

Université de Sherbrooke
Consolidated Financial Statements
April 30, 2021

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Independent Auditor's Report

To the Members of the Board of Directors of
Université de Sherbrooke

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Opinion

We have audited the consolidated financial statements of Université de Sherbrooke (hereafter "the University"), which comprise the consolidated balance sheet as at April 30, 2021, and the consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial

statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Raymond Chabot Grant Thornton LLP¹

Sherbrooke
September 20, 2021

¹ CPA auditor, CA public accountancy permit no. A125487

Université de Sherbrooke Consolidated Operations

Year ended April 30, 2021
(in thousands of dollars)

| | Unrestricted Operating Fund | | Operating Fund with Restrictions | | Capital Asset Fund | | Total | |
|--|-----------------------------|----------------|----------------------------------|----------------|--------------------|-----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Revenues | | | | | | | | |
| Grants | | | | | | | | |
| Ministère de l'Enseignement supérieur | 302,462 | 301,821 | 15,352 | 7,443 | 23,457 | 26,514 | 341,271 | 335,778 |
| Other | 16,658 | 14,211 | 172,579 | 156,849 | 26,734 | 28,051 | 215,971 | 199,111 |
| Student academic fees | 55,309 | 53,847 | | | | | 55,309 | 53,847 |
| Regular education | 6,565 | 6,277 | | | | | 6,565 | 6,277 |
| Special education | 25,600 | 30,032 | | | | | 25,600 | 30,032 |
| Sales | | | | | | | | |
| Donations and contributions | | | | | | | | |
| La Fondation de l'Université de Sherbrooke | 16 | 12 | 5,377 | 8,161 | | | 5,393 | 8,173 |
| Other organizations | 652 | 863 | | | | | 652 | 863 |
| Net investment income (Note 4) | 413 | 698 | | | | | 413 | 698 |
| Gain on disposal of tangible capital assets | | | | | | 47 | | 47 |
| Extraordinary element (Note 5) | 1,311 | 2,622 | | | | | 1,311 | 2,622 |
| Other revenues | 31,294 | 31,012 | | | | | 31,294 | 31,012 |
| | <u>440,280</u> | <u>441,395</u> | <u>193,308</u> | <u>172,453</u> | <u>50,191</u> | <u>54,612</u> | <u>683,779</u> | <u>668,460</u> |
| Expenses | | | | | | | | |
| Teaching | 256,888 | 255,484 | 62,591 | 51,234 | | | 319,479 | 306,718 |
| Research | 18,050 | 18,802 | 122,911 | 114,062 | | | 140,961 | 132,864 |
| Community services | 4,892 | 6,517 | 5,009 | 3,084 | | | 9,901 | 9,601 |
| Academic support | 31,899 | 31,006 | 80 | | | | 31,979 | 31,006 |
| Student services and assistance | 14,695 | 18,864 | 2,532 | 3,767 | | | 17,227 | 22,631 |
| Institutional support, including overheads | 40,190 | 44,598 | 185 | 306 | | | 40,375 | 44,904 |
| Institutional support, land and building | 31,041 | 29,579 | | | | | 31,041 | 29,579 |
| Ancillary enterprises | 17,791 | 14,459 | | | | | 17,791 | 14,459 |
| Employee future benefits | 988 | (3,736) | | | | | 988 | (3,736) |
| Interest on obligations and loans | | | | | | | | |
| Amortization of tangible and intangible capital assets | | | | | 14,981 | 15,927 | 14,981 | 15,927 |
| Capital assets below capitalization threshold | | | | | 53,631 | 52,484 | 53,631 | 52,484 |
| Non-capitalizable assets | | | | | 804 | 744 | 804 | 744 |
| Transfers to other organizations | | | | | 513 | 288 | 513 | 288 |
| | | | | | | 4,064 | | 4,064 |
| | <u>416,434</u> | <u>415,573</u> | <u>193,308</u> | <u>172,453</u> | <u>69,929</u> | <u>73,507</u> | <u>679,671</u> | <u>661,533</u> |
| Excess (deficiency) of revenues over expenses | <u>23,846</u> | <u>25,822</u> | <u>-</u> | <u>-</u> | <u>(19,738)</u> | <u>(18,895)</u> | <u>4,108</u> | <u>6,927</u> |

The accompanying notes are an integral part of the consolidated financial statements and Notes 4, 5 and 6 provide other information on consolidated operations.

