

Financial Statements of

**ONTARIO COLLEGE OF ART &
DESIGN UNIVERSITY**

And Independent Auditors' Report thereon

Year ended May 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the
Ontario College of Art & Design University

Opinion

We have audited the financial statements of the Ontario College of Art & Design University (the Entity), which comprise:

- the statement of financial position as at May 31, 2019
- the statement of operations and unrestricted net assets for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at May 31, 2019, and its results of 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 **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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

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

Auditors' 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 auditors' 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 Entity's internal control.



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- 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

October 7, 2019

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Financial Position

May 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 136,705	\$ 9,076,796
Accounts receivable (net of allowance for doubtful accounts of \$1,293,307 (2018 - \$1,293,307))	5,870,995	4,602,576
Deposits and other	1,506,297	2,361,710
	7,513,997	16,041,082
Due from related party (OCAD U Co. Foundation) (note 11)	912,524	—
Restricted cash (note 4(b))	4,250,000	4,250,000
Investment in joint ventures (note 4)	22,383,873	23,240,342
Investments (note 3)	19,760,363	18,440,849
Capital assets (note 5)	88,072,460	76,201,782
Total Assets	\$ 142,893,217	\$ 138,174,055
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 9,944,291	\$ 12,226,972
Deferred revenue	6,551,848	5,582,402
Other deferred contributions (note 7)	13,949,920	14,403,588
Operating loan (note 9)	4,400,000	4,400,000
Current portion of long-term debt (note 9)	867,779	825,431
	35,713,838	37,438,393
Deferred capital contributions (note 8)	62,597,387	55,110,209
Long-term debt (note 9)	28,347,145	29,194,924
Net assets (deficit):		
Unrestricted	(804,126)	(1,447,029)
Internally restricted (note 10)	850,544	2,190,588
Endowments (notes 12 and 13)	16,188,429	15,686,970
	16,234,847	16,430,529
Contingencies and commitments (note 16)		
Total Liabilities and Net Assets	\$ 142,893,217	\$ 138,174,055

See accompanying notes to financial statements.

On behalf of the Board:

_____ Governor

_____ Governor

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Operations and Unrestricted Net Assets

Year ended May 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Provincial grants	\$ 26,925,925	\$ 25,695,952
Student fees	43,934,382	40,080,659
Research contributions	4,170,757	4,377,445
Class fees and supply sales	925,695	920,281
Unrealized and realized gain on investments	280,602	264,197
General donations	2,034,238	1,855,431
Bursary and scholarship donations (note 13)	1,116,498	1,040,159
Amortization of deferred capital contributions (note 8)	2,398,667	1,967,951
Other	6,829,095	4,881,821
	<u>88,615,859</u>	<u>81,083,896</u>
Expenses:		
Academic:		
Salaries and benefits (note 14)	44,455,066	42,447,449
Support	9,465,433	8,061,624
	<u>53,920,499</u>	<u>50,509,073</u>
Non-academic	15,844,993	14,462,738
Bursaries and scholarships	2,484,945	2,382,951
Facility management and operating	11,283,893	10,034,472
Amortization of capital assets	3,918,379	3,576,257
Interest (note 9(c))	1,860,291	1,822,318
	<u>89,313,000</u>	<u>82,787,809</u>
Deficiency of revenue over expenses	(697,141)	(1,703,913)
Net change in internally restricted net assets surplus (note 10)	1,340,044	1,664,622
Change in unrestricted net assets surplus (deficit)	642,903	(39,291)
Unrestricted net assets (deficit), beginning of year	(1,447,029)	(1,407,738)
Unrestricted net assets (deficit), end of year	<u>\$ (804,126)</u>	<u>\$ (1,447,029)</u>

