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

April 30, 2020

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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, 2020, 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, 2020, 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 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 1, 2020

¹ CPA auditor, CA, public accountancy permit No. A125888

The Royal Institution for the Advancement of Learning / McGill University

Statement of revenue and expenses

Year ended April 30, 2020

(In thousands of dollars)

	Notes	2020	2019
		\$	\$
Revenue			
Grants			
Federal		236,854	217,449
Provincial		494,274	464,754
United States		7,236	4,797
Other sources		50,958	58,191
Contracts		15,587	14,128
Tuition and fees		365,343	349,649
Sales of goods and services		135,024	154,587
Gifts and bequests		72,105	76,931
Foreign exchange gain		1,350	2,168
Investment and interest income	15	61,927	75,905
		1,440,658	1,418,559
Expenses			
Salaries and student support			
Academic		374,720	360,872
Administrative and support		289,667	284,922
Benefits		128,166	120,916
Student aid		134,848	127,949
Students		42,504	39,999
		969,905	934,658
Non-salary			
Material, supplies and publications		45,996	47,572
Contributions to partner institutions		45,091	47,622
Contract services		23,025	23,781
Professional fees		25,134	23,294
Travel		27,127	29,987
Cost of goods sold		15,569	19,672
Building occupancy costs		37,004	32,425
Energy		17,882	21,968
Other non-salary expenses		38,013	44,043
Hardware and software maintenance		14,052	11,753
Amortization of capital assets		149,756	141,114
Interest		40,766	37,675
Bank charges		1,506	1,556
		480,921	482,462
		1,450,826	1,417,120
(Deficiency) excess of revenue over expenses before the undernoted item		(10,168)	1,439
Gain on sale of land and building		5,052	—
(Deficiency) excess of revenue over expenses		(5,116)	1,439

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, 2020

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	\$	\$	\$	\$	\$	\$
Net assets (deficiency), April 30, 2018	(352,959)	88,395	—	242,922	1,566,201	1,544,559
Excess (deficiency) of revenue over expenses	63,900	12,810	18,560	(93,831)	—	1,439
Pension liability remeasurement*	4,846	—	—	—	—	4,846
Post-employment benefit remeasurement*	6,507	—	—	—	—	6,507
Endowment contributions and gifts in kind	—	—	—	1,479	42,914	44,393
Investment income items reported as direct increase in net assets	—	—	—	—	368	368
Net change in internally restricted net assets	(627)	3,798	—	(2,625)	(546)	—
Investment in capital assets	(56,711)	—	(22,509)	79,220	—	—
Other transfers	2,823	(9,190)	3,949	457	1,961	—
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	(354,826)	106,572	—	215,814	1,523,806	1,491,366

* As at April 30, 2020, the accumulated post-employment benefit remeasurement is \$46,557 (\$46,557 as at April 30, 2019) and the accumulated pension liability remeasurement is \$42,534 (\$59,594 as at April 30, 2019).

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, 2020

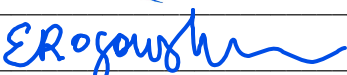
(In thousands of dollars)

	Notes	2020	2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		20,505	1,634
Short-term investments	17	58,659	23,609
Receivables	3 and 4	425,878	515,544
Prepaid expenses		9,229	9,282
Inventory		2,201	1,466
		516,472	551,535
Marketable securities	17	1,723,451	1,778,224
Grants and contracts related to research receivable		32,306	53,201
Capital grants receivable	4	899,478	710,157
Loans receivable	5	4,888	3,819
Capital assets	6	1,724,090	1,643,445
		4,900,685	4,740,381
Liabilities			
Current liabilities			
Bank indebtedness	7	120,889	95,020
Accounts payable and accrued liabilities	8	223,981	236,624
Unearned revenue		35,709	38,238
Current portion of long-term debt	11	65,989	209,353
		446,568	579,235
Deferred contributions	9	689,336	613,754
Deferred capital contributions	10	1,029,915	974,569
Long-term debt	11	1,110,436	847,509
Accrued pension liability	12	46,607	37,786
Post-employment benefit obligation	12	86,457	85,416
		3,409,319	3,138,269
Commitments, contingent liabilities	19 and 20		
Net assets (deficiency)			
Invested in capital assets		215,814	227,622
Externally restricted for endowment purposes	13	1,523,806	1,610,898
Internally restricted	14	106,572	95,813
Unrestricted		(354,826)	(332,221)
		1,491,366	1,602,112
		4,900,685	4,740,381

