

Financial Statements of

**ONTARIO COLLEGE OF ART &
DESIGN UNIVERSITY**

And Independent Auditors' Report thereon

Year ended May 31, 2021



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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, 2021
- the statement of operations and unrestricted net assets (deficit) 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, 2021, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

October 4, 2021

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Financial Position

May 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,369,726	\$ 5,305,714
Accounts receivable (net of allowance for doubtful accounts of \$3,579,336 (2020 - \$1,550,215)) (notes 11 and 17)	4,565,977	5,402,448
Deposits and other	1,478,822	1,472,402
	<u>25,414,525</u>	<u>12,180,564</u>
Investments (note 3)	22,567,865	18,330,306
Restricted cash and guaranteed investment certificates (note 4)	32,526,261	32,526,261
Investment in joint ventures (note 4)	3,701,892	3,201,997
Capital assets (note 5)	94,388,903	96,826,227
Due from related party (OCAD U Co. Foundation) (net of allowance for doubtful accounts of \$411,524 (2020 - nil)) (note 11)	514,689	967,276
	<u>\$ 179,114,135</u>	<u>\$ 164,032,631</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 15,925,468	\$ 12,823,613
Deferred revenue	7,251,503	5,617,442
Other deferred contributions (notes 7 and 13)	15,189,900	13,410,235
Demand loan for capital (note 9)	4,088,333	4,308,333
Current portion of long-term debt (note 9)	978,840	913,339
	<u>43,434,044</u>	<u>37,072,962</u>
Deferred capital contributions (note 8)	67,904,382	68,371,036
Long-term debt (note 9)	26,494,966	27,453,806
	<u>137,833,392</u>	<u>132,897,804</u>
Net assets (deficit):		
Unrestricted	356,091	(1,329,011)
Internally restricted (note 10)	20,903,250	15,888,768
Endowments (notes 12 and 13)	20,021,402	16,575,070
	<u>41,280,743</u>	<u>31,134,827</u>
Contingencies and commitments (note 16)		
	<u>\$ 179,114,135</u>	<u>\$ 164,032,631</u>

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 (Deficit)

Year ended May 31, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Provincial grants	\$ 28,971,010	\$ 25,754,224
Student fees	53,685,102	48,872,717
Research contributions	4,877,385	5,175,097
Class fees and supply sales	5,861	580,075
Unrealized and realized gain on investments	453,337	221,145
General donations	1,599,861	2,074,111
Bursary and scholarship donations (note 13)	1,250,024	1,238,055
Amortization of deferred capital contributions (note 8)	2,645,468	2,666,808
Gain on sale of investment (note 4)	1,000,000	13,279,907
Other	2,902,586	4,994,365
	<u>97,390,634</u>	<u>104,856,504</u>
Expenses:		
Academic:		
Salaries and benefits (note 14)	44,870,800	47,068,637
Support	9,313,713	8,212,462
	<u>54,184,513</u>	<u>55,281,099</u>
Non-academic		
Bursaries and scholarships	17,134,509	15,932,133
Facility management and operating	2,315,894	2,359,757
Amortization of capital assets	9,553,068	10,812,940
Interest (note 9(c))	4,142,211	4,198,064
Impairment of related party receivables (note 11)	1,746,632	1,759,172
	<u>1,614,223</u>	<u>–</u>
	<u>90,691,050</u>	<u>90,343,165</u>
Excess of revenue over expenses	6,699,584	14,513,339
Transfer to/from internally restricted net assets (note 10)	(5,014,482)	(15,038,224)
Change in unrestricted net assets surplus (deficit)	1,685,102	(524,885)
Unrestricted net deficit, beginning of year	(1,329,011)	(804,126)
Unrestricted net assets (deficit), end of year	\$ 356,091	\$ (1,329,011)

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Changes in Net Assets

Year ended May 31, 2021, with comparative information for 2020

2021	Unrestricted	Internally restricted	Endowments (note 12)	Total
Net assets (deficit), beginning of year	\$ (1,329,011)	\$ 15,888,768	\$ 16,575,070	\$ 31,134,827
Excess of revenue over expenses	6,699,584	–	–	6,699,584
Endowment contributions	–	–	232,088	232,088
Net changes in endowment fund activities (note 12(b))	–	–	3,214,244	3,214,244
Board-approved interfund transfer (note 10)	(5,014,482)	5,014,482	–	–
Net assets, end of year	\$ 356,091	\$ 20,903,250	\$ 20,021,402	\$ 41,280,743

