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Financial statements of  
The Royal Institution for the  
Advancement of Learning /  
McGill University

April 30, 2021

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## Independent Auditor's Report

To the Trustees of The Royal Institution for the Advancement of Learning  
and the Board of Governors of McGill University

### Opinion

We have audited the financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheet as at April 30, 2021, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the University 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 audit 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 University'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 University or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's 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 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 GAAS 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 financial statements.

As part of an audit in accordance with Canadian GAAS, 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 University'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 University'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 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 University 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.

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.

*Deloitte LLP*

October 12, 2021

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A128741

# The Royal Institution for the Advancement of Learning / McGill University

## Statement of revenue and expenses

Year ended April 30, 2021

(In thousands of dollars)

	Notes	2021	2020
		\$	\$
<b>Revenue</b>			
Grants			
Federal		261,973	236,854
Provincial		509,852	494,274
United States		9,408	7,236
Other sources		31,793	50,958
Contracts		17,865	15,587
Tuition and fees		382,318	365,343
Sales of goods and services		82,610	135,024
Gifts and bequests		69,378	72,105
Foreign exchange gain		213	1,350
Investment and interest income	15	100,556	61,927
		<b>1,465,966</b>	<b>1,440,658</b>
<b>Expenses</b>			
Salaries and student support			
Academic		379,930	374,720
Administrative and support		287,610	289,667
Benefits		128,107	128,166
Student aid		144,396	134,848
Students		41,727	42,504
		<b>981,770</b>	<b>969,905</b>
Non-salary			
Material, supplies and publications		45,485	45,996
Contributions to partner institutions		55,769	45,091
Contract services		23,617	23,025
Professional fees		22,020	25,134
Travel		2,833	27,127
Cost of goods sold		7,926	15,569
Building occupancy costs		33,644	37,004
Energy		15,841	17,882
Other non-salary expenses		29,884	38,013
Hardware and software maintenance		15,664	14,052
Amortization of capital assets		170,928	149,756
Interest		40,652	40,766
Bank charges		1,255	1,506
		<b>465,518</b>	<b>480,921</b>
		<b>1,447,288</b>	<b>1,450,826</b>
Excess (deficiency) of revenue over expenses before the undernoted item		18,678	(10,168)
Gain on sale of land and building		—	5,052
<b>Excess (deficiency) of revenue over expenses</b>		<b>18,678</b>	<b>(5,116)</b>

The accompanying notes are an integral part of the financial statements.

## The Royal Institution for the Advancement of Learning / McGill University

### Statement of changes in net assets

Year ended April 30, 2021

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	\$	\$	\$	\$	\$	\$
Net assets (deficiency), April 30, 2019	(332,221)	95,813	—	227,622	1,610,898	1,602,112
(Deficiency) excess of revenue over expenses	66,876	5,775	17,934	(95,701)	—	(5,116)
Pension liability remeasurement*	(17,060)	—	—	—	—	(17,060)
Endowment contributions and gifts in kind	—	—	—	681	33,251	33,932
Investment income items reported as direct decrease in net assets	—	—	—	—	(122,502)	(122,502)
Net change in internally restricted net assets	(9,221)	11,539	—	(2,330)	12	—
Investment in capital assets	(68,607)	—	(16,950)	85,557	—	—
Other transfers	5,407	(6,555)	(984)	(15)	2,147	—
Net assets (deficiency), April 30, 2020	<b>(354,826)</b>	<b>106,572</b>	<b>—</b>	<b>215,814</b>	<b>1,523,806</b>	<b>1,491,366</b>
Excess (deficiency) of revenue over expenses	<b>114,251</b>	<b>(27,509)</b>	<b>17,619</b>	<b>(85,683)</b>	<b>—</b>	<b>18,678</b>
Pension liability remeasurement*	<b>38,565</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>38,565</b>
Post-employment benefit remeasurement*	<b>3,518</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,518</b>
Endowment contributions and gifts in kind	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,249</b>	<b>43,960</b>	<b>46,209</b>
Investment income items reported as direct increase in net assets	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>248,928</b>	<b>248,928</b>
Net change in internally restricted net assets	<b>(14,111)</b>	<b>38,290</b>	<b>—</b>	<b>(2,262)</b>	<b>(21,917)</b>	<b>—</b>
Investment in capital assets	<b>(67,960)</b>	<b>—</b>	<b>(15,583)</b>	<b>83,543</b>	<b>—</b>	<b>—</b>
Other transfers	<b>(23,488)</b>	<b>11,466</b>	<b>(2,036)</b>	<b>38</b>	<b>14,020</b>	<b>—</b>
Net assets (deficiency), April 30, 2021	<b>(304,051)</b>	<b>128,819</b>	<b>—</b>	<b>213,699</b>	<b>1,808,797</b>	<b>1,847,264</b>

\* As at April 30, 2021, the accumulated post-employment benefit remeasurement is \$50,075 (\$46,557 as at April 30, 2020) and the accumulated pension liability remeasurement is \$81,099 (\$42,534 as at April 30, 2020).