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, 2020

(In thousands of dollars)

	Notes	2020 \$	2019 \$
Operating activities			
(Deficiency) excess of revenue over expenses		(5,116)	1,439
Adjustments for:			
Amortization of capital assets		149,756	141,114
Amortization of bond discount		230	187
Amortization of deferred contributions	9	(432,588)	(418,082)
Amortization of deferred capital contributions	10	(79,711)	(71,280)
Change in fair value of investments	15	30,318	15,731
Change in fair value of derivative financial instruments	15	(10,732)	(6,277)
Change in pension liability		(8,239)	(10,702)
Change in post-retirement benefit obligation		1,041	1,011
Net loss on disposal of capital assets		—	1,703
Write-off of capital assets		148	—
Gain on sale of land and building		(5,052)	—
		(359,945)	(345,156)
Net change in non-cash working capital items	16	(6,680)	1,230
Increase in government grant receivable		(72,361)	(55,277)
Increase in grants and contracts related to research receivable		(17,823)	(17,874)
Increase in deferred contributions		508,170	473,150
		51,361	56,073
Investing activities			
(Increase) decrease in short-term investments		(35,050)	11,716
Acquisition of capital assets		(229,097)	(239,074)
Purchase of marketable securities		(1,331,282)	(1,187,189)
Proceeds from sale of marketable securities		1,366,469	1,168,662
Proceed from sale of capital assets		5,850	—
Change in loans receivable		(1,069)	1,675
		(224,179)	(244,210)
Financing activities			
Change in bank indebtedness		25,869	5,865
Investment (loss) income reported as direct (decrease) increase in net assets		(122,502)	368
Endowment contributions and gifts in kind		33,932	44,393
Issuance of long-term debt		328,979	158,645
Repayment of long-term debt		(209,354)	(193,605)
Bond issuance costs		(292)	—
Deferred capital contributions		135,057	149,876
		191,689	165,542
Net increase (decrease) in cash and cash equivalents		18,871	(22,595)
Cash and cash equivalents, beginning of year		1,634	24,229
Cash and cash equivalents, end of year		20,505	1,634

Non-cash transactions

Capital assets additions amounting to \$35,754 (\$33,504 in 2019), 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, 2020

(Tabular amounts in thousands of dollars)

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 Section 4433, Tangible Capital Assets Held by Not-for-Profit Organizations

On May 1, 2019, the University adopted Section 4433, "Tangible Capital Assets Held by Not-for-Profit Organizations" effective for annual periods beginning on or after January 1, 2019. In accordance with this new standard, the University applied the modifications prospectively to tangible capital assets acquired on or after the application date. The University will now need to separate tangible capital assets into their significant component parts when practicable and when estimates can be made of the lives of the separate components. Additionally, the University will now need to consider partial impairments on tangible capital assets, not only full impairments. The application of this standard did not have any significant impact on the University's financial statements.

Adoption of Section 4434, Intangible Assets Held by Not-for-Profit Organizations

On May 1, 2019, the University adopted Section 4434, "Intangible Assets Held by Not-for-Profit Organizations" effective for annual periods beginning on or after January 1, 2019. In accordance with this new standard, the University applied the modifications prospectively to intangible assets acquired on or after the application date. The University will now need to consider partial impairments on intangible assets, not only full impairments. The application of this standard did not have any impact on the University's financial statements.

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 and dividend revenue is 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 2020 is \$0.7 million (\$1.5 million in 2019). 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

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 fair value confirmation received from the fund manager with whom those instruments are negotiated. 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.

2. Accounting policies (continued)

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. The amount expensed as cost of goods sold during the year was \$15.5 million (\$19.5 million in 2019).

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.

2. Accounting policies (continued)

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, 2017.