2020	Unrestricted	Internally restricted	Endowments (note 12)	Total
Net assets (deficit), beginning of year	\$ (804,126)	\$ 850,544	\$ 16,188,429	\$ 16,234,847
Excess of revenue over expenses	14,513,339	–	–	14,513,339
Endowment contributions	–	–	589,118	589,118
Net changes in endowment fund activities (note 12(b))	–	–	(202,477)	(202,477)
Board-approved interfund transfer (note 10)	(15,038,224)	15,038,224	–	–
Net assets (deficit), end of year	\$ (1,329,011)	\$ 15,888,768	\$ 16,575,070	\$ 31,134,827

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Cash Flows

Year ended May 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 6,699,584	\$ 14,513,339
Items not involving cash:		
Amortization of capital assets	4,142,211	4,198,064
Amortization of deferred capital contributions	(2,645,468)	(2,666,808)
Equity from joint ventures	(499,895)	(1,207,787)
Gain on sale of investment in joint venture (230/240 Richmond Street)	(1,000,000)	(13,279,907)
Amortization from transfer of capital assets to joint venture	(409,763)	(409,763)
Deferred capital contributions recognized as revenue related to expenses recorded in statement of operations	(83,245)	(508,053)
Unrealized and realized loss (gain) on investments	453,337	(221,145)
	<u>6,656,761</u>	<u>417,940</u>
Net change in non-cash working capital balances related to operations:		
Decrease (increase) in deposits and other	(6,420)	33,895
Decrease in accounts receivable	836,471	468,547
Decrease (increase) in due from OCAD U Co. Foundation	452,587	(54,752)
Increase in accounts payable and accrued liabilities	3,101,855	2,879,322
Increase (decrease) in deferred revenue	1,634,061	(934,406)
Increase (decrease) in other deferred contributions	2,189,428	(129,922)
	<u>8,207,982</u>	<u>2,262,684</u>
	14,864,743	2,680,624
Financing activities:		
Endowment contributions	232,088	589,118
Capitalization of investment income in endowments	4,070,661	706,198
Endowment disbursements	(856,417)	(908,675)
Restricted contributions received for capital purposes	2,262,059	8,948,510
Repayment of demand loan for capital	(220,000)	(91,667)
Repayment of long-term debt	(893,339)	(847,779)
Proceeds from disposal of investment in joint venture (230/240 Richmond Street)	1,000,000	28,294,296
	<u>5,595,052</u>	<u>36,690,001</u>
Investing activities:		
Disbursements from joint ventures	-	5,375,274
Purchase of capital assets	(1,704,887)	(12,951,831)
Net change in investments	(4,690,896)	1,651,202
	<u>(6,395,783)</u>	<u>(5,925,355)</u>
Increase in cash and cash equivalents	14,064,012	33,445,270
Cash and cash equivalents, beginning of year	37,831,975	4,386,705
Cash and cash equivalents, end of year	<u>\$ 51,895,987</u>	<u>\$ 37,831,975</u>
Comprised of:		
Cash and cash equivalents	\$ 19,369,726	\$ 5,305,714
Restricted cash and guaranteed investment certificates	32,526,261	32,526,261
	<u>\$ 51,895,987</u>	<u>\$ 37,831,975</u>
Supplemental disclosure of non-cash transactions:		
Non-cash restricted contributions received for capital purposes	\$ 146,061	\$ 28,000
Non-cash capital assets additions	146,061	28,000

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2021

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 (deficit), 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, 2021

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, 2021

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 expenses.

(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	20 - 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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There were no temporary or partial impairments or disposals of assets during the year. Amortization is not recognized until project completion.

(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, 2021

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 (deficit) 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 a joint venture (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 revenue 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, 2021

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:

	2021		2020	
	Fair value	Cost	Fair value	Cost
Canadian equities	\$ 5,328,995	\$ 2,372,563	\$ 4,049,377	\$ 2,411,263
Non-Canadian equities	6,853,976	3,180,889	5,480,049	2,944,125
International equities	3,174,367	2,777,878	2,568,831	2,728,952
Fixed income	5,812,950	5,733,418	5,538,940	5,385,474
Money market	1,397,577	1,397,481	693,109	692,908
	<u>\$ 22,567,865</u>	<u>\$ 15,462,229</u>	<u>\$ 18,330,306</u>	<u>\$ 14,162,722</u>

(b) To the extent that total investments exceed 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, 2021, fixed income securities have a weighted average yield of 1.27% (2020 - 1.46%) and a weighted average term to maturity of 5.73 years (2020 - 3.67 years).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

4. Investment in joint ventures:

The University has a 50% joint venture investment at 205 Richmond Street. In 2020, the University also had a 50% joint venture investment in 230/240 Richmond Street, which was sold on May 5, 2020.