Université de Sherbrooke

Consolidated Changes in Fund Balances

Year ended April 30, 2021
(in thousands of dollars)

| | Unrestricted Operating Fund | | Operating Fund with Restrictions | | Capital Asset Fund | | Total | |
|--|-----------------------------|-------------|----------------------------------|------|--------------------|-----------|--------------|-----------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Fund balances (negative), beginning of year | \$ (166,919) | \$ (48,253) | \$ | \$ | \$ 55,026 | \$ 51,763 | \$ (111,893) | \$ 3,510 |
| Excess (deficiency) of revenues over expenses | 23,846 | 25,822 | | | (19,738) | (18,895) | 4,108 | 6,927 |
| Employee future benefits - remeasurements and other items | 183,206 | (122,728) | | | | | 183,206 | (122,728) |
| Restricted contributions for the acquisition of tangible capital assets not subject to amortization | (24,604) | (21,760) | | | 50 | 398 | 50 | 398 |
| Interfund transfers (Note 7) | 15,529 | (166,919) | - | - | 24,604 | 21,760 | 75,471 | (111,893) |
| Fund balances (negative), end of year | | | - | - | 59,942 | 55,026 | 75,471 | (111,893) |

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

Université de Sherbrooke

Consolidated Cash Flows

Year ended April 30, 2021
(in thousands of dollars)

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Excess of revenues over expenses | 4,108 | 6,927 |
| Non-cash items | | |
| Gain on disposal of tangible capital assets | | (47) |
| Changes in fair value of financial assets designated as held for trading | (204) | 96 |
| Amortization of deferred contributions related to tangible and intangible capital assets | (41,598) | (45,510) |
| Amortization of tangible and intangible capital assets | 53,631 | 52,484 |
| Employee future benefits | 988 | (3,736) |
| Net change in other assets and liabilities | 59,232 | (16,748) |
| Cash flows from operating activities | <u>76,157</u> | <u>(6,534)</u> |
| INVESTING ACTIVITIES | | |
| Investments | (298) | |
| Disposal of investments | 5 | |
| Acquisition of tangible and intangible capital assets | (69,917) | (60,956) |
| Disposal of tangible capital assets | | 172 |
| Cash flows from investing activities | <u>(70,210)</u> | <u>(60,784)</u> |
| FINANCING ACTIVITIES | | |
| Net change in bank loans | (49,984) | 20,065 |
| Long-term loans | 23,709 | 71,218 |
| Repayment of long-term loans | (37,472) | (88,730) |
| Deferred contributions related to tangible capital assets | 57,612 | 56,060 |
| Cash flows from financing activities | <u>(6,135)</u> | <u>58,613</u> |
| Net decrease in cash and cash equivalents | (188) | (8,705) |
| Cash and cash equivalents, beginning of year | <u>(3,194)</u> | <u>5,511</u> |
| Cash and cash equivalents, end of year | <u><u>(3,382)</u></u> | <u><u>(3,194)</u></u> |

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

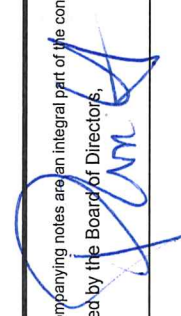
Université de Sherbrooke
Consolidated Balance Sheet

