Financial statements of

The Royal Institution for the Advancement of Learning / McGill University

April 30, 2023

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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, 2023, 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, 2023, 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[1]

October 6, 2023

[1] 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, 2023

(In thousands of dollars)

	Notes	2023	2022
		$	$
Revenue			
Grants			
Federal		**281,413**	259,148
Provincial		**585,668**	566,492
United States		**12,757**	10,943
Other sources		**43,927**	50,403
Contracts		**24,826**	26,627
Tuition and fees		**389,060**	389,118
Sales of goods and services		**144,427**	126,700
Gifts and bequests		**75,665**	66,816
Foreign exchange gain		**2,657**	2,317
Investment and interest income	15	**100,628**	80,615
		1,661,028	1,579,179
Expenses			
Salaries and student support			
Academic		**408,038**	394,004
Administrative and support		**336,433**	312,408
Benefits		**143,001**	129,658
Student aid		**171,202**	158,733
Students		**45,390**	44,070
		1,104,064	1,038,873
Non-salary			
Material, supplies and publications		**55,566**	55,038
Contributions to partner institutions		**61,810**	50,690
Contract services		**30,982**	37,998
Professional fees		**27,798**	30,724
Travel		**23,691**	4,968
Cost of goods sold		**16,570**	14,431
Building occupancy costs		**43,197**	32,533
Energy		**21,735**	19,637
Hardware and software maintenance		**18,406**	16,911
Amortization of capital assets		**181,361**	177,223
Interest		**42,733**	41,640
Bank charges		**1,607**	1,279
Other non-salary expenses		**46,342**	33,545
		571,798	516,617
		1,675,862	1,555,490
(Deficiency) excess of revenue over expenses		**(14,834)**	23,689

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, 2023

(In thousands of dollars)

	Notes	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
		$	$	$	$	$	$
Net assets (deficiency), April 30, 2021		(304,051)	128,819	—	213,699	1,808,797	1,847,264
Excess (deficiency) of revenue over expenses		103,604	3,661	15,947	(99,523)	—	23,689
Pension liability remeasurement*		(49,398)	—	—	—	—	(49,398)
Endowment contributions and gifts in kind		—	—	—	61,429	35,930	97,359
Investment loss items reported as direct decrease in net assets		—	—	—	—	(107,395)	(107,395)
Net change in internally restricted net assets		(33,604)	31,802	—	(2,175)	3,977	—
Investment in capital assets		(97,294)	—	(23,934)	121,228	—	—
Other transfers		36,252	(42,449)	7,987	48	(1,838)	—
Net assets (deficiency), April 30, 2022		**(344,491)**	**121,833**	**—**	**294,706**	**1,739,471**	**1,811,519**
Adoption of the amendments to Section 3462	2	**(8,406)**	—	—	—	—	**(8,406)**
Net assets (deficiency), April 30, 2022, adjusted		**(352,897)**	**121,833**	**—**	**294,706**	**1,739,471**	**1,803,113**
(Deficiency) excess of revenue over expenses		**52,915**	**4,671**	**17,863**	**(90,283)**	**—**	**(14,834)**
Pension liability remeasurement*		**(23,327)**	**—**	**—**	**—**	**—**	**(23,327)**
Post-employment benefit remeasurement*	12	**3,387**	**—**	**—**	**—**	**—**	**3,387**
Endowment contributions and gifts in kind		**—**	**—**	**—**	**414**	**36,223**	**36,637**
Investment income (loss) items reported as direct increase (decrease) in net assets		**—**	**—**	**—**	**(1,022)**	**48,780**	**47,758**
Net change in internally restricted net assets		**(30,776)**	**35,159**		**(2,024)**	**(2,359)**	**—**
Investment in capital assets		**(50,606)**	**—**	**(23,806)**	**74,412**	**—**	**—**
Other transfers		**15,578**	**(24,778)**	**5,943**	**2,996**	**261**	**—**
Net assets (deficiency), April 30, 2023		**(385,726)**	**136,885**	**—**	**279,199**	**1,822,376**	**1,852,734**

* As at April 30, 2023, the accumulated post-employment benefit remeasurement is $55,094 ($50,075 as at April 30, 2022) and the accumulated pension liability remeasurement is $153,824 ($130,497 as at April 30, 2022).

