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

April 30, 2022

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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, 2022, 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, 2022, 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 6, 2022

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

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

## Statement of revenue and expenses

Year ended April 30, 2022

(In thousands of dollars)

	Notes	2022	2021
		\$	\$
<b>Revenue</b>			
Grants			
Federal		<b>259,148</b>	261,973
Provincial		<b>566,492</b>	509,852
United States		<b>10,943</b>	9,408
Other sources		<b>50,403</b>	31,793
Contracts		<b>26,627</b>	17,865
Tuition and fees		<b>389,118</b>	382,318
Sales of goods and services		<b>126,700</b>	82,610
Gifts and bequests		<b>66,816</b>	69,378
Foreign exchange gain		<b>2,317</b>	213
Investment and interest income	15	<b>80,615</b>	100,556
		<b>1,579,179</b>	1,465,966
<b>Expenses</b>			
Salaries and student support			
Academic		<b>394,004</b>	379,930
Administrative and support		<b>312,408</b>	287,610
Benefits		<b>129,658</b>	128,107
Student aid		<b>158,733</b>	144,396
Students		<b>44,070</b>	41,727
		<b>1,038,873</b>	981,770
Non-salary			
Material, supplies and publications		<b>55,038</b>	45,485
Contributions to partner institutions		<b>50,690</b>	55,769
Contract services		<b>37,998</b>	23,617
Professional fees		<b>30,724</b>	22,020
Travel		<b>4,968</b>	2,833
Cost of goods sold		<b>14,431</b>	7,926
Building occupancy costs		<b>32,533</b>	33,644
Energy		<b>19,637</b>	15,841
Hardware and software maintenance		<b>16,911</b>	15,664
Amortization of capital assets		<b>177,223</b>	170,928
Interest		<b>41,640</b>	40,652
Bank charges		<b>1,279</b>	1,255
Other non-salary expenses		<b>33,545</b>	29,884
		<b>516,617</b>	465,518
		<b>1,555,490</b>	1,447,288
<b>Excess of revenue over expenses</b>		<b>23,689</b>	18,678

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, 2022

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	\$	\$	\$	\$	\$	\$
Net assets (deficiency), April 30, 2020	(354,826)	106,572	—	215,814	1,523,806	1,491,366
Excess (deficiency) of revenue over expenses	114,251	(27,509)	17,619	(85,683)	—	18,678
Pension liability remeasurement*	38,565	—	—	—	—	38,565
Post-employment benefit remeasurement*	3,518	—	—	—	—	3,518
Endowment contributions and gifts in kind	—	—	—	2,249	43,960	46,209
Investment income items reported as direct increase in net assets	—	—	—	—	248,928	248,928
Net change in internally restricted net assets	(14,111)	38,290	—	(2,262)	(21,917)	—
Investment in capital assets	(67,960)	—	(15,583)	83,543	—	—
Other transfers	(23,488)	11,466	(2,036)	38	14,020	—
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>
Excess (deficiency) of revenue over expenses	<b>103,604</b>	<b>3,661</b>	<b>15,947</b>	<b>(99,523)</b>	<b>—</b>	<b>23,689</b>
Pension liability remeasurement*	<b>(49,398)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(49,398)</b>
Endowment contributions and gifts in kind	<b>—</b>	<b>—</b>	<b>—</b>	<b>61,429</b>	<b>35,930</b>	<b>97,359</b>
Investment loss items reported as direct decrease in net assets	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(107,395)</b>	<b>(107,395)</b>
Net change in internally restricted net assets	<b>(33,604)</b>	<b>31,802</b>	<b>—</b>	<b>(2,175)</b>	<b>3,977</b>	<b>—</b>
Investment in capital assets	<b>(97,294)</b>	<b>—</b>	<b>(23,934)</b>	<b>121,228</b>	<b>—</b>	<b>—</b>
Other transfers	<b>36,252</b>	<b>(42,449)</b>	<b>7,987</b>	<b>48</b>	<b>(1,838)</b>	<b>—</b>
Net assets (deficiency), April 30, 2022	<b>(344,491)</b>	<b>121,833</b>	<b>—</b>	<b>294,706</b>	<b>1,739,471</b>	<b>1,811,519</b>

\* As at April 30, 2022, the accumulated post-employment benefit remeasurement is \$50,075 (\$50,075 as at April 30, 2021) and the accumulated pension liability remeasurement is \$130,497 (\$81,099 as at April 30, 2021).