The accompanying notes are an integral part of the financial statements.

# The Royal Institution for the Advancement of Learning / McGill University

## Balance sheet

As at April 30, 2021

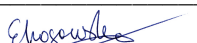
(In thousands of dollars)

	Notes	2021	2020
		\$	\$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		<b>36,008</b>	20,505
Short-term investments	17	<b>115,107</b>	58,659
Receivables	3 and 4	<b>429,619</b>	425,878
Prepaid expenses		<b>9,974</b>	9,229
Inventory		<b>1,949</b>	2,201
		<b>592,657</b>	516,472
Marketable securities	17	<b>2,049,912</b>	1,723,451
Grants and contracts related to research receivable		<b>37,393</b>	32,306
Capital grants receivable	4	<b>945,884</b>	899,478
Loans receivable	5	<b>3,575</b>	4,888
Capital assets	6	<b>1,789,125</b>	1,724,090
		<b>5,418,546</b>	4,900,685
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness	7	<b>5,520</b>	120,889
Accounts payable and accrued liabilities	8	<b>258,207</b>	223,981
Unearned revenue		<b>48,627</b>	35,709
Current portion of long-term debt	11	<b>76,669</b>	65,989
		<b>389,023</b>	446,568
Deferred contributions	9	<b>824,046</b>	689,336
Deferred capital contributions	10	<b>1,105,425</b>	1,029,915
Long-term debt	11	<b>1,168,858</b>	1,110,436
Accrued pension liability	12	<b>—</b>	46,607
Post-employment benefit obligation	12	<b>83,930</b>	86,457
		<b>3,571,282</b>	3,409,319
Commitments, contingent liabilities	19 and 20		
<b>Net assets</b>			
Invested in capital assets		<b>213,699</b>	215,814
Externally restricted for endowment purposes	13	<b>1,808,797</b>	1,523,806
Internally restricted	14	<b>128,819</b>	106,572
Unrestricted		<b>(304,051)</b>	(354,826)
		<b>1,847,264</b>	1,491,366
		<b>5,418,546</b>	4,900,685

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Governors

 \_\_\_\_\_, Governor

 \_\_\_\_\_, Secretary-General

# The Royal Institution for the Advancement of Learning / McGill University

## Statement of cash flows

Year ended April 30, 2021

(In thousands of dollars)

	Notes	2021 \$	2020 \$
<b>Operating activities</b>			
Excess (deficiency) of revenue over expenses		18,678	(5,116)
Adjustments for:			
Amortization of capital assets		170,928	149,756
Amortization of bond discount		216	230
Amortization of deferred contributions	9	(445,147)	(432,588)
Amortization of deferred capital contributions	10	(84,327)	(79,711)
Change in fair value of investments	15	14,203	30,318
Change in fair value of derivative financial instruments	15	(20,700)	(10,732)
Change in pension liability		(8,042)	(8,239)
Change in post-retirement benefit obligation		991	1,041
Write-off of capital assets		—	148
Gain on sale of land and building		—	(5,052)
		<b>(353,200)</b>	<b>(359,945)</b>
Net change in non-cash working capital items	16	42,735	(6,680)
Increase in government grant receivable		(41,089)	(72,361)
Increase in grants and contracts related to research receivable		(17,711)	(17,823)
Increase in deferred contributions		579,857	508,170
		<b>210,592</b>	<b>51,361</b>
<b>Investing activities</b>			
Increase in short-term investments		(56,448)	(35,050)
Acquisition of capital assets		(228,481)	(229,097)
Purchase of marketable securities		(1,506,487)	(1,331,282)
Proceeds from sale of marketable securities		1,186,523	1,366,469
Proceeds from sale of capital assets		—	5,850
Change in loans receivable		1,313	(1,069)
		<b>(603,580)</b>	<b>(224,179)</b>
<b>Financing activities</b>			
Change in bank indebtedness		(115,369)	25,869
Investment income (loss) reported as direct increase (decrease) in net assets		248,928	(122,502)
Endowment contributions and gifts in kind		46,209	33,932
Issuance of long-term debt		134,876	328,979
Repayment of long-term debt		(65,990)	(209,354)
Bond issuance costs		—	(292)
Deferred capital contributions		159,837	135,057
		<b>408,491</b>	<b>191,689</b>
Net increase in cash and cash equivalents		15,503	18,871
Cash and cash equivalents, beginning of year		20,505	1,634
<b>Cash and cash equivalents, end of year</b>		<b>36,008</b>	<b>20,505</b>

### Non-cash transactions

Capital assets additions amounting to \$43,236 (\$35,754 in 2020), included in accounts payable and accrued liabilities, have no cash flow impact.