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, 2020

(Tabular amounts in thousands of dollars)

3. Receivables

	2020	2019
	\$	\$
Operating, net of provision for doubtful accounts of \$1,454 (\$1,302 as at April 30, 2019)	27,769	38,674
Student loans, net of provision for doubtful accounts of \$713 (\$625 as at April 30, 2019)	3,629	3,989
Investment income	2,434	2,593
Government operating grants	67,617	41,197
Grants and contracts related to research – short-term	259,453	220,735
Capital grants receivable – short-term	64,976	208,356
	425,878	515,544

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 3.013% to 4.125% (3.013% to 4.125% as at April 30, 2019), with maturities up to nine years.

6. Capital assets

	2020			2019
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	28,627	—	28,627	28,685
Land improvements	63,857	25,862	37,995	33,076
Buildings	665,793	383,727	282,066	290,943
Major renovations	1,322,286	415,278	907,008	798,416
Leasehold improvements	19,564	6,573	12,991	14,245
Equipment	542,503	312,783	229,720	236,281
Rolling stock	2,107	1,479	628	560
Library materials	192,355	102,665	89,690	86,240
Intangible assets	18,307	12,266	6,041	7,058
	2,855,399	1,260,633	1,594,766	1,495,504
Assets under development	129,324	—	129,324	147,941
	2,984,723	1,260,633	1,724,090	1,643,445

The Royal Institution for the Advancement of Learning / McGill University

Notes to the financial statements

April 30, 2020

(Tabular amounts in thousands of dollars)

7. Bank indebtedness

In accordance with MES regulations, McGill's Board of Governors has approved maximum borrowings of \$400.0 million (\$380.0 million as at April 30, 2019), under short-term credit facilities, of which \$119.0 million has been used as at April 30, 2020 (\$94.1 million as at April 30, 2019). There are \$1.9 million in short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness (\$0.9 million in 2019). Unsecured and uncommitted operating lines of credit, totalling \$495.0 million (\$465.0 million as at April 30, 2019), 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 3.70% for the year (3.80% in 2019). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 1.58% (1.68% as at April 30, 2019). The banker's acceptance rate in effect as at April 30, 2020, was 0.60% (1.92% as at April 30, 2019). There were no banker's acceptances outstanding at year-end (\$10.0 million as at April 30, 2019).

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$11,488,000 (\$8,195,000 as at April 30, 2019) 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.

	2020	2019
	\$	\$
Balance, beginning of year	613,754	558,686
Restricted funds received during the year	430,215	413,838
Gifts and bequests	77,955	59,312
Amortization of deferred contributions	(432,588)	(418,082)
Balance, end of year	689,336	613,754

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

	2020	2019
	\$	\$
Federal grants	366,287	336,128
Provincial grants	99,400	101,845
United States grants	9,764	4,197
Other grant sponsors	8,964	22,021
Contracts	33,774	23,895
Gifts and bequests	155,004	111,671
Endowment income	11,057	8,928
Investment income	5,086	5,069
	689,336	613,754

The Royal Institution for the Advancement of Learning / McGill University

Notes to the financial statements

April 30, 2020

(Tabular amounts in thousands of dollars)

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:

	2020	2019
	\$	\$
Balance, beginning of year	974,569	895,973
Deferred capital contributions received	135,057	149,876
Amortization of deferred capital contributions	(79,711)	(71,280)
Balance, end of year	1,029,915	974,569
Composed of contributions from the following sources:		
MES	576,585	510,672
Other provincial	153,417	158,626
Federal	192,163	176,043
Gifts and donations	95,508	117,110
Specific grant agreements	12,242	12,118
Balance, end of year	1,029,915	974,569