April 30, 2021
 (in thousands of dollars)

| | Unrestricted Operating Fund | | Operating Fund with Restrictions | | Capital Asset Fund | | Total | |
|---|-----------------------------|-----------|----------------------------------|---------|--------------------|---------|-----------|-----------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS | | | | | | | | |
| Current | | | | | | | | |
| Accounts receivable and other (Note 8) | 48,666 | 55,347 | 115,423 | 129,917 | 7,088 | 8,309 | 171,177 | 193,573 |
| Inventories | 696 | 619 | | | | | 696 | 619 |
| Prepaid expenses | 8,241 | 7,635 | | | | | 8,241 | 7,635 |
| Interfund account, without interest | | | 103,752 | 48,277 | | | | |
| | 57,603 | 63,601 | 219,175 | 178,194 | 7,088 | 8,309 | 180,114 | 201,827 |
| Long-term | | | | | | | | |
| Accounts receivable and other (Note 8) | 324 | 388 | | | 59,666 | 67,683 | 59,990 | 68,071 |
| Prepaid expenses | 257 | 274 | | | | | 257 | 274 |
| Investments (Note 9) | 4,709 | 4,212 | | | | | 4,709 | 4,212 |
| Defined benefit asset (Note 21) | 63,946 | | | | 703,110 | 687,574 | 63,946 | 687,574 |
| Tangible capital assets (Note 10) | | | | | 17,933 | 17,053 | 703,110 | 687,574 |
| Intangible assets (Note 11) | | | | | | | 17,933 | 17,053 |
| | 126,839 | 68,475 | 219,175 | 178,194 | 787,797 | 780,619 | 1,030,059 | 979,011 |
| LIABILITIES | | | | | | | | |
| Current | | | | | | | | |
| Bank indebtedness (Note 12) | 3,397 | 10,030 | | | 3,674 | 46,837 | 7,071 | 56,867 |
| Trade payables and other operating liabilities (Note 13) | 52,375 | 54,358 | 12 | 112 | 2,691 | 2,462 | 55,078 | 56,932 |
| Unearned revenue (Note 14) | 6,241 | 8,774 | | | | | 6,241 | 8,774 |
| Interfund account, without interest | 47,976 | 42,765 | | | 55,776 | 5,512 | | |
| Current portion of long-term debt | 98 | 98 | | | 40,021 | 37,473 | 40,119 | 37,571 |
| | 110,087 | 116,025 | 12 | 112 | 102,162 | 92,284 | 108,509 | 160,144 |
| Long-term | | | | | | | | |
| Long-term debt (Note 15) | 1,223 | 1,097 | | | 412,680 | 429,117 | 413,903 | 430,214 |
| Defined benefit liability (Note 21) | | 118,272 | | | | | | 118,272 |
| Deferred contributions | | | | | | | | |
| Operating Fund with Restrictions (Note 16) | | | 219,163 | 178,082 | | | 219,163 | 178,082 |
| Related to tangible and intangible capital assets (Note 17) | | | | | | | | |
| | 111,310 | 235,394 | 219,175 | 178,194 | 213,043 | 204,192 | 213,013 | 204,192 |
| | | | | | 727,855 | 725,593 | 954,588 | 1,090,904 |
| FUND BALANCES (NEGATIVE) | | | | | | | | |
| Internal restriction (Note 18) | 44,017 | 37,687 | | | | | 44,017 | 37,687 |
| Deficit taking account internal restriction | (28,488) | (204,606) | | | | | (28,488) | (204,606) |
| Invested in capital assets | 15,529 | (166,919) | | | | | 59,942 | 55,026 |
| | 126,839 | 68,475 | 219,175 | 178,194 | 787,797 | 780,619 | 75,471 | (111,893) |
| | | | | | | | 1,030,059 | 979,011 |

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

Approved by the Board of Directors,



Rector

Denise Remillard
 Vice-rector - administration and sustainable development

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

1 - GOVERNING STATUTES AND PURPOSE OF THE ORGANIZATION

L'Université de Sherbrooke (hereafter "the University") was incorporated under the Act relating to the Université de Sherbrooke, sanctioned on March 5, 1954 by the Quebec legislature and amended on June 23, 1978. The University is a registered charity under the Income Tax Act. The University offers teaching services and pursues research activities associated with teaching.