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, 2022

(In thousands of dollars)

	Notes	2022	2021
		\$	\$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		134,406	36,008
Short-term investments	17	140,906	115,107
Receivables	3 and 4	442,988	429,619
Prepaid expenses		8,597	9,974
Inventory		1,749	1,949
		<b>728,646</b>	592,657
Marketable securities	17	1,966,091	2,049,912
Grants and contracts related to research receivable		104,388	37,393
Capital grants receivable	4	984,080	945,884
Loans receivable	5	2,225	3,575
Capital assets	6	1,913,233	1,789,125
		<b>5,698,663</b>	5,418,546
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness	7	36,210	5,520
Accounts payable and accrued liabilities	8	282,201	258,207
Unearned revenue		44,916	48,627
Current portion of long-term debt	11	78,188	76,669
		<b>441,515</b>	389,023
Deferred contributions	9	899,424	824,046
Deferred capital contributions	10	1,177,714	1,105,425
Long-term debt	11	1,240,851	1,168,858
Accrued pension liability	12	42,985	—
Post-employment benefit obligation	12	84,655	83,930
		<b>3,887,144</b>	3,571,282
Commitments, contingent liabilities	19 and 20		
<b>Net assets</b>			
Invested in capital assets		294,706	213,699
Externally restricted for endowment purposes	13	1,739,471	1,808,797
Internally restricted	14	121,833	128,819
Unrestricted		(344,491)	(304,051)
		<b>1,811,519</b>	1,847,264
		<b>5,698,663</b>	5,418,546

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

Approved by the Board of Governors

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*Marjorie F. Fournier*, Governor

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*Chrysoula*, Secretary-General

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

## Statement of cash flows

Year ended April 30, 2022

(In thousands of dollars)

	Notes	2022 \$	2021 \$
<b>Operating activities</b>			
Excess of revenue over expenses		23,689	18,678
Adjustments for:			
Amortization of capital assets		177,223	170,928
Amortization of bond discount		210	216
Amortization of deferred contributions	9	(487,316)	(445,147)
Amortization of deferred capital contributions	10	(79,962)	(84,327)
Change in fair value of investments	15	842	14,203
Change in fair value of derivative financial instruments	15	4,900	(20,700)
Change in pension liability		(6,413)	(8,042)
Change in post-retirement benefit obligation		725	991
		<b>(366,102)</b>	<b>(353,200)</b>
Net change in non-cash working capital items	16	4,580	42,735
Increase in government grant receivable		(58,546)	(41,089)
Increase in grants and contracts related to research receivable		(42,416)	(17,711)
Increase in deferred contributions		562,694	579,857
		<b>100,210</b>	<b>210,592</b>
<b>Investing activities</b>			
Increase in short-term investments		(25,799)	(56,448)
Acquisition of capital assets		(301,649)	(228,481)
Purchase of marketable securities		(1,217,061)	(1,506,487)
Proceeds from sale of marketable securities		1,295,140	1,186,523
Decrease in loans receivable		1,350	1,313
		<b>(248,019)</b>	<b>(603,580)</b>
<b>Financing activities</b>			
Change in bank indebtedness		30,690	(115,369)
Investment (loss) income reported as direct (decrease) increase in net assets		(107,395)	248,928
Endowment contributions and gifts in kind		97,359	46,209
Issuance of long-term debt		149,970	134,876
Repayment of long-term debt		(76,668)	(65,990)
Deferred capital contributions		152,251	159,837
		<b>246,207</b>	<b>408,491</b>
Net increase in cash and cash equivalents		98,398	15,503
Cash and cash equivalents, beginning of year		36,008	20,505
<b>Cash and cash equivalents, end of year</b>		<b>134,406</b>	<b>36,008</b>

### Non-cash transactions

Capital assets additions amounting to \$42,918 (\$43,236 in 2021), 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, 2022

(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:

#### *Adoption of the amendments to Section 3856, Financial Instruments, for financial instruments originated or exchanged in a related party transaction*

Effective May 1, 2021, the Company has adopted the amendments to Handbook Section 3856, Financial Instruments ("Section 3856") related to the recognition of financial instruments originated or exchanged in a related party transaction, referred to herein as the "related party financial instruments amendments".