The accompanying notes are an integral part of the financial statements.



# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

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### 1. Status and nature of activities

The Corporation with the legal name "Governors, Principal and Fellows of McGill College" ("McGill College") was incorporated in 1821 under Royal Charter and is a university with the power of conferring degrees. The Royal Institution for the Advancement of Learning ("The Royal Institution") was incorporated in 1802 and holds all property acquired by, transferred or bequeathed to McGill College and assumes all debt incurred by McGill College. Together, these two corporations constitute the entity known as McGill University ("McGill" or the "University"). McGill's operations include all of the activities of its teaching and research units such as the Montreal Neurological Institute, Macdonald Campus in Sainte-Anne-de-Bellevue and the Morgan Arboretum.

McGill is a not-for-profit organization dedicated to providing post-secondary education and to conducting research and is exempt from tax under the provisions of the *Canadian Income Tax Act*.

### 2. Accounting policies

The financial statements of the University have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) using the deferral method and include the following significant accounting policies:

#### *Consolidation*

The net results of not-for-profit organizations affiliated with McGill are not reported in these financial statements, as those organizations are not under the control of McGill.

#### *Revenue recognition*

The University follows the deferral method of accounting for restricted contributions, which includes gifts and bequests, grants and contracts. Under the deferral method, amounts that are restricted are recorded as deferred contributions and are recognized as revenue when the related expense is incurred. Where contributions relate to capital assets, the revenue is recognized on the same basis as the amortization of the asset acquired. Unrestricted contributions are recognized as revenue when received. Endowment contributions are recognized as a direct increase in net assets in the year in which they are received. Pledged donations are not recognized until received.

Interest revenue and investment income are recorded on an accrual basis. Realized gains and losses on sales of investments are recorded when securities are sold based on the cost. Unrealized gains and losses related to the change in fair value are recorded as investment income. To the extent that investment income is restricted, it is included in the deferred contributions account and recognized when the related expense is incurred, except for the excess or deficiency of amounts made available for spending and unrealized gains and losses on externally restricted endowments, which are recorded as a direct increase or decrease to endowments.

Tuition and fees are recognized as revenue in the year during which the course sessions are held.

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

Gifts in kind are recorded at their fair value on receipt or at a nominal value when fair value cannot be reasonably determined. The value of gifts in kind in 2021 is \$2.2 million (\$0.7 million in 2020). The value of contributed volunteer hours is not recognized in these financial statements.

Government operating grants are recorded in the period for which they are granted.

Research grants are recorded based on the deferral method and are recognized as revenue in the year in which related expenses are recognized.

## **2. Accounting policies (continued)**

### *Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value when the University becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for investments and derivative financial instruments, which are measured at fair value at the balance sheet date. The fair value of listed securities is based on the latest closing price and the fair value quote received from the bank counterparty is used as a proxy for the fair value of derivative financial instruments.

The fair value of non-publicly traded investment funds is based on valuation techniques using inputs other than quoted prices included in listed securities that are observable for the asset or liability, either directly or indirectly. These valuation techniques include the amortized cost method, evaluation of recent market transactions, the discounted cash flows model, the multiples-based model, third party appraisals, and comparison with similar securities. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to financial instruments measured at fair value subsequent to initial measurement are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of revenue and expenses as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the University recognizes in the statement of revenue and expenses an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the statement of revenue and expenses in the period the reversal occurs.

### *Foreign exchange*

Monetary assets and liabilities and other assets accounted for at fair value denominated in foreign currencies are translated into Canadian dollars using foreign exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expense items are translated into Canadian dollars at the rates of exchange prevailing at the date of the transaction. The gain or loss resulting from translation is included in the statement of revenue and expenses.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash and short-term investments with a term to maturity of three months or less at the date of acquisition.

### *Student loans*

Student loans are due within one year after graduation and do not bear interest up until that time. After their due date, interest is charged based on the prevailing rates when the loan agreements were signed. A provision is recorded for estimated uncollectible amounts.

### *Inventory*

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in, first-out method) and net realizable value.

## **2. Accounting policies (continued)**

### *Capital assets*

Capital assets are recorded at cost. Constructed assets do not include interest incurred during construction. Contributed capital assets are recorded at appraised fair value at the date of contribution when fair value can be reasonably estimated; otherwise, they are recorded at a nominal amount. Amortization of assets under development commences when development is completed. The amortization is calculated on a straight-line basis over the estimated useful life in years of various asset categories as follows:

Land improvements	10 or 20 years
Buildings	20 to 50 years
Major renovations	20 to 40 years
Leasehold improvements	Over term of lease, to a maximum of 10 years
Equipment	3 to 20 years
Rolling stock	5 years
Library materials	10 years
Intangible assets (primarily software)	3 to 5 years

### *Write-downs of tangible capital assets and intangible assets*

When conditions indicate that a tangible capital asset or an intangible asset is impaired, the net carrying amount of the tangible capital asset or the intangible asset shall be written down to the asset's fair value or replacement cost. The write-downs of tangible capital assets and intangible assets shall be accounted for as expenses in the statement of revenue and expenses. A write-down shall not be reversed.

