

The Royal Conservatory of Music

Consolidated financial statements
August 31, 2023

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DISCLOSED
PURSUANT TO
THE ATIA
A-2024-180802

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Independent auditor's report

To the Members of
The Royal Conservatory of Music

Opinion

We have audited the consolidated financial statements of **The Royal Conservatory of Music** [the "RCM"], which comprise the consolidated balance sheet as at August 31, 2023, the consolidated statement of operations, the consolidated statement of changes in net assets and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the RCM as at August 31, 2023, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the RCM in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the RCM's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the RCM or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RCM's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RCM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the RCM to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the RCM to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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The Royal Conservatory of Music

Consolidated balance sheet

[in thousands of dollars]

As at August 31

	2023	2022
	\$	\$
Assets [note 7[d]]		
Current		
Cash	13,217	14,769
Accounts receivable [notes 3 and 16]	3,234	1,902
Inventory [note 4]	2,253	2,689
Prepaid expenses	455	404
Total current assets	19,159	19,764
Investments, fair value [note 5]	69,345	60,094
Capital assets, net [note 6]	103,846	106,278
	192,350	186,136
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities [note 7[e]]	4,067	4,760
Deferred revenue	5,780	3,917
Deferred contributions [note 9]	7,355	7,819
Current portion of long-term indebtedness [note 7[a]]	1,078	992
Total current liabilities	18,280	17,488
Accrued benefit liability [note 14]	1,645	1,567
Long-term indebtedness [note 7[a]]	60,641	61,719
Total liabilities	80,566	80,774
Deferred capital contributions [note 10]	39,131	40,318
Commitments and contingencies [notes 8 and 17]		
Net assets		
Endowments [note 11]	66,438	57,355
Unrestricted	6,215	7,689
Total net assets	72,653	65,044
	192,350	186,136

See accompanying notes

On behalf of the Board

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Director

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The Royal Conservatory of Music

Consolidated statement of operations

[in thousands of dollars]

Year ended August 31

	2023	2022
	\$	\$
Revenue		
Tuition and examination fees <i>[note 13]</i>	21,482	19,911
Publication sales	5,825	5,242
Other earned revenue <i>[note 12]</i>	7,219	3,476
Total earned revenue	34,526	28,629
Restricted contributions <i>[note 9[a]]</i>	12,282	12,207
Other donations and bequests <i>[note 11[b]]</i>	6,034	3,858
	52,842	44,694
Expenses		
Program costs	36,428	32,009
Fundraising and general support	8,832	6,484
Cost of goods sold related to publication sales <i>[note 4]</i>	1,453	2,150
Scholarships and bursaries <i>[note 13]</i>	3,727	2,946
	50,440	43,589
Excess of revenue over expenses before the following	2,402	1,105
Interest expense, net <i>[note 7[e]]</i>	(1,823)	(1,851)
Amortization of capital assets	(3,985)	(3,996)
Amortization of deferred capital contributions <i>[note 10]</i>	1,880	1,940
Deficiency of revenue over expenses for the year	(1,526)	(2,802)

See accompanying notes

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The Royal Conservatory of Music

Consolidated statement of changes in net assets

[in thousands of dollars]

Year ended August 31

	2023			2022		
	Endowments	Unrestricted	Total	Endowments	Unrestricted	Total
	\$	\$	\$	\$	\$	\$
	[note 11]			[note 11]		
Net assets, beginning of year	57,355	7,689	65,044	57,498	9,997	67,495
Deficiency of revenue over expenses for the year	—	(1,526)	(1,526)	—	(2,802)	(2,802)
Endowment contributions	1,917	—	1,917	12,505	—	12,505
Excess (shortfall) of investment income over amount available for spending related to endowment net assets [note 11[b]]	7,166	—	7,166	(12,648)	—	(12,648)
Remeasurement related to employee future benefits [note 14]	—	52	52	—	494	494
Net assets, end of year	66,438	6,215	72,653	57,355	7,689	65,044

See accompanying notes

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The Royal Conservatory of Music

Consolidated statement of cash flows

[in thousands of dollars]