(a) 230/240 Richmond Street Joint Venture:

On May 5, 2020, the University disposed of the 50% interest of the property. The net cash proceeds of this transaction of \$28,294,296 are internally restricted for the purposes of future capital improvements and leveraging working capital and are included under restricted cash and guaranteed investment certificates on the statement of financial position. The net gain on disposal realized on the transaction of \$14,279,907 is included in internally restricted net assets on the statement of financial position for future capital improvements and leveraging working capital (note 10).

The University and the purchaser of the 50% interest of the joint venture agreed to an incremental amount to be placed in trust of \$2,000,000 of the purchase price to be held back from the purchase price. Release of the holdback is dependent on the fulfillment of monthly tenant payments to the joint venture. \$1,000,000 of the holdback release took place on the first partial release date (December 31, 2020) and the determination of the final release assessment is September 30, 2021. This portion of the transaction settlement is a contingent gain and will be recorded as revenue upon receipt.

Included in facility management and operating expense is \$2,171,356 of rent paid to the joint venture in fiscal year 2021 (2020 - \$2,177,481).

Distributions received from the 230/240 Richmond Street Joint Venture to the University prior to the disposal were nil (2020 - \$2,213,863) and included as a deduction to the investment in joint ventures.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

4. Investment in joint ventures (continued):

(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.

As at and for the year ended May 31, 2021, the University's interest in the joint venture is summarized as follows:

	2021	2020
Total assets	\$ 11,777,893	\$ 11,457,942
Total liabilities	6,712,015	6,891,962
Total shareholders' equity	5,065,878	4,565,980
Revenue	1,107,592	1,100,101
Expenses	607,697	606,647

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 (deficit) 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 nil (2020 - \$3,161,411) and included as a deduction to the investment in joint ventures.

Included in facility management and operating expense is \$2,272,002 of rent paid to the joint venture in fiscal year 2021 (2020 - \$2,266,727).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

5. Capital assets:

			2021	2020
	Cost	Accumulated amortization	Net book value	Net book value
Tangible				
Land	\$ 666,000	\$ –	\$ 666,000	\$ 666,000
Buildings and building improvements	134,384,479	50,007,441	84,377,038	86,148,604
Equipment and furnishings	13,013,617	11,575,451	1,438,166	1,468,406
Computer equipment	11,148,651	10,741,238	407,413	517,830
Leasehold improvements	4,264,618	1,197,882	3,066,736	3,279,970
Intangible				
ERP Solution	6,237,260	1,803,710	4,433,550	4,745,417
	\$ 169,714,625	\$ 75,325,722	\$ 94,388,903	\$ 96,826,227

6. Government remittances payable:

As at May 31, 2021, accounts payable and accrued liabilities include government remittances payable of \$694,189 (2020 - \$698,815).

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:

	2021	2020
Balance, beginning of year	\$ 13,410,235	\$ 13,949,920
Amounts received	10,331,170	9,902,841
Amounts recognized as revenue	(8,551,505)	(10,442,526)
Balance, end of year	\$ 15,189,900	\$ 13,410,235

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

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 (deficit). The changes in the deferred capital contributions balance are as follows:

	2021	2020
Balance, beginning of year	\$ 68,371,036	\$ 62,597,387
Contributions restricted for capital purposes	2,262,059	8,948,510
Amortization of deferred capital contributions	(2,645,468)	(2,666,808)
Amount recognized as revenue-related expensed capital items	(83,245)	(508,053)
Balance, end of year	67,904,382	68,371,036
Less unspent capital contributions	1,419,912	618,537
Contributions funding capital assets	\$ 66,484,470	\$ 67,752,499

9. Debt:

The University has the following outstanding debt:

2021	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 612,000	\$ 14,761,333	\$ 15,373,333
Loan facility (a)(ii)	366,840	11,733,633	12,100,473
Loan facility (a)(iii)	—	—	—
	978,840	26,494,966	27,473,806
Demand loan for capital (a)(iv)	4,088,333	—	4,088,333
	\$ 5,067,173	\$ 26,494,966	\$ 31,562,139

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

9. Debt (continued):

2020	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 573,000	\$ 15,353,333	\$ 15,926,333
Loan facility (a)(ii)	340,339	12,100,473	12,440,812
Loan facility (a)(iii)	—	—	—
	913,339	27,453,806	28,367,145
Demand loan for capital (a)(iv)	4,308,333	—	4,308,333
	\$ 5,221,672	\$ 27,453,806	\$ 32,675,478

(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% (2020 - 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 1.25% (2020 - 1.25%) converted to an effective rate of 5.59%, repayable at \$86,100 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.