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, 2023
(In thousands of dollars)

	Notes	2023	2022
		$	$
Assets			
Current assets			
Cash and cash equivalents		**45,944**	134,406
Short-term investments	17	**308,368**	140,906
Receivables	3 and 4	**453,557**	442,988
Prepaid expenses		**14,359**	8,597
Inventory		**1,431**	1,749
		823,659	728,646
Marketable securities	17	**2,013,609**	1,966,091
Grants and contracts related to research receivable		**80,817**	104,388
Capital grants receivable	4	**1,104,770**	984,080
Loan receivable	5	**1,928**	2,225
Capital assets	6	**2,039,259**	1,913,233
		6,064,042	5,698,663
Liabilities			
Current liabilities			
Bank indebtedness	7	**248,646**	36,210
Accounts payable and accrued liabilities	8	**278,632**	282,201
Unearned revenue		**58,821**	44,916
Current portion of long-term debt	11	**74,934**	78,188
		661,033	441,515
Deferred contributions	9	**917,642**	899,424
Deferred capital contributions	10	**1,283,552**	1,177,714
Long-term debt	11	**1,192,657**	1,240,851
Accrued pension liability	12	**65,654**	42,985
Post-employment benefit obligation	12	**90,770**	84,655
		4,211,308	3,887,144
Commitments, contingent liabilities	19 and 20		
Net assets			
Invested in capital assets		**279,199**	294,706
Externally restricted for endowment purposes	13	**1,822,376**	1,739,471
Internally restricted	14	**136,885**	121,833
Unrestricted		**(385,726)**	(344,491)
		1,852,734	1,811,519
		6,064,042	5,698,663

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

Approved by the Board of Governors

Maryse Bertrand, Governor

Edyta Rogowska, Secretary-General

The Royal Institution for the Advancement of Learning / McGill University

Statement of cash flows

Year ended April 30, 2023

(In thousands of dollars)

	Notes	2023	2022
		$	$
Operating activities			
(Deficiency) excess of revenue over expenses		**(14,834)**	23,689
Adjustments for:			
Amortization of capital assets		**181,361**	177,223
Amortization of bond discount		**206**	210
Amortization of deferred contributions	9	**(506,362)**	(487,316)
Amortization of deferred capital contributions	10	**(95,267)**	(79,962)
Change in fair value of investments	15	**(7,571)**	842
Change in fair value of derivative financial instruments	15	**13,973**	4,900
Change in pension liability		**(658)**	(6,413)
Change in post-retirement benefit obligation		**1,096**	725
Gain on sale of land		**(600)**	—
		(428,656)	(366,102)
Net change in non-cash working capital items	16	**1,818**	4,580
Increase in government grant receivable		**(131,157)**	(58,546)
Decrease (increase) in grants and contracts related to research receivable		**22,237**	(42,416)
Increase in deferred contributions		**524,580**	562,694
		(11,178)	100,210
Investing activities			
Increase in short-term investments		**(167,462)**	(25,799)
Proceeds from sale of marketable securities		**1,163,326**	1,295,140
Purchase of marketable securities		**(1,217,246)**	(1,217,061)
Decrease in loan receivable		**297**	1,350
Proceeds from sale of land		**600**	—
Acquisition of capital assets		**(303,081)**	(301,649)
		(523,566)	(248,019)
Financing activities			
Change in bank indebtedness		**212,436**	30,690
Issuance of long-term debt		**26,533**	149,970
Repayment of long-term debt		**(78,187)**	(76,668)
Deferred capital contributions	10	**201,105**	152,251
Investment income (loss) reported as direct increase (decrease) in net assets		**47,758**	(107,395)
Endowment contributions and gifts in kind		**36,637**	97,359
		446,282	246,207
Net (decrease) increase in cash and cash equivalents		**(88,462)**	98,398
Cash and cash equivalents, beginning of year		**134,406**	36,008
Cash and cash equivalents, end of year		**45,944**	134,406

Non-cash transactions

Capital assets additions amounting to $47,224 ($42,918 in 2022), included in accounts payable and accrued liabilities, have no cash flow impact.