11. Long-term debt

	2020	2019
	\$	\$
Government of Québec debt notes ⁽ⁱ⁾		
2.413%, due May 29, 2019	—	161,192
4.125%, due August 24, 2020	734	1,440
2.559%, due December 1, 2021	929	1,511
1.709%, due March 1, 2022	5,725	6,544
2.947%, due September 1, 2022	3,641	5,026
2.947%, due September 1, 2022	3,499	4,828
2.226%, due September 1, 2022	4,618	6,465
3.013%, due September 28, 2022	3,085	4,054
2.044%, due October 1, 2022	2,497	3,491
1.639%, due March 1, 2023	2,725	3,533
2.324%, due September 1, 2024	8,077	9,871
2.054%, due November 1, 2024	9,440	—
2.949%, due March 1, 2025	26,802	31,942
2.408%, due September 1, 2026	44,160	46,920
2.149%, due September 1, 2026	13,362	14,988
2.280%, due September 1, 2027	39,965	41,703
2.787%, due September 1, 2027	56,933	61,010
3.021%, due December 1, 2028	10,232	11,342
3.082%, due December 1, 2029	111,316	122,128
2.208%, due December 12, 2029	3,080	—
2.379%, due November 1, 2032	149,630	—

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(Tabular amounts in thousands of dollars)

11. Long-term debt (continued)

	2020	2019
	\$	\$
4.991%, due June 1, 2034	15,000	16,000
3.680%, due June 1, 2034	42,000	44,100
3.161%, due June 1, 2034	46,200	48,400
2.451%, due November 1, 2034	6,177	—
2.549%, due November 1, 2039	70,652	—
2.933%, due December 1, 2042	55,733	58,156
3.218%, due December 1, 2043	22,717	23,664
Total	758,929	728,308
McGill Senior Unsecured Debentures ⁽ⁱⁱ⁾ ,		
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	—
	400,000	310,000
Loan payable ⁽ⁱⁱⁱ⁾	22,511	23,496
Other	—	11
Bond discounts and issuance costs	(5,015)	(4,953)
	17,496	18,554
Total long-term debt	1,176,425	1,056,862
Current portion	65,989	209,353
	1,110,436	847,509

(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
	\$	\$
2.413%, due May 29, 2019	—	161,192
4.125%, due August 24, 2020*	—	734
2.559%, due December 1, 2021	581	348
1.709%, due March 1, 2022	819	4,906
2.947%, due September 1, 2022*	1,425	750
2.947%, due September 1, 2022*	1,369	720
2.226%, due September 1, 2022	1,847	924
3.013%, due September 28, 2022*	998	1,059
2.044%, due October 1, 2022	994	509
1.639%, due March 1, 2023	808	1,109

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(Tabular amounts in thousands of dollars)

11. Long-term debt (continued)

	Annual payment	Final payment on maturity
	\$	\$
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
2.408%, due September 1, 2026	2,760	27,600
2.149%, due September 1, 2026	1,626	3,606
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	1,352
3.082%, due December 1, 2029	10,812	14,008
2.208%, due December 12, 2029*	278	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	3,535
2.933%, due December 1, 2042	2,423	2,427
3.218%, due December 1, 2043	947	936

* 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%.

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

	\$
2021	65,989
2022	69,259
2023	61,556
2024	56,524
2025	56,769

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Notes to the financial statements

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(Tabular amounts in thousands of dollars)

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, 2017, and the next required valuation will be no later than as at December 31, 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, 2020, is estimated at \$86.5 million (\$85.4 million as at April 30, 2019). 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:

	2020	2019
	\$	\$
Cash payments recognized	48,247	49,897
Benefit costs	25,978	24,540
Accrued pension liability		
Defined benefit cost		
Current service cost	7,836	7,189
Interest cost on accrued benefit obligation	1,103	1,813
	8,939	9,002

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

	2020	2019
	\$	\$
Accrued benefit obligations	300,826	307,366
Fair value of plan assets	254,219	269,580
Plan deficit	46,607	37,786
Accrued pension liability	46,607	37,786

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April 30, 2020

(Tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Pension plan defined contribution plan (continued)

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

	2020	2019
	%	%
Cash equivalents	2.8	7.3
Alternative assets	1.7	3.3
Equity	54.3	48.5
Fixed income	41.2	40.9

The significant assumptions used are as follows:

	2020	2019
	%	%
Discount rate		
Active	5.75	5.75
Retirees	4.50	4.50
Salary inflation allowance	3.00	3.00