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Changes in Net Assets

Year ended May 31, 2019, with comparative information for 2018

2019	Unrestricted	Internally restricted	Endowments (note 12)	Total
Net assets (deficit), beginning of year	\$ (1,447,029)	\$ 2,190,588	\$ 15,686,970	\$ 16,430,529
Deficiency of revenue over expenses	(697,141)	—	—	(697,141)
Endowment contributions	—	—	372,502	372,502
Net changes in endowment fund activities (note 12(b))	—	—	128,957	128,957
Board-approved interfund transfer	1,340,044	(1,340,044)	—	—
Net assets (deficit), end of year	\$ (804,126)	\$ 850,544	\$ 16,188,429	\$ 16,234,847

2018	Unrestricted	Internally restricted	Endowments (note 12)	Total
Net assets (deficit), beginning of year	\$ (1,407,738)	\$ 3,855,210	\$ 15,578,535	\$ 18,026,007
Deficiency of revenue over expenses	(1,703,913)	—	—	(1,703,913)
Endowment contributions	—	—	229,635	229,635
Net changes in endowment fund activities (note 12(b))	—	—	(121,200)	(121,200)
Board-approved interfund transfer	1,664,622	(1,664,622)	—	—
Net assets (deficit), end of year	\$ (1,447,029)	\$ 2,190,588	\$ 15,686,970	\$ 16,430,529

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Cash Flows

Year ended May 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (697,141)	\$ (1,703,913)
Items not involving cash:		
Amortization of capital assets	3,918,379	3,576,257
Amortization of deferred capital contributions	(2,398,667)	(1,967,951)
Equity from joint ventures	(1,293,531)	(1,288,364)
Gain on disposal of capital assets	(1,344,981)	—
Gain on transfer of capital property	—	(1,366,379)
Amortization from transfer of capital assets to joint venture	(406,227)	(557,532)
Deferred capital contributions recognized as revenue related to expenses recorded in statement of operations	(489,699)	(362,755)
Unrealized and realized gain on investments	280,602	264,197
	(2,431,265)	(3,406,440)
Net change in non-cash working capital balances related to operations:		
Decrease (increase) in deposits and other	855,413	(225,202)
Decrease (increase) in accounts receivable	(1,268,419)	437,994
Increase in due from OCAD U Co. Foundation	(912,524)	—
Increase (decrease) in accounts payable and accrued liabilities	(2,282,681)	3,047,440
Increase in deferred revenue	969,446	331,251
Increase (decrease) in other deferred contributions	(47,441)	1,642,983
	(2,686,206)	5,234,466
	(5,117,471)	1,828,026
Financing activities:		
Endowment contributions	372,502	229,635
Capitalization of investment income in endowments	1,015,450	760,650
Endowment disbursements	(886,493)	(881,850)
Restricted contributions received for capital purposes	10,375,544	2,930,930
Repayment of operating loan	—	(5,442,005)
Repayment of long-term debt	(805,431)	(761,104)
Proceeds from sale of capital assets	1,835,257	10,896,000
	11,906,829	7,732,256
Investing activities:		
Disbursements from joint ventures	2,150,000	6,250,000
Purchase of capital assets	(16,279,333)	(14,538,048)
Net change in investments	(1,600,116)	(1,620,489)
	(15,729,449)	(9,908,537)
Decrease in cash and cash equivalents	(8,940,091)	(348,255)
Cash and cash equivalents, beginning of year	13,326,796	13,675,051
Cash and cash equivalents, end of year	\$ 4,386,705	\$ 13,326,796
Comprised of:		
Cash and cash equivalents	\$ 136,705	\$ 9,076,796
Restricted cash	4,250,000	4,250,000
	\$ 4,386,705	\$ 13,326,796
Supplemental disclosure of non-cash transactions:		
Non-cash restricted contributions received for capital purposes	\$ —	\$ 61,683
Non-cash capital assets additions	—	61,683

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2019

1. Purpose of the Organization:

Ontario College of Art & Design University commenced operations in 1876 and was continued under the Ontario College of Art & Design Act in 2002. Bill 43, enacted June 8, 2010, the Post-secondary Educational Statute Law Amendment Act, included provisions to change the name of the Ontario College of Art & Design to Ontario College of Art & Design University (the "University"). The University is dedicated to providing post-secondary education to artists and designers.