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

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 3400, Revenue

Effective May 1, 2022, McGill has adopted the amendments to Handbook Section 3400, Revenue ("Section 3400"), which provides additional guidance relating to the accounting for multiple elements of a contract, percentage of completion, determination of principal or agent, and bill and hold transactions.

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

Adoption of the amendments to Section 3462, Employee future benefits

In the current year, the University has applied the amendments to Handbook Section 3462, Employee future benefits, which resulted in a change in the measurement of the University's defined benefit obligation in connection with the post-employment benefit plan sponsored by the University. For defined benefit plans with no legislative, regulatory or contractual requirement to prepare a funding valuation, the amendments remove the accommodation to allow for the use of a funding valuation. The defined benefit obligation was previously measured using a funding valuation. As a result of the amendments and due to the absence of legislative, regulatory or contractual requirements for such plan, the University is required to measure the post-employment benefit obligation using an accounting valuation.

The cumulative effects of applying the amendments of $8,406 are recorded in opening net assets as at May 1, 2022.

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.

2. Accounting policies (continued)

Revenue recognition

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

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

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

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

Gifts in kind are recorded at their fair value on receipt or at a nominal value when fair value cannot be reasonably determined. The value of gifts in kind in 2023 is $0.4 million ($61.4 million in 2022). 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.

2. Accounting policies (continued)

Financial instruments (continued)

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. Transactions 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.

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.

Derivative financial instruments

The University uses interest rate swap contracts to manage its interest rate risk pertaining to long-term debt as well as foreign exchange forward contracts to manage foreign exchange risk arising from currency investments. The University has chosen not to prepare the documentation required to apply hedge accounting. Consequently, interest rate swap contracts and foreign exchange contracts are recognized at fair value in the balance sheet within marketable securities. Fair value is determined using stock market quotes and the prices obtained from financial institutions for identical or similar derivative financial instruments.

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.

2. Accounting policies (continued)

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

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.

2. Accounting policies (continued)

Employee future benefits (continued)

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 for the defined pension benefits plan and the actuarial valuation for accounting purposes for the post-employment benefit plan. 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, 2022.

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;
- 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.

Asset retirement obligations

The University recognizes the liability for an asset retirement obligation arising from the acquisition, development, construction, or normal operation of a long-lived asset, in the year in which it is incurred and when a reasonable estimate of the amount of the obligation can be made. The liability is measured at the best estimate of the expenditure required to settle the present obligation. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows or the discount rate. The accretion of the liability as a result of the passage of time is charged to earnings while changes to the liability resulting from revisions to either the original estimate of the undiscounted cash flows or the discount rate are accounted for as an adjustment to the carrying amount of the related long-lived asset.

The University is aware that there are contaminants in some of its buildings. However, the University is unable to evaluate the costs associated with these contaminants and if or when these costs will be incurred. Therefore, no liability has been recorded.

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.

(Tabular amounts in thousands of dollars)

3. Receivables

	2023	2022
	$	$
Operating, net of provision for doubtful accounts of $985 ($1,026 as at April 30, 2022)	**42,146**	44,285
Student loans, net of provision for doubtful accounts of $374 ($461 as at April 30, 2022)	**1,788**	1,674
Investment income	**2,698**	1,905
Government operating grants	**85,458**	71,672
Grants and contracts related to research – short-term	**248,832**	247,498
Capital grants receivable – short-term	**72,635**	75,954
	453,557	442,988

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. Loan receivable

Loan receivable bears interest at a rate of 2.208% (two loans at 2.208% and 3.013% as at April 30, 2022), with a maturity of seven years.