### *Net assets*

Balances invested in capital assets represent net assets that are not available for other purposes because they have been invested in capital assets.

Endowments must be used in accordance with the various purposes established by donors, with endowment principal maintained intact over time in accordance with McGill's endowment policy.

Internally restricted net assets are funds set aside for specific purposes as determined by the Board of Governors from time to time.

### *Employee future benefits*

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits for eligible plan members. The University also has certain post-employment benefits plans and a legacy defined benefit pension plan.

The cost of providing defined pension benefits and post-employment benefit plans other than pensions is determined by independent actuaries. The University has chosen to evaluate the accrued benefit obligations by using the actuarial valuation for funding purposes. The actuarial valuation performed every three years is based on the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial evaluation for funding purposes was dated December 31, 2019.

For the purpose of calculating the expected return on plan assets, the assets are valued at fair value.

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 2. Accounting policies (continued)

#### *Employee future benefits (continued)*

The University recognizes:

- in the balance sheet, the accrued benefit obligations, reduced by the fair value of plan assets and adjusted for any valuation allowance (either the defined benefit asset or the accrued benefit obligation);
- in the statement of revenue and expenses, the cost of the plan for the year; and
- in the statement of changes in net assets, revaluations and other items arising in particular from the difference between the actual return on plan assets and the return calculated using the discount rate determined from actuarial gains and losses, past services, settlement, compression and asset ceiling for defined benefits.

#### *Use of estimates*

The preparation of financial statements in accordance with Canadian ASNPO requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of revenues and expenses reported in the financial statements. In particular, significant estimates are made regarding valuation of receivables, fair values of non-publicly traded investments and financial instruments, estimated useful life of capital assets, provisions for contingencies, pay equity and employee future benefits. Actual results may ultimately differ from these estimates.

### 3. Receivables

	2021	2020
	\$	\$
Operating, net of provision for doubtful accounts of \$2,834 (\$1,454 as at April 30, 2020)	<b>26,191</b>	27,769
Student loans, net of provision for doubtful accounts of \$535 (\$713 as at April 30, 2020)	<b>2,080</b>	3,629
Investment income	<b>1,995</b>	2,434
Government operating grants	<b>51,650</b>	67,617
Grants and contracts related to research – short-term	<b>272,077</b>	259,453
Capital grants receivable – short-term	<b>75,626</b>	64,976
	<b>429,619</b>	425,878

### 4. Capital grants receivable

Capital grants receivable relate to capital grants approved by the Ministère de l'Enseignement supérieur (MES), but funded through long-term debt issued in McGill's name or not yet funded. These amounts are due immediately; however, only a portion of their collection is expected within the next fiscal year and the remainder is presented as long-term.

### 5. Loans receivable

Loans receivable bear interest at rates varying from 2.208% to 3.013% (3.013% to 4.125% as at April 30, 2020), with maturities up to nine years.

## The Royal Institution for the Advancement of Learning / McGill University

### Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

#### 6. Capital assets

	2021			2020
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	28,627	—	28,627	28,627
Land improvements	62,728	27,164	35,564	37,995
Buildings	665,793	392,513	273,280	282,066
Major renovations	1,414,648	462,063	952,585	907,008
Leasehold improvements	31,377	7,818	23,559	12,991
Equipment	551,810	330,376	221,434	229,720
Rolling stock	2,130	1,534	596	628
Library materials	204,874	109,956	94,918	89,690
Intangible assets	65,744	28,910	36,834	6,041
	<b>3,027,731</b>	<b>1,360,334</b>	<b>1,667,397</b>	1,594,766
Assets under development	121,728	—	121,728	129,324
	<b>3,149,459</b>	<b>1,360,334</b>	<b>1,789,125</b>	1,724,090

#### 7. Bank indebtedness

In accordance with MES regulations, McGill's Board of Governors has approved maximum borrowings of \$400 million (\$400 million as at April 30, 2020), under short-term credit facilities, of which none has been used as at April 30, 2021 (\$119 million as at April 30, 2020). There are \$5.5 million in short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness (\$1.9 million in 2020). Unsecured and uncommitted operating lines of credit, totalling \$495 million (\$495 million as at April 30, 2020), are available to McGill and are normally drawn through bankers' acceptances for periods of up to one year. The lines of credit bear interest at the prime rate or banker's acceptance rate. The prime rate averaged 2.45% for the year (3.70% in 2020). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 0.33% (1.58% as at April 30, 2020). The banker's acceptance rate in effect as at April 30, 2021 was 0.41% (0.60% as at April 30, 2020). There were no banker's acceptances outstanding at year-end (nil in April 30, 2020).