Post-employment benefit obligation – unfunded benefits

	2020	2019
	\$	\$
Balance, beginning of year	85,416	90,912
Current service cost	827	784
Interest cost on accrued benefit obligation	4,096	4,329
Benefits paid	(3,882)	(4,102)
Net actuarial gain	—	(6,507)
Balance, end of year	86,457	85,416

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

	2020	2019
	%	%
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	4.00
Ultimate trend rate	4.00	4.00
Year of ultimate trend rate	2040	2040

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(Tabular amounts in thousands of dollars)

13. Externally restricted for endowment purposes

	2020	2019
	\$	\$
Faculty endowments	549,960	532,389
Student aid	437,053	421,930
Research endowments	108,257	104,783
Emerging priorities	29,234	26,804
Library endowments	24,010	22,911
Student services	8,141	8,120
Annuities	4,743	3,561
	1,161,398	1,120,498
Accumulated income	302,846	340,581
Unrealized gain	59,562	149,819
	1,523,806	1,610,898

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 2019) 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.

The Royal Institution for the Advancement of Learning / McGill University

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April 30, 2020

(Tabular amounts in thousands of dollars)

14. Internally restricted net assets

	2020	2019
	\$	\$
Self-financing teaching and research	39,876	33,498
Professor start-up funds	11,408	9,540
Other	55,288	52,775
	106,572	95,813

15. Investment and interest income

	2020	2019
	\$	\$
Change in fair value of investments	(30,318)	(15,731)
Change in fair value of derivative financial instruments	10,732	6,277
Interest income	8,831	7,850
Investment income	72,682	77,509
	61,927	75,905

16. Net change in non-cash working capital items

	2020	2019
	\$	\$
Receivables (operating, student loans and investment income)	11,424	(2,181)
Prepaid expenses	53	1,823
Inventory	(735)	175
Accounts payable and accrued liabilities	(14,893)	(7,817)
Unearned revenue	(2,529)	9,230
	(6,680)	1,230

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, 2020, McGill's foreign-denominated marketable securities had a fair value of \$961 million (\$1.09 billion as at April 30, 2019), the most significant of which were U.S. dollar-denominated marketable securities of \$614 million (\$651 million as at April 30, 2019).

17. Financial instruments (continued)

Financial risks (continued)

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\$256.4 million with a forward rate of 1.3972 as at April 30, 2020, maturing through December 2021 (US\$250.4 million with a forward rate of 1.3429 as at April 30, 2019 maturing through December 2021). As at April 30, 2020, the fair value of these contracts was an unrealized loss of \$2.2 million, which was recorded in marketable securities (an unrealized loss of \$1.7 million as at April 30, 2019).

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 \$78.0 million (\$67.7 million as at April 30, 2019) 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, 2020, the fair value of the swap is \$43.3 million (\$40.9 million as at April 30, 2019).

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 17, 2020. As at April 30, 2020, the fair value of the rate locks is an unrealized loss of \$5.0 million which has been included in marketable securities (an unrealized loss of \$4.2 million as at April 30, 2019). 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 also entered into 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.

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April 30, 2020

(Tabular amounts in thousands of dollars)

17. Financial instruments (continued)

Derivatives (continued)

In August of 2017, McGill entered into a Term Loan Facility with BMO for \$25 million to finance the property located at 680 Sherbrooke West, Montreal. 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, 2020, the fair value of the swap arrangement incurred an unrealized loss of \$1.7 million.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2020	2019
	%	%
Canadian equity	10	12
U.S. equity	23	22
Non-North American equity	21	22
Canadian fixed income	18	16
U.S. fixed income	1	1
Hedge funds	6	7
Alternate strategies, including private equity and other	21	20
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 0.18% to 3.70% (0.92% to 6.45% as at April 30, 2019).

18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of \$1.4 million, as at April 30, 2020, amounted to \$203.9 million (\$220.6 million as at April 30, 2019, net of doubtful account of \$1.2 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:

	\$
2021	13,591
2022	13,472
2023	13,080
2024	14,094
2025	8,412
2026 and thereafter	26,128
	<u>88,777</u>

19. Commitments (continued)

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling \$133.3 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 \$218.4 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, 2020, 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.

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, a decrease in fair value of investments and marketable securities (including pension plan investments), 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.