These amendments to Section 3856 establish new guidance for determining the measurement of a related party financial instrument. These modifications require that such a financial instrument is initially measured at cost, which is determined depending on whether the instrument has repayment terms.

The adoption of the amendments has no material impact on the disclosures, nor the amounts recognized in the Corporation's financial statements in the current period.

#### *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.

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

### *Revenue recognition (continued)*

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 2022 is \$61.4 million (\$2.2 million in 2021). In 2022, two gifts in kind represent \$61.2 million. 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.

### *Financial instruments*

#### *Initial measurement*

Financial assets and financial liabilities originated or exchanged in arm's length transactions are initially recognized at fair value when the University becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities originated or exchanged in related party transactions are initially recognized at cost.

The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms. The cost of financial instruments with repayment terms is determined using its undiscounted cash flows, excluding interest and dividend payments, less any impairment losses previously recognized by the transferor. The cost of financial instruments without repayment terms is determined using the consideration transferred or received by the University in the transaction.

#### *Subsequent measurement*

All financial instruments are subsequently measured at amortized cost except for investments and derivative financial instruments, which are measured at fair value at the balance sheet date. Fair value fluctuations, dividends and interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment and interest income. The fair value quote received from the bank counterparty is used as a proxy for the fair value of derivative financial instruments.

#### *Transaction costs*

Transaction costs related to financial instruments measured at fair value 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.

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

### *Financial instruments (continued)*

#### *Impairment*

With respect to financial assets measured at cost or amortized cost, the University recognizes in the statement of revenues 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.

#### *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. Non-depreciable assets, including artwork and collections, are recorded at appraised value at the time of acquisition. 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

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

### *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 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.

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

### Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

#### 3. Receivables

	2022	2021
	\$	\$
Operating, net of provision for doubtful accounts of \$1,026 (\$2,834 as at April 30, 2021)	<b>44,285</b>	26,191
Student loans, net of provision for doubtful accounts of \$461 (\$535 as at April 30, 2021)	<b>1,674</b>	2,080
Investment income	<b>1,905</b>	1,995
Government operating grants	<b>71,672</b>	51,650
Grants and contracts related to research – short-term	<b>247,498</b>	272,077
Capital grants receivable – short-term	<b>75,954</b>	75,626
	<b>442,988</b>	429,619

#### 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% (2.208% to 3.013% as at April 30, 2021), with maturities up to eight years.

#### 6. Capital assets

	2022			2021
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	<b>29,023</b>	—	<b>29,023</b>	28,627
Land improvements	<b>62,664</b>	<b>30,204</b>	<b>32,460</b>	35,564
Buildings	<b>665,793</b>	<b>401,178</b>	<b>264,615</b>	273,280
Major renovations	<b>1,515,460</b>	<b>512,200</b>	<b>1,003,260</b>	952,585
Leasehold improvements	<b>35,356</b>	<b>9,816</b>	<b>25,540</b>	23,559
Equipment	<b>566,016</b>	<b>313,852</b>	<b>252,164</b>	209,985
Rolling stock	<b>2,405</b>	<b>1,692</b>	<b>713</b>	596
Library materials	<b>214,379</b>	<b>116,856</b>	<b>97,523</b>	94,918
Intangible assets	<b>62,145</b>	<b>41,666</b>	<b>20,479</b>	36,834
Non-depreciable assets	<b>36,230</b>	—	<b>36,230</b>	11,449
	<b>3,189,471</b>	<b>1,427,464</b>	<b>1,762,007</b>	1,667,397
Assets under development	<b>151,226</b>	—	<b>151,226</b>	121,728
	<b>3,340,697</b>	<b>1,427,464</b>	<b>1,913,233</b>	1,789,125

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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

### 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, 2021), under short-term credit facilities, of which none has been used as at April 30, 2022 (none as at April 30, 2021). There are \$36.2 million in short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness (\$5.5 million in 2021). Unsecured and uncommitted operating lines of credit, totalling \$545 million (\$495 million as at April 30, 2021), 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 2.53% for the year (2.45% in 2021). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 0.25% (0.33% as at April 30, 2021). The banker's acceptance rate in effect as at April 30, 2022 was 1.33% (0.41% as at April 30, 2021). There were no banker's acceptances outstanding at year-end (nil in April 30, 2021).