On February 20, 2020, the University renewed this facility for 60 months from March 8, 2020 at a rate of 4.34% and a stamping fee of 1.25%.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

9. Debt (continued):

(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.

During the year, this loan facility was amended to increase the maximum loan limit to \$10,000,000.

(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 100 McCaul Street, 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 demand loan for capital (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.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

9. Debt (continued):

- (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, 2021, the Agreements continued to qualify 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, 2021, the total notional values of the Agreements are \$28,731,812 (2020 - \$29,581,591).

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

2022	\$ 978,840
2023	1,033,582
2024	1,085,154
2025	1,150,368
2026	1,216,468
Thereafter	<u>22,336,061</u>
	27,800,473
Less unamortized financing costs	326,667
	<u>\$ 27,473,806</u>

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 (deficit) was \$1,746,632 (2020 - \$1,759,172), of which \$1,658,579 (2020 - \$1,697,275) is related to debt initially incurred for a term of more than one year.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

10. Internally restricted net assets:

Net assets have been internally restricted for the following purposes:

	2021	2020
Capital assets funded by operations	\$ 2,824,583	\$ 2,070,968
Future capital planning	14,279,907	13,279,907
Inclusive Design Research Centre	781,760	537,893
Financial sustainability fund	3,017,000	–
	<u>\$ 20,903,250</u>	<u>\$ 15,888,768</u>

In fiscal year 2021, the net change in the internally restricted net assets totalled \$5,014,482 (2020 - \$15,038,224).

11. Related parties:

- (a) OCAD U Co. Foundation is a directly controlled subsidiary, with a Board of Directors appointed by the University, comprised of members that are not independent of the University, and is therefore a related party.

The Foundation was established on May 23, 2019 as a registered charity under the Income Tax Act (Canada). 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, 2021, the Foundation's unaudited financial statements are summarized as follows:

	2021	2020
Total assets	\$ 514,687	\$ 967,276
Total liabilities	926,211	967,276
Net assets	<u>\$ (411,524)</u>	<u>\$ –</u>
Recovery of expenses	\$ 54,752	\$ 54,752
Expenses	466,276	54,752

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

11. Related parties (continued):

Total assets include a promissory note receivable from the Trust in the amount of \$500,000 (2020 - \$500,000), bearing interest at 6%, a receivable of \$411,524 (2020 - \$411,524) for 2020 start-up costs due from the Trust, and \$13,688 (2020 - \$13,688) of interest receivable due from the Trust. An allowance for doubtful accounts provision of \$411,524 (2020 - nil) has been applied against the receivable balance from the Trust.

Total liabilities include a promissory note payable to the University of \$500,000 (2020 - \$500,000), bearing interest at 6%, a payable of \$411,524 (2020 - \$411,524) to the University for 2020 start-up costs and \$13,688 for interest and accounts payable to the University.

During the year, the University charged the Foundation \$54,752 (2020 - \$54,752) of interest.

During the year, due to the impact of COVID-19 on the operations of the Foundation, a provision of \$411,524 has been recorded in allowance for doubtful accounts of the University.

- (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 Directors is independent of the University. The University does not exercise control over the Corporate Trustee.

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, 2021, the Trust's unaudited financial statements are summarized as follows:

	2021	2020
Total assets	\$ 476,441	\$ 537,302
Total liabilities	2,264,919	1,981,501
Deficit	\$ (1,788,478)	\$ (1,444,199)
Revenue	\$ 380,048	\$ 1,375,867
Expenses	721,209	2,057,542

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

11. Related parties (continued):

The Corporate Trustee is economically dependent on the Foundation.

Total liabilities include a promissory note of \$500,000 (2020 - \$500,000), bearing interest at 6%, payable to the Foundation, accrued net start-up expenses of \$411,524 (2020 - \$411,524) payable to the Foundation, accrued interest of \$13,688 to the Foundation; and accrued rent expenses payable to the University of \$570,000 (2020 - \$770,000) and accounts payable of \$632,697 (2020 - \$232,635).

During the year, the University charged the Trust \$400,063 for service agreements (2020 - \$827,084) and nil (2020 - \$420,000) of rent.

A receivable of \$1,202,697 (2020 - \$1,002,635) is included in accounts receivable on the University's statement of financial position. During the year, due to the impact of COVID-19 on the operations of the Corporate Trustee, a provision of \$1,202,697 has been recorded in an allowance for doubtful accounts.

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.

