	Long-term	Total
	\$	\$	\$
Debenture 003, due February 26, 2048 <i>[note 7[b]]</i>	681	65,204	65,885
	681	65,204	65,885

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

- [b] Effective August 26, 2016, the RCM and Ontario Infrastructure and Lands Corporation ["Infrastructure Ontario"] entered into an Amended and Restated Financing Agreement pursuant to which the RCM issued Debenture 003.

Debenture 003, which is collateralized by a mortgage on the [REDACTED] matures on February 26, 2048. On the date of issue, the indicative interest rate was 2.925%, and the fair value of Debenture 003 was \$67,042. The RCM is entitled to prepay all or part of the debenture at any time, subject to certain penalties. Each year, a specified annual amount is due in four quarterly blended payments of interest and principal. Minimum payments due in the next five years under Debenture 003 are as follows: 2020 – \$2,653; 2021 – \$2,706; 2022 – \$2,760; 2023 – \$2,815; and 2024 – \$2,872.

- [c] [REDACTED] has provided the RCM with a \$5,000 revolving credit facility for general operating purposes. Interest on loans and overdrafts is charged at [REDACTED] prime rate plus 1% [2018 – 1%]. Drawings against this facility are due on demand. As at August 31, 2019, [REDACTED] had issued letters of credit in the amount of \$2,997 [2018 – \$2,558].
- [d] Substantially all of the RCM's assets are pledged as collateral against indebtedness to [REDACTED] and Infrastructure Ontario.
- [e] During the year, interest expense of \$1,920 [2018 – \$1,938] was recorded with respect to the debt in the consolidated statement of operations. As at August 31, 2019, accrued interest payable of \$26 [2018 – \$26] is included in accounts payable and accrued liabilities.

#### 8. Commitments

The RCM's future minimum annual commitments in respect of operating leases for facilities and equipment are as follows: 2020 – \$114; 2021 – \$122; 2022 – \$126; 2023 – \$121; and 2024 – \$108.

#### 9. Deferred contributions

- [a] Deferred contributions represent unspent externally restricted donations and government grants. The changes in the deferred contributions balance are as follows:

	2019	2018
	\$	\$
<b>Balance, beginning of year</b>	<b>6,898</b>	7,389
Government grants	<b>3,044</b>	3,002
Donations received for annual scholarships and bursaries	<b>1,307</b>	1,945
Amount made available for spending related to endowment net assets [notes 11[b] and 12]	<b>1,059</b>	1,500
Other restricted donations	<b>3,455</b>	3,795
Restricted donation – bequest	<b>1,394</b>	—
Amount recognized as revenue during the year	<b>(9,700)</b>	(10,733)
<b>Balance, end of year</b>	<b>7,457</b>	6,898

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

[b] The deferred contributions balance consists of unspent amounts restricted for the following purposes:

	2019	2018
	\$	\$
Programs	3,627	4,214
Scholarships and bursaries	3,830	2,684
	<b>7,457</b>	<b>6,898</b>

#### 10. 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 in the consolidated statement of operations. The changes in the deferred capital contributions balance are as follows:

	2019	2018
	\$	\$
<b>Balance, beginning of year</b>	<b>46,113</b>	47,848
Add contributions received for capital purposes [note 6[b]]	778	63
Less amortization of deferred capital contributions	<b>(1,768)</b>	(1,798)
<b>Balance, end of year</b>	<b>45,123</b>	46,113

#### 11. Endowments

[a] Endowments included in these consolidated financial statements exclude those with the Ontario Arts Foundation ["OAF"] [note 12] and consist of amounts where the amount made available for spending is restricted primarily for scholarships and bursaries.

[b] The endowment net assets consist of amounts subject to donor restrictions relating to maintaining the principal and using the income in accordance with the various purposes established by the donor or the Board.

The RCM has adopted a policy with the objective of protecting the real value of the endowment net assets by limiting the amount of income made available for spending and requiring the reinvestment of any income earned in excess of this limit. The amount available for spending is to be calculated based on 5% [2018 – 5%] of the market value of individual funds as at December 31 of the prior year unless a different basis of distribution has been stipulated by the donor. The preservation of capital is recorded as a direct increase in endowment net assets. In any year, should net investment income not be sufficient to fund the amount required for spending, an amount may be transferred from endowment net assets to deferred contributions for this purpose.