#### 8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$12.5 million (\$11.5 million as at April 30, 2020) of government remittances.

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 9. Deferred contributions

Deferred contributions represent the unspent portion of funds received for restricted purposes other than capital asset purchases, which are included under deferred capital contributions in Note 10.

	<b>2021</b>	2020
	\$	\$
Balance, beginning of year	<b>689,336</b>	613,754
Restricted funds received during the year	<b>525,237</b>	430,215
Gifts and bequests	<b>54,620</b>	77,955
Amortization of deferred contributions	<b>(445,147)</b>	(432,588)
Balance, end of year	<b>824,046</b>	689,336

The balance at the end of the year is composed of:

	<b>2021</b>	2020
	\$	\$
Federal grants	<b>436,167</b>	366,287
Provincial grants	<b>116,247</b>	99,400
United States grants	<b>13,478</b>	9,764
Other grant sponsors	<b>36,573</b>	8,964
Contracts	<b>36,063</b>	33,774
Gifts and bequests	<b>166,308</b>	155,004
Endowment income	<b>13,921</b>	11,057
Investment income	<b>5,289</b>	5,086
	<b>824,046</b>	689,336

### 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 as grant revenue in the statement of revenue and expenses. The deferred capital contributions balance consists of the following:

	<b>2021</b>	2020
	\$	\$
Balance, beginning of year	<b>1,029,915</b>	974,569
Deferred capital contributions received	<b>159,837</b>	135,057
Amortization of deferred capital contributions	<b>(84,327)</b>	(79,711)
Balance, end of year	<b>1,105,425</b>	1,029,915
Composed of contributions from the following sources:		
MES	<b>656,033</b>	576,585
Other provincial	<b>148,333</b>	153,417
Federal	<b>198,822</b>	192,163
Gifts and donations	<b>93,059</b>	95,508
Specific grant agreements	<b>9,178</b>	12,242
Balance, end of year	<b>1,105,425</b>	1,029,915

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 11. Long-term debt

	2021	2020
	\$	\$
Government of Québec debt notes <sup>(i)</sup>		
4.125%, matured August 24, 2020	—	734
2.559%, due December 1, 2021	348	929
1.709%, due March 1, 2022	4,907	5,725
2.947%, due September 1, 2022	2,217	3,641
2.947%, due September 1, 2022	2,130	3,499
2.226%, due September 1, 2022	2,771	4,618
3.013%, due September 28, 2022	2,087	3,085
2.044%, due October 1, 2022	1,503	2,497
1.639%, due March 1, 2023	1,916	2,725
2.324%, due September 1, 2024	6,282	8,077
2.054%, due November 1, 2024	7,552	9,440
2.949%, due March 1, 2025	21,662	26,802
0.760%, due November 1, 2025	4,449	—
2.408%, due September 1, 2026	41,400	44,160
2.149%, due September 1, 2026	11,735	13,362
2.280%, due September 1, 2027	38,227	39,965
2.787%, due September 1, 2027	52,856	56,933
3.021%, due December 1, 2028	9,123	10,232
3.082%, due December 1, 2029	100,504	111,316
2.208%, due December 12, 2029	2,801	3,080
2.379%, due November 1, 2032	138,068	149,630
4.991%, due June 1, 2034	14,000	15,000
3.680%, due June 1, 2034	39,900	42,000
3.161%, due June 1, 2034	44,000	46,200
2.451%, due November 1, 2034	5,765	6,177
2.549%, due November 1, 2039	67,119	70,652
1.954%, due November 1, 2040	130,427	—
2.933%, due December 1, 2042	53,309	55,733
3.218%, due December 1, 2043	21,771	22,717
Total	<b>828,829</b>	758,929
McGill Senior Unsecured Debentures <sup>(ii)</sup>		
6.150% Series "A", mature on September 22, 2042	150,000	150,000
3.975% Series "B", mature on January 29, 2056	160,000	160,000
2.926% Series "C", mature on July 26, 2049	90,000	90,000
	<b>400,000</b>	400,000
Loan payable <sup>(iii)</sup>	21,497	22,511
Bond discounts and issuance costs	(4,799)	(5,015)
	<b>16,698</b>	17,496
Total long-term debt	<b>1,245,527</b>	1,176,425
Current portion	76,669	65,989
	<b>1,168,858</b>	1,110,436

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 11. Long-term debt (continued)