The University is a charitable organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

2. Significant accounting policies:

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook - Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below:

(a) Revenue recognition:

The University follows the deferral method of accounting for contributions, which include grants and donations. Grants and bequests are recognized 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 as pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially received. Externally restricted contributions, except endowment contributions, are deferred 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.

Fees are recognized when the services have been provided.

Investment income, 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 unrestricted net assets, except to the extent it is externally restricted; in which case, it is deferred and recognized as revenue in the year when the restriction is met.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

2. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term investments with maturities of less than 90 days at the date of purchase. Cash and cash equivalents exclude amounts that are managed for returns rather than being held for liquidity.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The University has elected to carry fixed income investments at fair value based on quoted bid prices.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the University determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the University expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

2. Significant accounting policies (continued):

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. When these instruments have been designated as effective hedges, they are not recorded in the accounts. Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Derivative transactions that do not qualify for hedge accounting are carried at fair value, with changes in value during the year recorded as revenue or expense.

(d) Capital assets:

Land is carried at cost. Purchased capital assets are recorded at acquisition cost. Donated capital assets are capitalized at fair market value at the date of contribution. Capital assets are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Tangible

Buildings and building improvements	40 years
Equipment and furnishings	8 years
Computer equipment	5 years
Leasehold improvements	Term of lease

Intangible

Enterprise Resource Planning ("ERP") Solution	20 years
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(e) Employee future benefits:

Contributions to a defined contribution pension plan are expensed on an accrual basis.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

2. Significant accounting policies (continued):

(f) Contributed materials and services:

Donors contribute an indeterminable amount of materials and services each year. Because of the difficulty of determining their fair value, contributed materials and services are not recognized in these financial statements.

(g) Allocation of costs:

Academic and non-academic expenses and facility management and operating costs presented in the statement of operations and unrestricted net assets include the costs of personnel and other expenses that are directly related to the function. General support and other costs are not allocated.

(h) Investment in joint ventures:

The University elected to account for the investment in joint ventures (note 4) by using the equity method, whereby the investment is carried in the financial statements at cost plus post-acquisition changes in the University's share of operation.

(i) Related party transactions:

The University is related to two joint ventures (note 4) of which the University has a 50% interest. Related party transactions between the two organizations are recorded at the exchange amount, which is the consideration established and agreed upon by the related parties.

The University is also related to OCAD U Co. Foundation ("the Foundation") which was established as a separate entity from the University during 2019. The Foundation is the beneficiary to the OCAD U Co Corp (the "Corporate Trustee" or the "Trust") and as such all disbursements from the Trust are recorded in the financial statements of the Foundation. The difference between the revenues and expenses for the year has been recorded as a receivable on the University's statement of financial position (note 11).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

2. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include allowance for doubtful accounts, certain accounts receivable and accrued liabilities, and carrying values of investment in joint ventures and capital assets. Actual results could differ from those estimates.

3. Investments:

(a) Investments consist of the following:

		2019		2018	
		Fair value	Cost	Fair value	Cost
Canadian equities	\$	5,165,655	\$ 2,519,669	\$ 5,044,998	\$ 2,668,686
Non-Canadian equities		5,418,933	3,186,029	4,405,726	2,166,077
International equities		2,621,619	2,658,884	2,702,368	2,598,734
Fixed income		5,454,302	5,356,546	4,982,452	5,075,975
Money market		1,099,854	1,097,771	1,305,305	1,305,382
	\$	19,760,363	\$ 14,818,899	\$ 18,440,849	\$ 13,814,854

(b) To the extent that total investments exceeds the total of unspent deferred capital contributions (note 8) and fair value of the investments held for endowments (note 12), the difference is recorded as short-term investments.

(c) As at May 31, 2019, fixed income securities have a weighted average yield of 2.06% (2018 - 2.69%) and a weighted average term to maturity of 3.92 years (2018 - 4.63 years).