(a) Endowment net assets consist of the following:

	2021	2020
Externally endowed funds with income to be used for donor-restricted purposes	\$ 18,881,878	\$ 15,664,093
Externally endowed funds with income unrestricted	315,952	264,419
Internally endowed restricted funds with income to be used for scholarships and bursaries	823,572	646,558
	<u>\$ 20,021,402</u>	<u>\$ 16,575,070</u>

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

12. Endowments (continued):

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

	2021	2020
Unrealized gain (loss) on investments	\$ 2,900,789	\$ (746,221)
Realized gain on investments	649,147	927,513
Capitalization of investment income	520,725	524,906
Management fees	(276,291)	(261,370)
Disbursements	(580,126)	(647,305)
	3,214,244	(202,477)
Endowment contributions	232,088	589,118
	\$ 3,446,332	\$ 386,641

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.

(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"):

	2021	2020
Endowment balance, at cost, beginning and end of year	\$ 501,887	\$ 501,887
Endowment balance, at market, end of year	\$ 877,523	\$ 733,770

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

13. Ontario government matching programs (continued):

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.

	2021	2020
Expendable funds available for awards, beginning of year	\$ 29,741	\$ 29,443
Amount available for spending	25,714	29,741
Bursaries awarded recorded as bursary and scholarship donations	(29,741)	(29,443)
Expendable funds available for awards, end of year	\$ 25,714	\$ 29,741
Number of bursaries awarded	14	11

- (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:

	2021	2020
Endowment balance, at cost, beginning and end of year	\$ 346,054	\$ 346,054
Endowment balance, at market, end of year	\$ 605,057	\$ 505,939

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

13. Ontario government matching programs (continued):

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.

	2021	2020
Expendable funds available for awards, beginning of year	\$ 20,507	\$ 20,301
Amount available for spending	17,730	20,507
Bursaries awarded recorded as bursary and scholarship donations	(20,507)	(20,301)
Expendable funds available for awards, end of year	\$ 17,730	\$ 20,507
Number of bursaries awarded	7	31

- (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:

	2021	2020
Cash donations not eligible for matching	\$ 4,744	\$ 13,078

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

	2021	2020
Endowment balance, at cost, beginning of year	\$ 5,901,521	\$ 5,888,443
Cash donations received	4,744	13,078
Endowment balance, at cost, end of year	\$ 5,906,265	\$ 5,901,521
Endowment balance, at market, end of year	\$ 10,326,796	\$ 8,628,158

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

13. Ontario government matching programs (continued):

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.

	2021	2020
Expendable funds available for awards, beginning of year	\$ 348,943	\$ 346,710
Amount available for spending	302,610	348,943
Bursaries awarded recorded as bursary and scholarship donations	(348,943)	(346,710)
Expendable funds available for awards, end of year	\$ 302,610	\$ 348,943
Number of bursaries awarded	140	383

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 2021, contributions made by the University to the Plan included in the statement of operations and unrestricted net assets (deficit) totalled \$2,562,813 (2020 - \$2,552,480).

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, 2020, CURIE was fully funded.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

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:

2022	\$ 3,657,510
2023	3,671,022
2024	3,311,189
2025	3,404,129
2026	3,497,903
Thereafter until 2037	39,415,930
Total	\$ 56,957,683

- (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. Aside from the potential impacts as disclosed in note 18, there have been no significant change to the risk exposure from 2020.

- (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.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2021

17. Financial instruments (continued):

(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.

Included in allowance for doubtful accounts is \$2,376,639 (2020 - \$1,550,214) related to student receivables and \$1,202,697 (2020 - nil) related to other accounts receivable (note 11).

(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 demand 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, 2021

18. Impact of the COVID-19 pandemic:

In March 2020, the World Health Organization declared the spread of coronavirus ("COVID-19") as a global pandemic.

During 2021, the levels of on-campus activity were significantly reduced and consequently ancillary fee and other revenues decreased due to limited activities on campus. Related parties (the Corporate Trustee and the Foundation) were impacted by COVID-19 and allowances for doubtful accounts have been established for a portion of the receivables from the related parties to the University. Also there was increased risk exposure to investments that were subject to financial market volatility and declines in the fair value of investments towards the end of fiscal 2020. The financial markets have continued to generate strong returns through the remainder of fiscal 2021, resulting in an improvement in the fair value of the University's long-term investments in the endowment fund at the end of fiscal 2021. It is uncertain whether market volatility relating to COVID-19 will occur again in the near future.

Management has assessed the going concern assumptions and believes that there are no issues given the University has enrolment management monitoring, an adequate working capital base, and access to internally restricted net assets and liquid resources to support operations in the coming year. Given the outcome of and time frame to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect on the future operations at this time.