### 8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$13.0 million (\$12.5 million as at April 30, 2021) of government remittances.

### 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.

	2022	2021
	\$	\$
Balance, beginning of year	824,046	689,336
Restricted funds received during the year	489,126	525,237
Gifts and bequests	73,568	54,620
Amortization of deferred contributions	(487,316)	(445,147)
Balance, end of year	899,424	824,046

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

	2022	2021
	\$	\$
Federal grants	465,865	436,167
Provincial grants	142,159	116,247
United States grants	14,388	13,478
Other grant sponsors	30,868	36,573
Contracts	38,544	36,063
Gifts and bequests	188,511	166,308
Endowment income	13,581	13,921
Investment income	5,508	5,289
	899,424	824,046

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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

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### 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>2022</b>	2021
	\$	\$
Balance, beginning of year	<b>1,105,425</b>	1,029,915
Deferred capital contributions received	<b>152,251</b>	159,837
Amortization of deferred capital contributions	<b>(79,962)</b>	(84,327)
Balance, end of year	<b>1,177,714</b>	1,105,425
Composed of contributions from the following sources:		
MES	<b>727,323</b>	656,033
Other provincial	<b>147,439</b>	148,333
Federal	<b>190,890</b>	198,822
Gifts and donations	<b>100,294</b>	93,059
Specific grant agreements	<b>11,768</b>	9,178
Balance, end of year	<b>1,177,714</b>	1,105,425

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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

### 11. Long-term debt

	2022	2021
	\$	\$
Government of Québec debt notes <sup>(i)</sup>		
2.559%, expired December 1, 2021	—	348
1.709%, expired March 1, 2022	—	4,907
2.947%, due September 1, 2022	750	2,217
2.947%, due September 1, 2022	720	2,130
2.226%, due September 1, 2022	924	2,771
3.013%, due September 28, 2022	1,059	2,087
2.044%, due October 1, 2022	509	1,503
1.639%, due March 1, 2023	1,108	1,916
2.324%, due September 1, 2024	4,487	6,282
2.054%, due November 1, 2024	5,664	7,552
2.949%, due March 1, 2025	16,523	21,662
0.760%, due November 1, 2025	3,559	4,449
2.408%, due September 1, 2026	38,640	41,400
2.149%, due September 1, 2026	10,109	11,735
1.499%, due October 1, 2026	10,099	—
2.126%, due March 1, 2027	4,088	—
2.280%, due September 1, 2027	36,489	38,227
2.787%, due September 1, 2027	48,779	52,856
3.021%, due December 1, 2028	8,013	9,123
3.082%, due December 1, 2029	89,692	100,504
2.208%, due December 12, 2029	2,517	2,801
2.379%, due November 1, 2032	126,506	138,068
4.991%, due June 1, 2034	13,000	14,000
3.680%, due June 1, 2034	37,800	39,900
3.161%, due June 1, 2034	41,800	44,000
2.451%, due November 1, 2034	5,353	5,765
2.549%, due November 1, 2039	63,586	67,119
1.954%, due November 1, 2040	123,906	130,427
2.592%, due October 1, 2041	90,731	—
2,592%, due October 1, 2041	13,752	—
2.933%, due December 1, 2042	50,887	53,309
3.218%, due December 1, 2043	20,824	21,771
<b>Total</b>	<b>871,874</b>	<b>828,829</b>
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>	<b>400,000</b>
Loans payable <sup>(iii)</sup> (iv)	51,754	21,497
Bond discounts and issuance costs	(4,589)	(4,799)
	<b>47,165</b>	<b>16,698</b>
<b>Total long-term debt</b>	<b>1,319,039</b>	<b>1,245,527</b>
Current portion	78,188	76,669
	<b>1,240,851</b>	<b>1,168,858</b>