Year ended August 31

	2023	2022
	\$	\$
Operating activities		
Deficiency of revenue over expenses for the year	(1,526)	(2,802)
Add (deduct) items not involving cash		
Amortization of capital assets	3,985	3,996
Amortization of deferred capital contributions	(1,880)	(1,940)
Unrealized investment income (loss)	(108)	35
Increase in accrued benefit liability	130	127
	601	(584)
Net change in non-cash working capital balances related to operations [note 15]	(2,838)	(2,069)
Cash used in operating activities	(2,237)	(2,653)
Investing activities		
Purchase of capital assets [note 6[b]]	(1,398)	(116)
Purchase of investments, net	844	(9,482)
Cash used in investing activities	(554)	(9,598)
Financing activities		
Repayment of long-term indebtedness	(992)	(909)
Contributions received for capital purposes [notes 6[b] and 10]	314	69
Endowment contributions	1,917	12,505
Cash provided by financing activities	1,239	11,665
Net decrease in cash during the year	(1,552)	(586)
Cash, beginning of year	14,769	15,355
Cash, end of year	13,217	14,769

See accompanying notes

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

1. Description of the organization

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

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

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

The RCM operates principally from The TELUS Centre for Performance and Learning [the "TELUS Centre"], located at 273 Bloor Street West, Toronto. The TELUS Centre includes classrooms and studios, a media centre, a library, a multipurpose rehearsal hall and Koerner Hall, an acoustically excellent 1,135 seat concert hall that provides the venue in which the RCM presents performances by accomplished artists to its students and the community.

The Oscar Peterson School provides programs for children and adults. The Glenn Gould School and the Taylor Performance Academy for Young Artists provide training for students working toward performance and teaching careers. The Glenn Gould School has a Bachelor of Music degree granting status. The RCM develops print music and pedagogical material for teaching and learning and conducts examinations in music nationally and internationally. The RCM also creates digital tools and resources in music training and professional development.

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

The RCM holds the shares of the 24(1) in trust pursuant to an agreement made in December 1944 with the late 24(1) publishes and sells music publications for music teachers and their students and is the exclusive publisher of all materials designated as publications of the RCM and the RCM Certificate Program. 24(1)

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

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

2. Summary of significant accounting policies

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

Controlled not-for-profit entities

24(1) the shares of which are held in trust, RCMA and the Royal Conservatory of Music Foundation [in Canada] are controlled organizations and are consolidated into the accounts of the RCM.

Financial instruments

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

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

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

Inventory

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

Prepublication costs

Prepublication costs represent expenses incurred directly related to publications in process. These costs are transferred to inventory on the date of initial publication.

Capital assets

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

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

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

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

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the RCM's ability to provide goods and services. Any impairment results in a write-down of the asset and an expense in the consolidated statement of operations. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

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

Life insurance policies

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

Revenue recognition

The RCM follows the deferral method of accounting for contributions, which include donations and government grants. Grants and bequests are recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Externally restricted endowment contributions are recognized as direct increases in net assets when recorded in the accounts.

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

Contributed materials and services

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

Foreign currency translation

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

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

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

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Notes to consolidated financial statements

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

August 31, 2023

Employee future benefits

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

Allocation of expenses

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

3. Accounts receivable

Accounts receivable consist of the following:

	2023 \$	2022 \$
Publishing	446	508
Tuition fees	937	341
Bequests	1,005	50
Government grants	33	82
Other receivables	813	921
	<u>3,234</u>	<u>1,902</u>

4. Inventory

Inventory consists of the following:

	2023 \$	2022 \$
Finished goods	<u>2,253</u>	<u>2,689</u>

The cost of inventory recognized in cost of goods sold amounted to \$1,331 [2022 – \$1,408]. Included in this amount is an increase in the provision for inventory obsolescence of \$2 [2022 – \$24].

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

5. Investments

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

	2023 \$	2022 \$
Investments held for endowment net assets [note 5[b]]	66,521	57,379
Life insurance policy	2,824	2,715
	69,345	60,094

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

	2023		2022	
	\$	%	\$	%
Cash	2,399	3.6	2,826	4.9
Alternative funds	10,330	15.5	—	—
Canadian equities	7,387	11.1	4,660	8.1
Foreign equities	46,405	69.8	49,893	87.0
	66,521	100.0	57,379	100.0

6. Capital assets

[a] Capital assets consist of the following:

	2023		
	Cost \$	Accumulated amortization \$	Net book value \$
Tangible			
Land	17,000	—	17,000
Building and building improvements	139,825	55,775	84,050
Furniture, equipment and computers	5,061	4,267	794
Musical instruments [note 6[b]]	5,350	3,505	1,845
Intangible			
Software	4,731	4,574	157
	171,967	68,121	103,846

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

	2022		
	Cost	Accumulated amortization	Net book Value
	\$	\$	\$
Tangible			
Land	17,000	—	17,000
Building and building improvements	139,357	52,400	86,957
Furniture, equipment and computers	4,532	4,030	502
Musical instruments [note 6[b]]	4,875	3,335	1,540
Intangible			
Software	4,656	4,377	279
	170,420	64,142	106,278

- [b] Contributed capital assets with a fair value of \$155 [2022 – \$71] have been recorded as tangible capital assets offset by an equal increase in deferred capital contributions [note 10].