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

In fiscal 2019, investment income of \$454 was earned on investments held for the endowment net assets. The amount made available for spending was \$1,088, resulting in a shortfall from investment income of \$634. Of the amount made available for spending, \$144 was unrestricted and recorded in other donations and bequests and \$944 was restricted and recorded in deferred contributions [note 9]. The amount made available for spending in excess of investment income earned is recorded as a reduction of the endowment net assets in the consolidated statement of changes in net assets.

In fiscal 2018, investment income of \$4,761 was earned on investments held for the endowment net assets. The amount made available for spending was \$1,536. Of the amount made available for spending, \$151 was unrestricted and recorded in other donations and bequests and \$1,385 was restricted and recorded in deferred contributions [note 9]. The difference of \$3,225, representing preservation of capital, was added directly to endowment net assets.

#### 12. Endowments with the Ontario Arts Foundation

In 1999, the Province of Ontario established the Arts Endowment Program with the OAF. Under this program, money raised by eligible arts organizations, specifically for endowment purposes, was matched. For each participating arts organization, a separate trust fund was established and is maintained by the OAF. From time to time, at the discretion of the OAF, these organizations receive income from the funds held for their benefit. During the year ended August 31, 2019, the RCM received \$120 [2018 – \$121] from the OAF. Of the amount received, \$6 [2018 – \$6] was unrestricted and recorded in other earned revenue, and \$115 [2018 – \$115] was restricted and recorded in deferred contributions [note 9]. These restricted contributions are used by the RCM to award scholarships under conditions consistent with the terms of the endowments held by the OAF.

As at August 31, 2019, the OAF is holding capital amounting to \$1,908 [2018 – \$1,908] and undistributed income of \$770 [2018 – \$824] for the benefit of the RCM. These funds are held in trust by the OAF and are not recorded in these consolidated financial statements.

#### 13. Tuition fees

Tuition fees include an amount equal to scholarships and bursaries awarded to students of \$2,832 [2018 – \$2,764]. Substantially all of these scholarships and bursaries are funded by contributions restricted for special purposes recognized during the year in the consolidated statement of operations.

#### 14. Employee future benefits

The RCM has established a defined benefit retirement compensation arrangement for the benefit of the Chief Executive Officer. Based on an actuarial valuation report prepared as at August 31, 2019, the accrued benefit liability as at August 31, 2019, was \$1,745 [2018 – \$1,557].



## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

#### 15. Consolidated statement of cash flows

The net change in non-cash working capital balances related to operations consists of the following:

	2019	2018
	\$	\$
Decrease (increase) in accounts receivable	(2,333)	876
Increase in inventory	(400)	(183)
Decrease (increase) in prepaid expenses	(15)	48
Increase (decrease) in accounts payable and accrued liabilities	214	(633)
Increase in deferred revenue	334	305
Decrease in deferred contributions	(529)	(2,026)
	<u>(2,729)</u>	<u>(1,613)</u>

#### 16. Financial instruments

The RCM is exposed to various risks with respect to financial instruments.

##### 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 RCM's main credit risk relates to its accounts receivable. Accounts receivable are recorded net of an allowance for doubtful accounts of \$23 [2018 – \$71].

##### Currency risk

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 RCM's currency risk arises from international equities that are held within the pooled fund in which the RCM holds units and cash, accounts receivable and accounts payable balances related to [REDACTED]

##### 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 RCM is exposed to interest rate price risk with respect to its investments in pooled funds, which holds bonds and other debt instruments, the values of which will fluctuate with changes in market interest rates. In addition, the RCM is exposed to interest rate cash flow risk since the interest rate on the RCM's operating line of credit with [REDACTED] is linked to the bank's prime rate, which changes from time to time.

## The Royal Conservatory of Music

### Notes to consolidated financial statements

[all amounts in thousands of dollars, except where noted]

August 31, 2019

#### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk], whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The RCM is exposed to other price risk with respect to its investments in pooled funds.

#### Liquidity risk

Liquidity risk is the risk that the RCM will encounter difficulty in meeting obligations associated with financial liabilities. The RCM is exposed to this risk in respect of its accounts payable and accrued liabilities and its various other debt obligations.