2 - IMPACT RESULTING FROM THE COVID-19 PANDEMIC

In March 2020, the decree of a COVID-19 state of pandemic and the numerous measures put in place by the federal, provincial and municipal governments to protect the public had impacts on the University's operations. These measures resulted in the conversion of all academic activities to remote mode, the closure of the Sport Center, the Cultural Center and research laboratories, as well as a decrease in the occupancy of residences. Moreover, teleworking has been favoured for University employees. All of these measures were put in place and adjusted during the year following directives ordered by the Quebec government and Public Health. For the financial year ended April 30, 2021, all of the financial impacts have been recognized in the consolidated financial statements and accountability to the Ministère de l'Enseignement supérieur were performed.

Despite the gradual resumption of activities, this crisis is likely to have significant impacts on assets and liabilities, and on activities over the next financial year. As the situation is evolving rapidly, it is difficult to assess the risks and financial impacts of COVID-19 with precision on the number of students, especially those from abroad, internships, openness to gatherings (shows, sport, etc.), occupancy of residences, the impact of costs related to the reopening of construction sites and the financial commitment of certain research partners. The MES has stipulated that the general grant for 2021-2022 will be based on the real student numbers for all universities. The MES, however, softened the budget measure on the conditional grant towards the COVID-19 impacts. A periodical monitoring of the financial results will be performed by the financial service, the University management and the financial and audit committee.

3 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The University's consolidated financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Principles of consolidation

The accounts of Gestion Socpra Inc., which is wholly owned by the University, are consolidated.

The accounts of Les Éditions DELISME Inc., which is wholly owned by the University, and of the controlled not-for-profit organization, La Fondation de l'Université de Sherbrooke, have not been consolidated in these consolidated financial statements. Note 22 presents the information concerning these entities.

Accounting estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements and notes to consolidated financial statements. These estimates are based on management's knowledge of current events and actions that the University may undertake in the future. Actual results may differ from these estimates.

Financial assets and liabilities

Initial measurement

Upon initial measurement, the University's financial assets and liabilities from transactions not concluded with related parties and those from transactions with parties whose sole relationship with the University is in the capacity of management (and members of the immediate family) are measured at fair value, which, in the case of financial assets or financial liabilities that will be measured subsequently at cost or amortized cost, is increased or decreased by the amount of the related financing fees and transaction costs. Transaction costs relating to financial assets and liabilities that will be measured subsequently at fair value are recognized in consolidated operations in the year they are incurred.

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent measurement

At each reporting date, the University measures its financial assets and liabilities at amortized cost (including any impairment in the case of financial assets), except for investments in shares of private companies, the investment in limited partnerships and investments in shares of a public company.

Investments in shares of private companies and the investment in limited partnerships are investments in equity instruments measured at cost.

Investments in shares of a public company are measured at fair value. Changes in fair value of these investments are immediately recognized in consolidated operations.

Transaction costs relating to financial assets and liabilities that are measured at amortized cost are amortized on a straight-line basis over the term of the related financial instrument.

Amortization of transaction costs related to long-term debt is recognized in the consolidated operations as interest on obligations and loans.

With respect to financial assets measured at cost or amortized cost, the University assesses whether there are any indications of impairment. When there is an indication of impairment, and if the University determines that, during the year, there was a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it will then recognize a reduction as an impairment loss in consolidated operations. The reversal of a previously recognized impairment loss on a financial asset measured at cost or amortized cost is recognized in consolidated operations in the year the reversal occurs.

Fund accounting

The funds are divided into three categories:

- The Unrestricted Operating Fund reflects the operations of a current nature of the University and for which there is no external limitation as to the use of funds;
- The Operating Fund with Restrictions reflects the operations for which fund providers have specifically established the permitted use;
- The Capital Asset Fund is used to record transactions relating to capital assets and their financing.

Guarantees

Financial guarantee contracts are initially measured at fair value. Thereafter, these contracts are valued at the highest of:

- the amount of contingent obligation under the contract that the University considers likely that it will have to pay;
- the amount initially recognized less, if applicable, a cumulative amortization representing the portion of the University's extinguished obligation with respect to said guarantee.