6. Capital assets

			2023	2022
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**29,023**	**–**	**29,023**	29,023
Land improvements	**64,170**	**32,255**	**31,915**	32,460
Buildings	**665,793**	**409,789**	**256,004**	264,615
Major renovations	**1,588,845**	**564,313**	**1,024,532**	1,003,260
Leasehold improvements	**37,432**	**12,612**	**24,820**	25,540
Equipment	**571,132**	**314,244**	**256,888**	252,164
Rolling stock	**2,546**	**1,679**	**867**	713
Library materials	**224,771**	**123,111**	**101,660**	97,523
Intangible assets	**63,013**	**57,589**	**5,424**	20,479
Non-depreciable assets	**36,462**	**–**	**36,462**	36,230
	3,283,187	**1,515,592**	**1,767,595**	1,762,007
Assets under development	**271,664**	**–**	**271,664**	151,226
	3,554,851	**1,515,592**	**2,039,259**	1,913,233

(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, 2022), under short-term credit facilities, of which none has been used as at April 30, 2023 (none as at April 30, 2022). There are $248.6 million in short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness ($36.2 million in 2022) at an average rate of 3.63% (0.81% as at April 30, 2022). Unsecured and uncommitted operating lines of credit, totalling $545 million ($545 million as at April 30, 2022), 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 5.58% for the year (2.53% in 2022). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was nil (0.25% as at April 30, 2022). The banker's acceptance rate in effect as at April 30, 2023, was 4.96% (1.33% as at April 30, 2022). There were no banker's acceptances outstanding at year-end (nil as at April 30, 2022).

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $3.6 million ($13.0 million as at April 30, 2022) 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.

	2023	2022
	$	$
Balance, beginning of year	**899,424**	824,046
Restricted funds received during the year	**461,858**	489,126
Gifts and bequests	**62,722**	73,568
Amortization of deferred contributions	**(506,362)**	(487,316)
Balance, end of year	**917,642**	899,424

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

	2023	2022
	$	$
Federal grants	**467,180**	465,865
Provincial grants	**136,609**	142,159
United States grants	**13,609**	14,388
Other grant sponsors	**33,958**	30,868
Contracts	**37,338**	38,544
Gifts and bequests	**207,163**	188,511
Endowment income	**16,137**	13,581
Investment income	**5,648**	5,508
	917,642	899,424

(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:

	2023	2022
	$	$
Balance, beginning of year	**1,177,714**	1,105,425
Deferred capital contributions received	**201,105**	152,251
Amortization of deferred capital contributions	**(95,267)**	(79,962)
Balance, end of year	**1,283,552**	1,177,714
Composed of contributions from the following sources:		
MES	**853,947**	727,323
Other provincial	**139,722**	147,439
Federal	**183,139**	190,890
Gifts and donations	**94,777**	100,294
Specific grant agreements	**11,967**	11,768
Balance, end of year	**1,283,552**	1,177,714

(Tabular amounts in thousands of dollars)

11. Long-term debt

	2023	2022
	$	$
Government of Québec debt notes(i)		
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	**2,692**	4,487
2.054%, due November 1, 2024	**3,776**	5,664
2.949%, due March 1, 2025	**11,383**	16,523
0.760%, due November 1, 2025	**2,669**	3,559
2.408%, due September 1, 2026	**35,880**	38,640
2.149%, due September 1, 2026	**8,482**	10,109
1.499%, due October 1, 2026	**8,079**	10,099
2.126%, due March 1, 2027	**3,270**	4,088
2.280%, due September 1, 2027	**34,752**	36,489
2.787%, due September 1, 2027	**44,702**	48,779
3.691%, due October 1, 2027	**609**	—
3.691%, due October 1, 2027	**2,163**	—
3.021%, due December 1, 2028	**6,903**	8,013
3.082%, due December 1, 2029	**78,881**	89,692
2.208%, due December 12, 2029	**2,227**	2,517
2.379%, due November 1, 2032	**114,945**	126,506
4.991%, due June 1, 2034	**12,000**	13,000
3.680%, due June 1, 2034	**35,700**	37,800
3.161%, due June 1, 2034	**39,600**	41,800
2.451%, due November 1, 2034	**4,942**	5,353
2.549%, due November 1, 2039	**60,054**	63,586
1.954%, due November 1, 2040	**117,385**	123,906
2.592%, due October 1, 2041	**86,194**	90,731
2.592%, due October 1, 2041	**13,064**	13,752
4.231%, due October 1, 2042	**23,761**	—
2.933%, due December 1, 2042	**48,463**	50,887
3.218%, due December 1, 2043	**19,878**	20,824
Total	**822,454**	871,874
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**	90,000
	400,000	400,000
Loans payable(iii) (iv)	**49,520**	51,754
Bond discounts and issuance costs	**(4,383)**	(4,589)
	45,137	47,165
Total long-term debt	**1,267,591**	1,319,039
Current portion	**74,934**	78,188
	1,192,657	1,240,851