7. Bank and other indebtedness

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

	2023		
	Current	Long-term	Total
	\$	\$	\$
Debenture 003, due February 26, 2048 [note 7[b]]	1,078	60,641	61,719

	2022		
	Current	Long-term	Total
	\$	\$	\$
Debenture 003, due February 26, 2048 [note 7[b]]	992	61,719	62,711

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

Debenture 003, which is collateralized by a mortgage on the TELUS Centre, matures on February 26, 2048. On the date of issue, the indicative interest rate was 2.925%, and the fair value of Debenture 003 was \$67,042. The RCM is entitled to prepay all or part of the debenture at any time, subject to certain penalties. Each year, a specified annual amount is due in four quarterly blended payments of interest and principal. Minimum payments due in the next five years under Debenture 003 are as follows: 2024 – \$2,872; 2025 – \$2,929; 2026 – \$2,988; 2027 – \$3,047 and 2028 – \$3,108.

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

- [c] 24(1) has provided the RCM with a \$5,000 revolving credit facility for general operating purposes. Interest on loans and overdrafts is charged at prime rate plus 1% [2022 – 1%]. Drawings against this facility are due on demand. As at August 31, 2023, 24(1) has issued letters of credit in the amount of \$2,459 [2022 – \$2,986].
- [d] Substantially all of the RCM's assets are pledged as collateral against indebtedness 24(1) and Infrastructure Ontario.
- [e] During the year, interest expense of \$1,823 [2022 – \$1,851] was recorded with respect to the debt in the consolidated statement of operations. As at August 31, 2023, accrued interest payable of \$25 [2022 – \$25] is included in accounts payable and accrued liabilities.

8. Commitments

The RCM's future minimum annual commitments in respect of operating leases for facilities and equipment are as follows: 2024 – \$108 and 2025 – \$32. The operating leases for facilities and equipment expire in 2025.

9. Deferred contributions

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

	2023 \$	2022 \$
Balance, beginning of year	7,819	8,961
Government grants	2,259	2,753
Donations received for annual scholarships and bursaries	1,789	1,296
Amount made available for spending related to endowment net assets [notes 11[b] and 12]	2,912	2,919
Other restricted donations	5,101	4,097
Transfer to deferred capital contributions [note 10]	(243)	—
Amount recognized as revenue during the year	(12,282)	(12,207)
Balance, end of year	7,355	7,819

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

	2023 \$	2022 \$
Programs	3,464	4,016
Scholarships and bursaries	3,891	3,803
	7,355	7,819

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

10. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded in the consolidated statement of operations. The changes in the deferred capital contributions balance are as follows:

	2023 \$	2022 \$
Balance, beginning of year	40,318	42,118
Add contributions received for capital purposes [note 6(b)]	450	140
Add transfer from deferred contributions [note 9]	243	—
Less amortization of deferred capital contributions	(1,880)	(1,940)
Balance, end of year	39,131	40,318

11. Endowments

- [a] Endowments included in these consolidated financial statements exclude those with the Ontario Arts Foundation ["OAF"] [note 12] and consist of amounts where the amount made available for spending is restricted primarily for scholarships and bursaries.
- [b] The endowment net assets consist of amounts subject to donor restrictions relating to maintaining the principal and using the income in accordance with the various purposes established by the donor or the Board of Directors.

The RCM has adopted a policy with the objective of protecting the real value of the endowment net assets by limiting the amount of income made available for spending and requiring the reinvestment of any income earned in excess of this limit. The amount available for spending is to be calculated based on 5% of average market values of individual funds for five months ending May 31 [2022 – 5% of the market value of individual funds as at December 31 of the prior year] unless a different basis of distribution has been stipulated by the donor. The preservation of capital is recorded as a direct increase in endowment net assets.

In fiscal 2023, investment income of \$9,977 was earned on investments held for the endowment net assets. The amount made available for spending was \$2,811. Of the amount made available for spending, \$31 was unrestricted and recorded in other donations and bequests, \$2,761 was restricted and recorded in deferred contributions [note 9] and \$19 was recorded in deferred capital assets contributions. The difference of \$7,166, representing preservation of capital, was added directly to endowments net assets.