Foreign currency translation

The University uses the temporal method to translate transactions denominated in a foreign currency. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the consolidated balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, with the exception of those recognized at fair value, which are translated at the exchange rate in effect at the consolidated balance sheet date. Revenue and expenses are translated at the average rate for the period, with the exception of the amortization of assets translated at the historical exchange rates, which is translated at the same exchange rates as the related assets. The related exchange gains and losses are accounted for in the consolidated operations for the year.

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Contributions

The University follows the deferral method of accounting for contributions. Under this method, contributions restricted for future period expenses are deferred and are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions received in the form of capital assets which are not amortized or contributions restricted for the acquisition of such capital assets and contributions received as endowments are presented as direct increases in the balances of the appropriate funds.

Moreover, the University recognizes contributed supplies and services when the fair value of these contributions can be reasonably estimated and if it would have had to otherwise acquire these supplies and services for its normal operations.

Net investment income

Investment transactions are recorded on the transaction date and resulting revenues are recognized using the accrual method of accounting.

Net investment income includes interest income, dividend income and changes in fair value.

Restricted interest income is recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted interest income is recognized in the Unrestricted Operating Fund when earned. Interest income is recognized using the accrual method of accounting and more specifically as follows:

- Interest income is recognized based on the number of days the investment was held during the year and is calculated using the effective interest rate method;
- Interest income is recognized in the consolidated operations under Net investment income regardless of the classification of the related financial asset.

Dividend income is recognized when it is acquired by the University.

Changes in fair value are recognized when they occur.

Other

The University's principal sources of revenue, aside from contributions, are student academic fees, sales and other revenues. These revenues are recognized when the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Services have been rendered;
- The price to the buyer is fixed or determinable;
- Collection is reasonably assured.

Revenue is recognized as the services are provided. Unearned revenue represents receipts for which revenue is not yet earned.

Cash and cash equivalents

The University's policy is to present in cash and cash equivalents bank balances, including bank overdrafts whose balances fluctuate frequently from being positive to overdrawn, and investments with a maximum maturity of three months from the acquisition date or redeemable at any time without penalty.

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory valuation

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

Tangible and intangible capital assets

Capital assets acquired are recorded at cost. When the University receives contributions of capital assets, their cost is equal to their fair value at the contribution date plus all costs directly attributable to the acquisition of the capital assets, or at a nominal value if fair value cannot be reasonably determined.

Amortization

Tangible and intangible capital assets are amortized on a straight-line basis over their estimated useful lives according to the following periods:

| | <u>Periods</u> |
|---|--------------------|
| Land improvements | 10 and 20 years |
| Buildings | |
| Buildings acquired or constructed | 20, 40 or 50 years |
| Building renovations | 25, 30 or 40 years |
| Machinery and equipment | 3, 5 or 15 years |
| Computer hardware | |
| Multimedia communication equipment | |
| Furniture and fixtures | |
| Other equipment | |
| Specialized equipment related to teaching | 10 or 20 years |
| Library collection, telecommunications networks | 10 years |
| Automotive equipment | 5 years |
| Leasehold improvements | Lease term |
| IT development | 5 or 10 years |
| Software | 3 years |

Constructions in progress are not amortized, they will be amortized from their date of commissioning.

Write-down

When conditions indicate that a tangible or intangible capital asset is impaired, the net carrying amount of the tangible or intangible capital asset is written down to the tangible or intangible capital asset's fair value or replacement cost. The write-down is accounted for in the consolidated statement of operations and cannot be reversed.

Derivative financial instruments

The University uses derivative financial instruments to manage its interest rate risk. It does not use these derivative financial instruments for trading or speculative purposes.

The University has elected to use hedge accounting to recognize the interest rate swap it uses to provide protection against interest rate fluctuations on its variable interest rate debt.