4. Investment in joint ventures:

(a) 230/240 Richmond Street Joint Venture:

Pursuant to a joint venture agreement dated May 28, 2015, the University conveyed its 50% interest in 230/240 Richmond Street property to the joint venture. The joint venture has a December 31 year end and follows Canadian accounting standards for private enterprises of the CPA Canada Handbook.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

4. Investment in joint venture (continued):

As at and for the year ended May 31, 2019, the University's interest in the joint venture is summarized as follows:

	2019	2018
Total assets	\$ 26,915,972	\$ 28,190,978
Total liabilities	8,447,681	9,126,686
Total shareholders' equity	18,168,291	19,064,292
Revenue	2,666,715	2,593,718
Expenses	1,862,716	1,817,349

Corresponding with the conveyance of the 50% interest of the property, the University immediately entered into an agreement to lease a portion of the property back from the joint venture for 20 years. The gain on disposal realized on this transaction is deferred (note 7) and is being recorded in the statement of operations and unrestricted net assets in proportion to the rental payments over the lease term of 20 years. The future lease commitments under the arrangement are disclosed in note 16(b).

Included in facility management and operating expense is \$2,192,768 of rent paid to the joint venture in fiscal year 2019 (2018 - \$1,775,508).

Distributions received from the 230/240 Richmond Street joint venture to the University were \$1,700,000 (2018 - nil) and included as a deduction to the investment in joint ventures.

(b) 205 Richmond Street Joint Venture:

Pursuant to a joint venture agreement dated August 1, 2017, the University conveyed its 50% interest in the 205 Richmond Street property to the joint venture. The joint venture has a December 31 year end and follows Canadian accounting standards for private enterprises of the CPA Canada Handbook.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

4. Investment in joint venture (continued):

As at and for the year ended May 31, 2019, the University's interest in the joint venture is summarized as follows:

	2019	2018
Total assets	\$ 12,938,501	\$ 12,974,253
Total liabilities	7,115,974	7,191,257
Total shareholders' equity	5,822,527	5,782,996
Revenue	1,117,430	912,440
Expenses	627,899	400,445

Corresponding with the conveyance of the 50% interest of the property, the University immediately entered into an agreement to lease a portion of the property back from the joint venture for 20 years. The gain on disposal realized on this transaction is deferred (note 7) and is being recorded in the statement of operations and unrestricted net assets in proportion to the rental payments over the lease term of 20 years. The future lease commitments under the arrangement are disclosed in note 16(b).

Distributions received from the 205 Richmond Street joint venture to the University were \$450,000 (2018 - \$4,250,000) and included as a deduction to the investment in joint ventures.

The fiscal 2018 distribution is restricted for the purpose of future capital improvements and additions, and is included under restricted cash on the statement of financial position.

Included in facility management and operating expense is \$2,345,678 of rent paid to the joint venture in fiscal year 2019 (partial year 2018 - \$1,405,301).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

5. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Tangible				
Land	\$ 666,000	\$ –	\$ 666,000	\$ 723,486
Buildings and building improvements	121,230,310	44,021,374	77,208,936	65,654,490
Equipment and furnishings	11,989,212	10,872,957	1,116,255	819,006
Computer equipment	10,846,336	10,139,726	706,610	905,317
Leasehold improvements	4,088,786	771,412	3,317,374	3,521,818
Intangible				
ERP Solution	6,237,260	1,179,975	5,057,285	4,577,665
	\$ 155,057,904	\$ 66,985,444	\$ 88,072,460	\$ 76,201,782

As at May 31, 2019, buildings and building improvements include construction in progress of nil (2018 - \$3,297,934), which is not being amortized.

6. Government remittances payable:

As at May 31, 2019, accounts payable and accrued liabilities include government remittances payable of nil (2018 - nil).