(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	813
2.280%, due September 1, 2027	1,738	27,800
2.787%, due September 1, 2027	4,077	28,394
3.691%, due October 1, 2027	122	121
3.691%, due October 1, 2027	433	431
3.021%, due December 1, 2028	1,110	1,353
3.082%, due December 1, 2029	10,812	14,009
2.208%, due December 12, 2029*	297	339
2.379%, due November 1, 2032	11,562	10,887
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	410
2.549%, due November 1, 2039	3,533	3,526
1.954%, due November 1, 2040	6,521	6,528
2.592%, due October 1, 2041	4,537	4,537
2.592%, due October 1, 2041	688	688
4.231%, due October 1, 2042	1,188	1,189
2.933%, due December 1, 2042	2,423	2,426
3.218%, due December 1, 2043	947	938

* 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.

(Tabular amounts in thousands of dollars)

11. Long-term debt (continued)

(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%.

(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:

	$
2024	74,934
2025	75,218
2026	66,265
2027	92,265
2028	122,225

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. Plan members eligible to the defined benefit component that provides a minimum level of pension benefits who terminate or retire on or after August 31, 2020, can receive their defined benefit minimum supplement as a monthly lifetime pension.

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, 2022, and the next required valuation will be no later than as at December 31, 2025. The contributions made by the University for the period are $10,086 ($12,562 as at April 30, 2022).

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, 2023, is estimated at $90.8 million ($84.7 million as at April 30, 2022). 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.

(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:

	2023	2022
	$	$
Cash payments recognized	**45,437**	46,419
Benefit costs	**30,018**	28,654
Defined benefit cost		
Current service cost	**7,866**	7,060
Interest cost (earned) on accrued benefit obligation	**1,561**	(911)
	9,427	6,149

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

	2023	2022
	$	$
Accrued benefit obligations	**176,032**	289,895
Fair value of plan assets	**110,378**	246,910
Plan deficit	**65,654**	42,985
Accrued pension liability	**65,654**	42,985

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

	2023	2022
	%	%
Buy-in group annuity contract	**94.88**	—
Cash equivalents	**4.85**	2.31
Alternative assets	**0.18**	2.42
Equity	**0.01**	54.05
Fixed income	**0.08**	41.22

McGill purchased an annuity buy-in contract for $137.2 million for all pensioners of the plan who retired up to March 31, 2023, with respect to monthly pensions payable from the plan starting August 1, 2023. The buy-in group annuity contract is valued using assumptions as published by the Canadian Institute of Actuaries for Hypothetical Wind-Up and Solvency Valuations.

(Tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

The significant assumptions used are as follows:

	2023	2022
	%	%
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

	2023	2022
	$	$
Balance, beginning of year	**84,655**	83,930
Adoption of the amendments to Section 3462	**8,406**	—
Balance, beginning of year, adjusted	**93,061**	83,930
Current service cost	**1,124**	715
Interest cost on accrued benefit obligation	**4,144**	4,018
Benefits paid	**(4,172)**	(4,008)
Actuarial gain	**(3,387)**	—
Balance, end of year	**90,770**	84,655

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

	2023	2022
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	**5.75**	5.75
Discount rate – retirees	**4.75**	4.50
Rate of compensation increase – Academics	**4.50**	4.50
Rate of compensation increase – Non-academics	**3.25**	3.00
Health care cost trend rates		
Current trend rate	**4.63**	4.42
Ultimate trend rate	**4.00**	4.00
Year of ultimate trend rate	**2040**	2040

(Tabular amounts in thousands of dollars)

13. Externally restricted for endowment purposes

	2023	2022
	$	$
Faculty endowments	**624,136**	601,045
Student aid	**518,197**	490,449
Research endowments	**118,519**	116,887
Emerging priorities	**15,376**	15,808
Library endowments	**26,190**	25,949
Student services	**8,387**	8,348
Annuities	**3,941**	4,594
	1,314,746	1,263,080
Accumulated income	**434,352**	484,065
Unrealized gain (loss)	**73,278**	(7,674)
	1,822,376	1,739,471

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% (4.00% in 2022) 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 2022) 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.