- (i) Notes are secured by the Government of Québec, and regular interest and capital repayments are made by the Government on McGill's behalf. Interest on the notes is paid semi-annually and capital repayments are due on each note's anniversary date. Capital repayments due annually and final payments including lump sums due at maturity are as follows:

	Annual payment	Final payment on maturity
	\$	\$
1.709%, due March 1, 2022	—	4,907
2.947%, due September 1, 2022*	1,467	750
2.947%, due September 1, 2022*	1,410	720
2.226%, due September 1, 2022	1,847	924
3.013%, due September 28, 2022*	1,028	1,059
2.044%, due October 1, 2022	994	509
1.639%, due March 1, 2023	808	1,108
2.324%, due September 1, 2024	1,795	897
2.054%, due November 1, 2024	1,888	1,888
2.949%, due March 1, 2025	5,140	6,242
0.760%, due November 1, 2025	890	889
2.408%, due September 1, 2026	2,760	27,600
2.149%, due September 1, 2026	1,626	3,605
2.280%, due September 1, 2027	1,738	27,799
2.787%, due September 1, 2027	4,077	28,394
3.021%, due December 1, 2028	1,110	1,353
3.082%, due December 1, 2029	10,812	14,008
2.208%, due December 12, 2029*	285	339
2.379%, due November 1, 2032	11,562	10,886
4.991%, due June 1, 2034	1,000	1,000
3.680%, due June 1, 2034	2,100	12,600
3.161%, due June 1, 2034	2,200	15,400
2.451%, due November 1, 2034	412	409
2.549%, due November 1, 2039	3,533	3,525
1.954%, due November 1, 2040	6,521	6,528
2.933%, due December 1, 2042	2,423	2,426
3.218%, due December 1, 2043	947	937

\* Annual payments vary from year to year.

- (ii) McGill periodically issues unsecured debentures with 40-year terms that are repayable in full at maturity. Unlike MES notes, McGill will be required to repay these obligations from resources generated by McGill. Semi-annual interest payments are paid by McGill.

- (iii) In August 2017, McGill entered into a 10-year loan agreement of \$25 million, with a 20-year amortization period. The loan bears interest at the banker's acceptance rate plus 0.73% with a 10-year rate swap for an all-in rate of 2.84%.



# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 11. Long-term debt (continued)

Repayments of the principal due in each of the next five years are as follows:

	\$
2022	76,669
2023	68,968
2024	63,935
2025	64,178
2026	55,188

### 12. Employee future benefits

#### *Pension plan*

The University has a defined contribution pension plan (the "Plan"), which has a defined benefit component that provides a minimum level of pension benefits for eligible plan members. Employee contributions are accumulated together with employer contributions and invested in the Plan's accumulation fund. Upon an employee's retirement, the accumulated amount is available for the purchase of a retirement annuity to be underwritten by a provider of the retiree's choice. Prior to January 1, 2011, employees were able to obtain a McGill annuity upon retirement.

The University measures its accrued benefit obligations and fair value of the plan assets for accounting purposes as at April 30 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as at December 31, 2019, and the next required valuation will be no later than as at December 31, 2022. The contributions made by the University for the period are \$17,690 (\$17,178 as at April 30, 2020).

#### *Post-employment benefit obligation*

The University provides post-employment benefits other than pension benefits to eligible retired employees, including health and dental care. The present value of these commitments as at April 30, 2021, is estimated at \$83.9 million (\$86.5 million as at April 30, 2020). These amounts are recorded as liabilities.

#### *Pension plan defined contribution plan*

The University has a defined contribution pension plan offered to basically all employees. The University contributes to the Plan up to a maximum of 10.8% of the employees' basic earnings depending on the age of the employee.

The significant information about the University's Plan is as follows:

	2021	2020
	\$	\$
Cash payments recognized	<b>50,028</b>	48,247
Benefit costs	<b>26,936</b>	25,978
Accrued pension liability		
Defined benefit cost		
Current service cost	<b>8,130</b>	7,836
Interest cost on accrued benefit obligation	<b>1,518</b>	1,103
	<b>9,648</b>	8,939

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 12. Employee future benefits (continued)

#### *Pension plan defined contribution plan (continued)*

The information about the University's accrued pension liability is as follows:

	<b>2021</b>	2020
	\$	\$
Accrued benefit obligations	<b>270,370</b>	300,826
Fair value of plan assets	<b>270,370</b>	254,219
Plan deficit	—	46,607
Accrued pension liability	—	46,607

Based on the fair value of Plan assets, the assets of the Plan are composed of:

	<b>2021</b>	2020
	%	%
Cash equivalents	<b>1.90</b>	2.80
Alternative assets	<b>2.10</b>	1.70
Equity	<b>53.50</b>	54.30
Fixed income	<b>42.50</b>	41.20