7. Other deferred contributions:

Other deferred contributions represent unspent resources externally restricted for program expenses in future years and a portion of the gain deferred on the sale leaseback transaction (note 4). Changes in the deferred contributions balance are as follows:

	2019	2018
Balance, beginning of year	\$ 14,403,588	\$ 10,624,184
Amounts received	10,979,571	11,151,984
Amounts recognized as revenue	(11,433,239)	(7,372,580)
Balance, end of year	\$ 13,949,920	\$ 14,403,588

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

8. 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 and unrestricted net assets. The changes in the deferred capital contributions balance are as follows:

	2019	2018
Balance, beginning of year	\$ 55,110,209	\$ 54,509,985
Contributions restricted for capital purposes	10,375,544	2,930,930
Amortization of deferred capital contributions	(2,398,667)	(1,967,951)
Amount recognized as revenue-related expensed capital items	(489,699)	(362,755)
Balance, end of year	62,597,387	55,110,209
Less unspent capital contributions	1,202,964	759,110
Contributions funding capital assets	\$ 61,394,423	\$ 54,351,099

9. Debt:

The University has the following outstanding debt:

2019	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 545,000	\$ 15,906,333	\$ 16,451,333
Loan facility (a)(ii)	322,779	12,440,812	12,763,591
Loan facility (a)(iii)	—	—	—
	867,779	28,347,145	29,214,924
Operating loan (a)(iv)	4,400,000	—	4,400,000
	\$ 5,267,779	\$ 28,347,145	\$ 33,614,924

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

9. Debt (continued):

2018	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 519,000	\$ 16,431,333	\$ 16,950,333
Loan facility (a)(ii)	306,431	12,763,591	13,070,022
Loan facility (a)(iii)	—	—	—
	825,431	29,194,924	30,020,355
Operating loan (a)(iv)	4,400,000	—	4,400,000
	\$ 5,225,431	\$ 29,194,924	\$ 34,420,355

(a) Outstanding debt consists of:

- (i) The University has a term-reducing facility with interest payable at the bankers' acceptance rate plus a fee of 0.79% (2018 - 0.79%) converted to an effective rate of 5.93%, repayable at \$128,000 per month principal and interest. The term of the unsecured loan is 10 years from the date of the drawdown of October 1, 2007 with a 30-year amortization period. The proceeds from the facility were used to finance the Superbuild Expansion Program and acquisition of 205 Richmond Street.

On September 2017, the University renewed this facility for 60 months from October 1, 2017 at a rate of 5.14% and a stamping fee of 0.79%.

- (ii) The University has a term-reducing facility with interest payable at the bankers' acceptance rate plus a fee of 1.50% (2018 - 1.50%) converted to an effective rate of 5.84%, repayable at \$88,500 per month principal and interest. The term of the unsecured loan is 10 years from the date of the drawdown of March 8, 2010 with a 30-year amortization period. The proceeds from the facility were used to finance a portion of the acquisition of 230/240 Richmond Street.

- (iii) During fiscal year 2016, the University entered into an unsecured demand operating facility available as: (a) loans by way of direct advances with a variable interest based on prime rate, or (b) 28 to 181 day bankers' acceptances with rates calculated on the face amount multiplied by a fraction of which the numerator is equivalent to the term to maturity of such bankers' acceptances expressed in days, and the denominator represents the number of days in each applicable year. Interest is paid monthly and the credit limit is not to exceed \$8,000,000. The proceeds from the facility are used for the purpose of financing the operating requirements of the University.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

9. Debt (continued):

(iv) During fiscal year 2016, the University entered into an unsecured demand operating facility available as: (a) loans by way of direct advances with a variable interest based on prime rate, or (b) 28 to 181 day bankers' acceptances with rates calculated on the face amount multiplied by a fraction of which the numerator is equivalent to the term to maturity of such bankers' acceptances expressed in days, and the denominator represents the number of days in each applicable year. The maximum principal amount not to exceed \$10,000,000 is for the purpose of financing short-term capital projects at 230 Richmond Street, 199 Richmond Street and 115 McCaul Street (the "Capital Projects"). The outstanding principal prior to any demand by the lender shall be payable by way of equal monthly installments calculated on the basis of a straight-line method, determined on an amortization period of 20 years commencing on the earlier of: (a) substantial completion of all of the Capital Projects and (b) the date which is five years subsequent to the date of this agreement.