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

## Notes to the financial statements

April 30, 2022

(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
	\$	\$
2.947%, due September 1, 2022*	—	750
2.947%, due September 1, 2022*	—	720
2.226%, due September 1, 2022	—	924
3.013%, due September 28, 2022*	—	1,059
2.044%, due October 1, 2022	—	509
1.639%, due March 1, 2023	—	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	6,243
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
1.499%, due October 1, 2026	2,020	2,019
2.126%, due March 1, 2027	819	812
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
2.592%, due October 1, 2041	4,536	4,547
2.592%, due October 1, 2041	688	680
2.933%, due December 1, 2042	2,423	2,427
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, 2022

(Tabular amounts in thousands of dollars)

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

(iv) In April 2022, McGill entered into a term loan facility of \$31.3 million. The initial term of the loan is 5 years. The loan bears interest at the banker's acceptance rate plus 0.38% with a 20-year interest rate swap agreement. The all-in interest rate is 3.48% for the 5-year term.

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

	\$
2023	78,188
2024	73,194
2025	73,474
2026	64,521
2027	90,524

### 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 \$12,562 (\$17,690 as at April 30, 2021).

#### *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, 2022, is estimated at \$84.7 million (\$83.9 million as at April 30, 2021). 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 Royal Institution for the Advancement of Learning / McGill University**

**Notes to the financial statements**

April 30, 2022

(Tabular amounts in thousands of dollars)

**12. Employee future benefits (continued)**

*Pension plan defined contribution plan (continued)*

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

	<b>2022</b>	2021
	\$	\$
Cash payments recognized	<b>46,419</b>	50,028
Benefit costs	<b>28,654</b>	26,936
Accrued pension liability		
Defined benefit cost		
Current service cost	<b>7,060</b>	8,130
Interest (earned) cost on accrued benefit obligation	<b>(911)</b>	1,518
	<b>6,149</b>	9,648

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

	<b>2022</b>	2021
	\$	\$
Accrued benefit obligations	<b>289,895</b>	270,370
Fair value of plan assets	<b>246,910</b>	270,370
Plan deficit	<b>42,985</b>	—
Accrued pension liability	<b>42,985</b>	—

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

	<b>2022</b>	2021
	%	%
Cash equivalents	<b>2.31</b>	1.94
Alternative assets	<b>2.42</b>	2.04
Equity	<b>54.05</b>	53.53
Fixed income	<b>41.22</b>	42.49

The significant assumptions used are as follows:

	<b>2022</b>	2021
	%	%
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

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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

### 12. Employee future benefits (continued)

*Post-employment benefit obligation – unfunded benefits*

	<b>2022</b>	2021
	\$	\$
Balance, beginning of year	<b>83,930</b>	86,457
Current service cost	<b>715</b>	875
Interest cost on accrued benefit obligation	<b>4,018</b>	4,154
Benefits paid	<b>(4,008)</b>	(4,038)
Net actuarial gain	<b>—</b>	(3,518)
Balance, end of year	<b>84,655</b>	83,930

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

	<b>2022</b>	2021
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	<b>5.75</b>	5.75
Discount rate – retirees	<b>4.50</b>	4.50
Rate of compensation increase – Academics	<b>4.50</b>	4.50
Rate of compensation increase – Non-academics	<b>3.00</b>	3.00
Health care cost trend rates		
Current trend rate	<b>4.42</b>	4.20
Ultimate trend rate	<b>4.00</b>	4.00
Year of ultimate trend rate	<b>2040</b>	2040

### 13. Externally restricted for endowment purposes

	<b>2022</b>	2021
	\$	\$
Faculty endowments	<b>601,045</b>	573,361
Student aid	<b>490,449</b>	474,130
Research endowments	<b>116,887</b>	115,710
Emerging priorities	<b>15,808</b>	15,842
Library endowments	<b>25,949</b>	24,683
Student services	<b>8,348</b>	8,280
Annuities	<b>4,594</b>	4,540
	<b>1,263,080</b>	1,216,546
Accumulated income	<b>484,065</b>	428,893
Unrealized (loss) gain	<b>(7,674)</b>	163,358
	<b>1,739,471</b>	1,808,797

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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

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

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.