The significant assumptions used are as follows:

	<b>2021</b>	2020
	%	%
Discount rate		
Active	<b>5.75</b>	5.75
Retirees	<b>4.50</b>	4.50
Salary inflation allowance	<b>3.00</b>	3.00

#### *Post-employment benefit obligation – unfunded benefits*

	<b>2021</b>	2020
	\$	\$
Balance, beginning of year	<b>86,457</b>	85,416
Current service cost	<b>875</b>	827
Interest cost on accrued benefit obligation	<b>4,154</b>	4,096
Benefits paid	<b>(4,038)</b>	(3,882)
Net actuarial gain	<b>(3,518)</b>	—
Balance, end of year	<b>83,930</b>	86,457

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 12. Employee future benefits (continued)

*Post-employment benefit obligation – unfunded benefits (continued)*

The significant assumptions used are as follows (weighted average):

	2021	2020
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	5.75	5.75
Discount rate – retirees	4.50	4.50
Rate of compensation increase – Academics	4.50	4.50
Rate of compensation increase – Non-academics	3.00	3.00
Health care cost trend rates		
Current trend rate	4.20	4.20
Ultimate trend rate	4.00	4.00
Year of ultimate trend rate	2040	2040

### 13. Externally restricted for endowment purposes

	2021	2020
	\$	\$
Faculty endowments	573,361	549,960
Student aid	474,130	449,085
Research endowments	115,710	108,257
Emerging priorities	15,842	17,202
Library endowments	24,683	24,010
Student services	8,280	8,141
Annuities	4,540	4,743
	<b>1,216,546</b>	1,161,398
Accumulated income	428,893	302,846
Unrealized gain	163,358	59,562
	<b>1,808,797</b>	1,523,806

Endowments consist of externally restricted donations received by the University. The endowment principal is required to be maintained intact over time subject to the University's capital preservation investment and disbursement policy. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they are provided.

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.00% of the average fair value of the endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that the actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. In accordance with the policy, the unspent portion of the amount made available for spending is capitalized and recorded as a direct increase in endowment funds. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

In addition, the Board of Governors has approved a charge of 1.10% (1.10% in 2020) of the fair value of investments to cover internal and external investment management costs. As these costs are recorded in the operating and restricted funds, this amount is included in the interfund transfers each year.

### 14. Internally restricted net assets

	2021	2020
	\$	\$
Self-financing teaching and research	43,476	39,876
Professor start-up funds	15,075	11,408
Other	70,268	55,288
	<b>128,819</b>	106,572

### 15. Investment and interest income

	2021	2020
	\$	\$
Change in fair value of investments	<b>(14,203)</b>	(30,318)
Change in fair value of derivative financial instruments	20,700	10,732
Interest income	22,062	8,831
Investment income	71,997	72,682
	<b>100,556</b>	61,927

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 16. Net change in non-cash working capital items

	2021	2020
	\$	\$
Receivables (operating, student loans and investment income)	3,566	11,424
Prepaid expenses	(745)	53
Inventory	252	(735)
Accounts payable and accrued liabilities	26,744	(14,893)
Unearned revenue	12,918	(2,529)
	<b>42,735</b>	<b>(6,680)</b>

### 17. Financial instruments

#### *Financial risks*

McGill is subject to market risk, which is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk. The concentration of risk is minimized because of McGill's diversification of its investment portfolio.

The University has foreign currency risk arising from its foreign-denominated marketable securities. As at April 30, 2021, McGill's foreign-denominated marketable securities had a fair value of \$1.261 billion (\$961 million as at April 30, 2020), the most significant of which were U.S. dollar-denominated marketable securities of \$726 million (\$614 million as at April 30, 2020).

The University has interest rate risk from the impact of interest rate changes on McGill's cash flows for variable rate debt and financial position for the impact of changes in interest rates on the fair value of fixed-rate marketable securities.

McGill is exposed to 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 University is exposed to other price risk through its marketable securities.

McGill is also exposed to credit risk from its debtors. A significant portion of McGill's receivables is due from governments, which are believed to be at low risk of default. For the remaining receivables, the concentration of risk is minimized because of McGill's large and diverse base of counterparties and investments.

McGill's objective is to have sufficient liquidity to meet its liabilities when due. McGill monitors its cash balances and cash flows generated from operations to meet its requirements. As at April 30, 2020, the most significant financial liabilities are bank indebtedness, accounts payable and accrued liabilities and long-term debt.

#### *Derivatives*

As approved by the Investment Committee of the Board, McGill has forward contracts and cross-currency swaps outstanding of US\$286.4 million with a forward rate of 1.2841 as at April 30, 2021, maturing through December 2021 (US\$256.4 million with a forward rate of 1.3972 as at April 30, 2020, maturing through December 2021). As at April 30, 2021, the fair value of these contracts was an unrealized gain of \$15.6 million, which was recorded in marketable securities (an unrealized gain of \$2.2 million as at April 30, 2020).