The term-reducing facility and operating loan (a)(iii) and (iv) agreements require the University to comply with certain non-financial covenants and that the University cannot sell or dispose of any assets, without prior approval, and create, incur or assume any debt, other than certain allowable transactions, without the lender's consent.

(b) In order to manage interest rate exposure, the University has in place interest rate swap agreements (the "Agreements"), designated as hedges of the long-term debt (the "Campus Expansion Loans"), which will expire on October 1, 2037 and March 8, 2040. Under the terms of the Agreements, the University agrees with the counterparty to exchange, at specified intervals and for a specific period, its floating interest for fixed interest calculated on the notional principal amount of the Campus Expansion Loans. The use of the swaps effectively enables the University to convert the floating rate interest obligations of the Campus Expansion Loans into fixed rate obligations and thus, manage its exposure to interest rate cash flow risk. As at May 31, 2018, the Agreements qualified as effective hedge transactions. Having met the criteria to apply hedge accounting, the University has not recognized the fair value of the Agreements in these financial statements.

As at May 31, 2019, the total notional values of the Agreements are \$30,407,022 (2018 - \$31,188,126).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

9. Debt (continued):

- (c) The following are the future annual debt principal repayments due over the next five fiscal years and thereafter for the Campus Expansion Loans:

2019	\$	867,779
2020		913,339
2021		978,840
2022		1,033,582
2023		1,085,154
Thereafter		24,702,897
		29,581,591
Less unamortized financing costs		366,667
	\$	29,214,924

The future annual debt repayments are based on the loan terms being co-terminus with the swap amortization periods.

Total interest recognized on an accrual basis in the statement of operations and unrestricted net assets was \$1,860,291 (2018 - \$1,822,318), of which \$1,791,441 (2018 - \$1,813,252) is related to debt initially incurred for a term of more than one year.

10. Internally restricted net assets:

Net assets have been internally restricted for the following purposes:

	2019	2018
Capital assets funded by operations	\$ 116,496	\$ 1,362,167
Inclusive Design Research Centre	734,048	828,421
	\$ 850,544	\$ 2,190,588

In fiscal year 2019, the net change in the internally restricted net assets totalled \$1,340,044 (2018 - \$1,664,662).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

11. Related parties:

- (a) OCAD U Co. Foundation is a directly controlled subsidiary, with a Board of Directors appointed by the University, and is therefore a related party.

The Foundation was established on May 23, 2019 as a registered charity under the Canadian Income Tax Act. The purpose of the Foundation is to provide funding for the programs at the University.

The accounts of the Foundation are not included in the accompanying financial statements. Funds from the Foundation are directed to the University when approved by the Board of Directors of the Foundation.

As at May 31, 2019 and for the period from May 23, 2019 to May 31, 2019, the Foundation's unaudited financial statements are summarized as follows:

	2019
Total assets	\$ 912,524
Total liabilities	912,524
Net assets	\$ —
Recovery of expenses	\$ 412,524
Expenses	412,524

Total assets includes a promissory note receivable from the trust in the amount of \$500,000, bearing interest at 6% due from the Trust and a receivable of \$412,524 of 2018/19 start-up costs. Total Liabilities includes a promissory note payable to the University of \$500,000, bearing interest at 6% and a payable of \$412,524 to the University for 2018/19 start-up costs.

- (b) OCAD U Co Corp was established on May 21, 2019 for the purpose of facilitating delivery of executive education programing.

The Board of Directors of the Corporate Trustee is approved by the University's Board of Governors, acting on behalf of the University as sole shareholder, however, a majority of the Trust's Board of Director is independent of the University. The University does not exercise significant influence over the Corporate Trustee which is not a controlled entity.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

11. Related parties (continued):

The beneficiary of the Trust is the Foundation. All distributions from the Trust will therefore be recorded in the financial statements of the Foundation.