In fiscal 2022, an investment loss of \$9,747 was recorded on investments held for the endowment net assets. The amount made available for spending was \$2,901 and has been transferred from endowment net assets to deferred contributions for this purpose. Of the amount made available for spending, \$123 was unrestricted and recorded in other donations and bequests and \$2,778 was restricted and recorded in deferred contributions [note 9]. An amount of \$12,648, representing the total of investment loss and amount made available for spending, was recorded directly as a reduction to endowment net assets.

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

12. Endowments with the Ontario Arts Foundation

In 1999, the Province of Ontario established the Arts Endowment Program with the OAF. Under this program, money raised by eligible arts organizations, specifically for endowment purposes, was matched. For each participating arts organization, a separate trust fund was established and is maintained by the OAF. From time to time, at the discretion of the OAF, these organizations receive income from the funds held for their benefit. During the year ended August 31, 2023, the RCM received \$139 [2022 – \$148] from the OAF. Of the amount received, \$7 [2022 – \$7] was unrestricted and recorded in other earned revenue, and \$132 [2022 – \$141] was restricted and recorded in deferred contributions [note 9]. These restricted contributions are used by the RCM to award scholarships under conditions consistent with the terms of the endowments held by the OAF.

As at August 31, 2023, the OAF is holding capital amounting to \$1,908 [2022 – \$1,908] and undistributed income of \$996 [2022 – \$723] for the benefit of the RCM. These funds are held in trust by the OAF and are not recorded in these consolidated financial statements.

13. Tuition fees

Tuition fees include an amount equal to scholarships and bursaries awarded to students of \$3,727 [2022 – \$2,946]. Substantially all of these scholarships and bursaries are funded by contributions restricted for special purposes recognized during the year in the consolidated statement of operations.

14. Employee future benefits

The RCM has established a defined benefit retirement compensation arrangement for the benefit of the Chief Executive Officer. Based on an actuarial valuation report prepared as at August 31, 2023, the accrued benefit liability as at August 31, 2023 was \$1,645 [2022 – \$1,567].

15. Consolidated statement of cash flows

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

	2023 \$	2022 \$
Decrease (increase) in accounts receivable	(1,332)	2,279
Decrease (increase) in inventory	436	(1,042)
Decrease (increase) in prepaid expenses	(51)	78
Increase (decrease) in accounts payable and accrued liabilities	(703)	1,932
Increase (decrease) in deferred revenue	1,863	(1,273)
Decrease in deferred contributions	(3,051)	(4,043)
	(2,838)	(2,069)

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The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

16. Financial instruments and risk management

The RCM is exposed to various risks with respect to financial instruments. The RCM invests the funds provided by endowment donations with the objectives of preserving the original capital and earning sufficient investment income to fund certain activities. Numerous risk factors may impact the achievement of these objectives. The objective of the investment policy in place is to demonstrate prudent management of the donated funds and provide a framework for the management of the donated funds. The Board of Directors determines the risk profile of the investment portfolio and reassesses the risk profile on an annual basis as required by the investment policy. The following risks are covered through this process, unless otherwise noted:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The RCM's main credit risk relates to its accounts receivable. Accounts receivable are recorded net of an allowance for doubtful accounts of nil [2022 – nil]. The RCM mitigates this risk by evaluating the creditworthiness of counterparties and establishing credit limits and payment terms.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The RCM's currency risk arises from international equities that are held within the pooled fund in which the RCM holds units and cash, accounts receivable and accounts payable balances related to RCMA.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The RCM is exposed to interest rate price risk with respect to its investments in pooled funds, which hold bonds and other debt instruments, the values of which will fluctuate with changes in market interest rates. In addition, the RCM is exposed to interest rate cash flow risk since the interest rate on the RCM's credit facility with 24(1) is linked to the bank's prime rate, which changes from time to time.

Other price risk

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

Liquidity risk

Liquidity risk is the risk that the RCM will encounter difficulty in meeting obligations associated with financial liabilities. The RCM is exposed to this risk in respect of its accounts payable and accrued liabilities and its various other debt obligations. The RCM mitigates this risk by having enough resources available in cash and receivables to pay the obligations as they become due.

The Royal Conservatory of Music

Notes to consolidated financial statements

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

August 31, 2023

17. Contingencies

In the normal course of operations, the RCM is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where the potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amounts recorded are determined to be required.

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A-2024-180802