(Tabular amounts in thousands of dollars)

14. Internally restricted net assets

	2023	2022
	$	$
Self-financing teaching and research	**52,376**	40,074
Professor start-up funds	**14,230**	15,080
Emerging priorities	**20,005**	20,005
Other	**50,274**	46,674
	136,885	121,833

15. Investment and interest income

	2023	2022
	$	$
Change in fair value of investments	**7,571**	(842)
Change in fair value of derivative financial instruments	**(13,973)**	(4,900)
Interest income	**33,582**	8,419
Investment income	**73,448**	77,938
	100,628	80,615

16. Net change in non-cash working capital items

	2023	2022
	$	$
Receivables (operating, student loans and investment income)	**1,232**	(17,598)
Prepaid expenses	**(5,762)**	1,377
Inventory	**318**	200
Accounts payable and accrued liabilities	**(7,875)**	24,312
Unearned revenue	**13,905**	(3,711)
	1,818	4,580

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, 2023, McGill's foreign-denominated marketable securities had a fair value of $1.354 billion ($1.225 billion as at April 30, 2022), the most significant of which was U.S. dollar-denominated marketable securities of $829 million ($753 million as at April 30, 2022).

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, 2023, 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 of US$282.4 million with a forward rate of 1.3431 as at April 30, 2023, maturing through May 2023 (US$314.4 million with a forward rate of 1.2707 as at April 30, 2022, maturing through May 2022). In addition, McGill has forward contracts outstanding of €29.3 million with a forward rate of 1.4782 as at April 30, 2023, maturing through July 2023 (nil as at April 30, 2022). As at April 30, 2023, the fair value of these contracts was an unrealized loss of $4.2 million, which was recorded in marketable securities (an unrealized loss of $2.3 million as at April 30, 2022).

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 $70.5 million ($68.5 million as at April 30, 2022) 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, 2023, the fair value of the swap is $49.3 million ($47.3 million as at April 30, 2022).

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 $120.0 million of nominal value with a settlement date of May 12, 2023. As at April 30, 2023, the fair value of the rate locks is an unrealized loss of $2.9 million which has been included in marketable securities (an unrealized gain of $11.8 million as at April 30, 2022). 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.

(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 $25.0 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, 2023, the fair value of the swap arrangement incurred an unrealized gain of $0.1 million ($1.5 million unrealized gain in 2022).

In April 2022, McGill entered into a Term Loan Facility with TD for $31.3 million to finance 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 Ministère des Finances. The all-in interest rate is 3.48% for the 5-year term. As of April 30, 2023, the fair value of the swap arrangement incurred an unrealized gain of $0.8 million ($0.8 million unrealized gain in 2022).

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2023	2022
	%	%
Canadian equity	**9.0**	10.5
U.S. equity	**26.9**	27.2
Non-North American equity	**22.6**	22.6
Canadian fixed income	**11.9**	14.0
U.S. fixed income	**0.3**	0.1
Hedge funds	**4.2**	4.0
Alternate strategies, including private equity and other	**25.1**	21.6
	100.0	100.0

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 3.49% to 5.60% (0.34% to 5.66% as at April 30, 2022).

18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of $1.4 million, as at April 30, 2023, amounted to $274.4 million ($241.0 million, net of provision of provision for doubtful accounts of $1.7 million, as at April 30, 2022). These have not been recognized in the financial statements.

(Tabular amounts in thousands of dollars)

19. Commitments

Operating leases

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

	$
2024	18,918
2025	16,671
2026	12,890
2027	11,521
2028	8,473
2029 and thereafter	45,286
	113,759

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $226.0 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 $347.1 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, 2023, 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. Subsequent event

On August 28, 2023, McGill issued $60 million, in notional value, in additional aggregate Series A Senior unsecured debentures, bearing interest at 6.15%, with semi-annual interest payments, maturing on September 22, 2042.