As at May 31, 2019 and for the period from May 23, 2019 to May 31, 2019, the Trust's unaudited financial statements are summarized as follows:

	2019
Total assets	\$ 500,000
Total liabilities	1,262,524
Deficit	\$ (762,524)
Revenue	\$ –
Expenses	762,524

In the start-up fiscal year 2019, the Corporate Trustee was economically dependent on the Foundation.

Total liabilities include a promissory note of \$500,000, bearing interest at 6%, payable to the Foundation; accrued net start-up expenses of \$412,524 payable to the Foundation; and accrued rent expenses payable to the University of \$350,000.

Total assets include cash-on-hand of \$500,000.

12. Endowments:

Endowment funds consist of externally or internally restricted contributions received by the University where the endowment principal is required by the donor or the Board of Governors to be maintained permanently. The investment income generated from assets held for endowment purposes must be used in accordance with the various purposes established by the donors or the Board of Governors.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

12. Endowments (continued):

(a) Endowment net assets consist of the following:

	2019	2018
Externally endowed funds with income to be used for donor-restricted purposes	\$ 15,265,906	\$ 14,785,930
Externally endowed funds with income unrestricted	267,772	265,589
Internally endowed restricted funds with income to be used for scholarships and bursaries	654,751	635,451
	<u>\$ 16,188,429</u>	<u>\$ 15,686,970</u>

(b) The change in endowment activities are summarized as follows:

	2019	2018
Unrealized gain (loss) on investments	\$ 314,955	\$ (502,774)
Realized gain on investments	241,734	800,553
Capitalization of investment income	458,761	462,871
Management fees	(259,009)	(258,703)
Disbursements	(627,484)	(623,147)
	<u>128,957</u>	<u>(121,200)</u>
Endowment contributions	372,502	229,635
	<u>\$ 501,459</u>	<u>\$ 108,435</u>

13. Ontario government matching programs:

(a) The University receives and records in its financial statements donations eligible for matching under Government of Ontario matching programs that provide funding for bursaries.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

13. Ontario government matching programs (continued):

- (b) The following represents the cost and market values of the endowment balance in the first phase of the Ontario Student Opportunity Trust Fund ("OSOTF I"):

	2019	2018
Endowment balance, at cost, beginning and end of year	\$ 501,887	\$ 501,887
Endowment balance, at market, end of year	\$ 743,533	\$ 738,151

The following is the schedule of changes in expendable funds available for awards of OSOTF I for the year ended May 31. This balance is included in other deferred contributions on the statement of financial position of the University.

	2019	2018
Expendable funds available for awards, beginning of year	\$ 29,621	\$ 27,082
Amount available for spending	29,443	29,621
Bursaries awarded recorded as bursary and scholarship donations	(29,621)	(27,082)
Expendable funds available for awards, end of year	\$ 29,443	\$ 29,621
Number of bursaries awarded	13	14

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

13. Ontario government matching programs (continued):

- (c) The Government of Ontario requires separate reporting of balances as at May 31 in connection with the second phase of the Ontario Student Opportunity Trust Fund ("OSOTF II"). The following represents the cost and market values of the endowment balance of OSOTF II for the year ended May 31:

	2019	2018
Endowment balance, at cost, beginning and end of year	\$ 346,054	\$ 346,054
Endowment balance, at market, end of year	\$ 512,671	\$ 508,959

The following is the schedule of changes in expendable funds available for awards of OSOTF II for the year ended May 31. This balance is included in other deferred contributions on the statement of financial position of the University.

	2019	2018
Expendable funds available for awards, beginning of year	\$ 20,424	\$ 18,673
Amount available for spending	20,301	20,424
Bursaries awarded recorded as bursary and scholarship donations	(20,424)	(18,673)
Expendable funds available for awards, end of year	\$ 20,301	\$ 20,424
Number of bursaries awarded	8	14

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

13. Ontario government matching programs (continued):

- (d) The Government of Ontario requires separate reporting of balances as at May 31 and details of the changes in the balances for the year then ended in connection with the Ontario Trust for Student Support ("OTSS").