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

### 17. Financial instruments (continued)

#### *Derivatives (continued)*

In October 2003, McGill entered into an agreement with RBC Dominion Securities (RBCDS) whereby it invested in a US\$13.0 million U.S. dollar-denominated bond maturing in 2029. Under this agreement, the bond principal and the semi-annual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill \$85.7 million in 2029. The fair value of the bond and the swap agreement is \$72.9 million (\$78.0 million as at April 30, 2020) and is included in marketable securities.

The U.S. dollar-denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable in exchange for a fixed amount of proceeds. As at April 30, 2021, the fair value of the swap is \$46.0 million (\$43.3 million as at April 30, 2020).

The future value of this investment, including accumulated growth to the year 2042, is planned to be used to redeem the \$150.0 million of outstanding senior debentures.

The University entered into rate lock contracts amounting to \$114.5 million of nominal value with a settlement date of July 15, 2021. As at April 30, 2021, the fair value of the rate locks is an unrealized gain of \$3.1 million which has been included in marketable securities (an unrealized loss of \$5.0 million as at April 30, 2020). The University entered into the rate lock contracts to protect against a rate increase for the remaining anticipated issuance of \$150.0 million of long-term debt. The contracts are rolled-over every three months with a settlement at market value, yielding a realized gain or loss, until the full issuance of the long-term debt.

The University has no cross-currency swaps outstanding as at April 30, 2021. As at April 30, 2020, the University had cross-currency swaps amounting to US\$85.0 million with settlement dates between May 11, 2020 and May 28, 2020 and bearing interest at a rate of 0.48%. As at April 30, 2020, the fair value of the swaps approximate their carrying value and therefore no gain or loss was recorded in the statement of revenue and expenses.

In August of 2017, McGill entered into a Term Loan Facility with BMO for \$25.0 million to finance the property located at 680 Sherbrooke West, Montréal. The term of the loan is 10 or 20 years at the election of the University. As part of the loan agreement with BMO, the University agrees to enter into an interest rate swap agreement with the Bank on the closing rate for a term not exceeding 20 years. As of August 2017, the all-in interest rates would be 2.84% for a 10-year term. As of April 30, 2021, the fair value of the swap arrangement incurred an unrealized loss of \$0.7 (\$1.7 million in 2020).

#### *Marketable securities*

The marketable securities portfolio comprises the following types of investments:

	<b>2021</b>	2020
	%	%
Canadian equity	<b>11.00</b>	10.00
U.S. equity	<b>25.00</b>	23.00
Non-North American equity	<b>25.00</b>	21.00
Canadian fixed income	<b>14.00</b>	18.00
U.S. fixed income	—	1.00
Hedge funds	<b>4.00</b>	6.00
Alternate strategies, including private equity and other	<b>21.00</b>	21.00
	<b>100.00</b>	100.00

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 0.17% to 1.44% (0.18% to 3.70% as at April 30, 2020).

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

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### 18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of \$1.2 million, as at April 30, 2021, amounted to \$214.0 million (\$1.4 million, as at April 30, 2020, amounted to \$203.9 million). These have not been recognized in the financial statements.

### 19. Commitments

#### *Operating leases*

The future minimum lease payments under existing operating leases due in the forthcoming years are as follows:

	\$
2022	16,067
2023	14,880
2024	15,805
2025	7,647
2026	5,257
2027 and thereafter	4,666
	<u>64,322</u>

#### *Construction in progress*

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling \$165.2 million. These commitments are expected to be met in the normal course of operations.

#### *Private equity and private real estate funding commitments*

As part of its investment activities, McGill places some of its endowment investments through private equity and private real estate funds. McGill is committed to invest an additional \$279.7 million within the next five years in accordance with its arrangements with these funds.

### 20. Contingent liabilities

#### *Litigation*

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the *Civil Code of Québec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2021, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

In the normal course of McGill's building construction projects, various claims secured by construction hypothecs have been made by building contractors to secure payments. Such hypothecs are related to the buildings constructed or under construction.

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2021

(Tabular amounts in thousands of dollars)

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### **21. COVID-19**

In March 2020, the COVID-19 pandemic resulted in the suspension of teaching and research activities on campus, which were continued remotely as of March 16, 2020, with a government imposed suspension of travel and intake of new international students. The University remains committed to providing post-secondary education via distance learning and to conducting research. The winter term was completed.

The impacts of COVID-19 affected operations in a variety of ways including lower sales of goods and services and a reduction of certain expenses.

The duration and impact of COVID-19 are unknown at this time and therefore it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the University in future periods.

### **22. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.