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 2021) 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

	2022	2021
	\$	\$
Self-financing teaching and research	40,074	43,476
Professor start-up funds	15,080	15,075
Emerging priorities	20,005	20,005
Other	46,674	50,263
	<b>121,833</b>	128,819

### 15. Investment and interest income

	2022	2021
	\$	\$
Change in fair value of investments	(842)	(14,203)
Change in fair value of derivative financial instruments	(4,900)	20,700
Interest income	8,419	22,062
Investment income	77,938	71,997
	<b>80,615</b>	100,556

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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

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

	2022	2021
	\$	\$
Receivables (operating, student loans and investment income)	(17,598)	3,566
Prepaid expenses	1,377	(745)
Inventory	200	252
Accounts payable and accrued liabilities	24,312	26,744
Unearned revenue	(3,711)	12,918
	<b>4,580</b>	<b>42,735</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, 2022, McGill's foreign-denominated marketable securities had a fair value of \$1.255 billion (\$1.261 billion as at April 30, 2021), the most significant of which were U.S. dollar-denominated marketable securities of \$753 million (\$726 million as at April 30, 2021).

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, 2022, 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\$314.4 million with a forward rate of 1.2707 as at April 30, 2022, maturing through May 2022 (US\$286.4 million with a forward rate of 1.2841 as at April 30, 2021, maturing through December 2021). As at April 30, 2022, the fair value of these contracts was an unrealized loss of \$2.3 million, which was recorded in marketable securities (an unrealized gain of \$15.6 million as at April 30, 2021).

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

## Notes to the financial statements

April 30, 2022

(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 \$68.5 million (\$72.9 million as at April 30, 2021) 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, 2022, the fair value of the swap is \$47.3 million (\$46.0 million as at April 30, 2021).

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 May 1, 2022. As at April 30, 2022, the fair value of the rate locks is an unrealized gain of \$11.8 million which has been included in marketable securities (an unrealized gain of \$3.1 million as at April 30, 2021). 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, 2022 (nil as at April 30, 2021).

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, 2022, the fair value of the swap arrangement incurred an unrealized gain of \$1.5 million (\$0.7 million loss in 2021).

In April 2022, McGill entered into a Term Loan Facility with TD for \$31.3 million to finance to a library management facility located in Valleyfield. The initial term of the loan is 5 years. As part of the loan agreement, the University agrees to enter into a 20 year interest rate swap agreement with the Ministry of Finance. The all-in interest rate is 3.48% for the 5-year term. As of April 30, 2022, the fair value of the swap arrangement incurred an unrealized gain of \$0.8 million.

#### *Marketable securities*

The marketable securities portfolio comprises the following types of investments:

	<b>2022</b>	2021
	%	%
Canadian equity	<b>10.5</b>	10.8
U.S. equity	<b>27.2</b>	25.1
Non-North American equity	<b>22.6</b>	24.8
Canadian fixed income	<b>14.0</b>	14.0
US fixed income	<b>0.1</b>	0.3
Hedge funds	<b>4.0</b>	3.9
Alternate strategies, including private equity and other	<b>21.6</b>	21.1
	<b>100.0</b>	100.0

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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

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

#### *Marketable securities (continued)*

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 0.34% to 5.66% (0.17% to 1.44% as at April 30, 2021).

### 18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of \$1.7 million, as at April 30, 2022, amounted to \$241.0 million (\$1.2 million, as at April 30, 2021, amounted to \$214.0 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:

	\$
2023	19,346
2024	23,408
2025	15,323
2026	12,637
2027	11,834
2028 and thereafter	89,933
	<u>172,481</u>

#### *Construction in progress*

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling \$256.5 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 \$318.9 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, 2022, 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.



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

## Notes to the financial statements

April 30, 2022

(Tabular amounts in thousands of dollars)

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### 20. Contingent liabilities (continued)

#### *Litigation (continued)*

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.

### 21. Comparative figures

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