The following is the schedule of donations received for the years ended May 31:

	2019	2018
Cash donations not eligible for matching	\$ 19,055	\$ 45,290

The following is the schedule of changes in the endowment balance of OTSS, at cost, for the year ended May 31:

	2019	2018
Endowment balance, at cost, beginning of year	\$ 5,869,388	\$ 5,824,098
Cash donations received	19,055	45,290
Endowment balance, at cost, end of year	\$ 5,888,443	\$ 5,869,388
Endowment balance, at market, end of year	\$ 8,723,585	\$ 8,632,409

The following is the schedule of changes in expendable funds available for awards of OTSS for the year ended May 31. The balance is included in other deferred contributions on the statement of financial position of the University.

	2019	2018
Expendable funds available for awards, beginning of year	\$ 346,408	\$ 314,271
Amount available for spending	346,710	346,408
Bursaries awarded recorded as bursary and scholarship donations	(346,408)	(314,271)
Expendable funds available for awards, end of year	\$ 346,710	\$ 346,408
Number of bursaries awarded	238	234

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

14. Pension Plan:

The Ontario College of Art & Design Pension Plan (the "Plan") is a defined contribution plan. The University matches contributions made by members of the Plan and also contributes any further amounts which may be required to defray the administrative and operating expenses of the Plan. In 2019, contributions made by the University to the Plan included in the statement of operations and unrestricted net assets totalled \$2,440,840 (2018 - \$2,371,444).

15. Canadian Universities Reciprocal Insurance Exchange:

The University became a member of a reciprocal exchange of insurance risks in association with other Canadian universities on January 1, 2008. The Canadian Universities Reciprocal Insurance Exchange ("CURIE") is a self-insurance cooperative and involves a contractual agreement to share the insurable property and liability risks of member universities arising during the period of membership. As a consequence, the University will be eligible to receive its pro rata share of any potential future surplus distribution and will share in any deficits generated by claims arising during the University's period of membership in CURIE. As at December 31, 2018, CURIE was fully funded.

16. Contingencies and commitments:

- (a) From time to time, the University is involved in litigation matters arising in the ordinary course of operations. In the opinion of management, the ultimate disposition of these matters will not have a material impact on the University's financial position or results of operations of the University.
- (b) The following are the future minimum annual operating lease payments due over the next five fiscal years and thereafter:

2020	\$ 3,193,926
2021	3,140,979
2022	3,179,366
2023	3,228,473
2024	3,269,510
Thereafter until 2037	48,306,671
Total	<hr/> \$ 64,318,925 <hr/>

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

16. Contingencies and commitments (continued):

- (c) Joint venture asset management fee is equal to the sum of (i) the greater of \$50,000 and one quarter of 2.5% of the net operating income of the property for each year during the term; and (ii) 4% of the annual capital expenditures for the property incurred in such year.

17. Financial instruments:

The University is exposed to various financial risks through transactions in financial instruments. There has been no significant change to the risk exposure from 2018.

(a) Market risk:

Market risk arises as a result of trading equities and fixed income securities. Fluctuations in the market expose the University to a risk of loss. The Investment Committee of the University monitors investments decisions and results.

(b) Credit risk:

The University is exposed to credit risk in connection with its accounts receivable 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.

(c) Interest rate and currency risks:

The University is exposed to interest rate and currency risks with respect to its fixed rate debt and its investments in fixed income investments and foreign currency-denominated investments, because the fair value will fluctuate due to changes in market rates.

In addition, the University is exposed to interest rate risk with respect to its floating rate loans because cash flows will fluctuate because the interest rate is linked to the bank's prime rate, which changes from time to time. The University uses the Agreements to manage interest rate risk associated with its long-term variable rate debt (note 9). The University currently does not use any hedging strategies to mitigate the interest rate and currency risks exposure related to investments and operating loans.

(d) Liquidity risk:

The University is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2019

18. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.