At the inception of the hedging relationship, the University formally documented the hedging relationship, identifying the hedged item, the related hedging item, the nature of the specific exposure being hedged and the intended term of the hedging relationship. Both at the inception of the hedging relationship and throughout its term, the University has reasonable assurance that the critical terms of the hedging item and the hedged item will remain the same. For hedged items that are an anticipated transaction, the University determines that it is probable that the anticipated transaction will occur at the time and in the amount designated, as documented at the inception of the hedging relationship.

The University discontinues hedge accounting when the hedged item or the hedging item ceases to exist or the critical terms of the hedging item cease to match those of the hedged item.

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee future benefits

The University accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension benefits. More specifically, the University recognizes its obligations under the defined benefit plans on the consolidated balance sheet, net of the fair value of plan assets. The University determines the defined benefit obligations using the most recent actuarial valuation prepared for funding purposes, which is extrapolated to the University's year end. The total defined benefit plan cost includes current service cost and finance cost and is recognized in consolidated operations under Employee future benefits. Remeasurements and other items, which include actuarial gains and losses relating to obligations, the difference between the actual return on plan assets and interest income deducted from the finance cost as well as past service cost, are recognized separately on the consolidated statement of changes in fund balances. Remeasurements and other items are not reclassified to the consolidated statement of operations in a subsequent year.

4 - NET INVESTMENT INCOME

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| | \$ | \$ |
| Investments measured at amortized cost | | |
| Unrestricted | | |
| Interest income | <u>413</u> | <u>698</u> |

5 - EXTRAORDINARY ELEMENT

| | <u>2021</u> | <u>2020</u> |
|--|--------------|--------------|
| | \$ | \$ |
| Investments in equity instruments measured at cost | | |
| Unrestricted | | |
| Dividend income | <u>1,311</u> | <u>2,622</u> |

6 - INTEREST EXPENSES

| | <u>2021</u> | <u>2020</u> |
|-----------------------------|---------------|---------------|
| | \$ | \$ |
| Interest on long-term debt | <u>14,857</u> | 14,845 |
| Interest on short-term debt | <u>169</u> | <u>1,508</u> |
| | <u>15,026</u> | <u>16,353</u> |

7 - INTERFUND TRANSFERS

Unrestricted resources of \$24,604,000 for the year ended April 30, 2021 (\$21,760,000 for the year ended April 30, 2020) were transferred from the Unrestricted Operating Fund to the Capital Asset Fund to finance the cash outlays relating to capital assets, repayments of long-term loans and interest payments on long-term debt.

8 - ACCOUNTS RECEIVABLE AND OTHER

| | <u>2021</u> | <u>2020</u> |
|---|----------------|----------------|
| | \$ | \$ |
| Unrestricted Operating Fund | | |
| Sales, independent companies and others | <u>10,218</u> | 10,689 |
| Grants - MES | <u>35,046</u> | 41,924 |
| Student academic fees | <u>2,415</u> | 3,122 |
| Dividends | <u>1,311</u> | <u>55,735</u> |
| | <u>48,990</u> | <u>55,735</u> |
| Less: Sales, independent companies and others cashable for more than one year | <u>(324)</u> | <u>(388)</u> |
| | <u>48,666</u> | <u>55,347</u> |
| Operating Fund with Restrictions | | |
| Grants, contracts and others | <u>115,423</u> | <u>129,917</u> |

Université de Sherbrooke

Notes to Consolidated Financial Statements

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(the amounts in the tables are expressed in thousands of dollars)

8 - ACCOUNTS RECEIVABLE AND OTHER (Continued)

| | 2021 | 2020 |
|--|----------------|----------------|
| | \$ | \$ |
| Capital Asset Fund | | |
| Grants - MES | 61,465 | 68,849 |
| Other | 5,289 | 7,143 |
| | 66,754 | 75,992 |
| Less: MES grants cashable for more than one year | (58,967) | (66,228) |
| Less: Other grants cashable for more than one year | (699) | (1,455) |
| | 7,088 | 8,309 |
| | <u>171,177</u> | <u>193,573</u> |

9 - INVESTMENTS

| | 2021 | 2020 |
|--|--------------|--------------|
| | \$ | \$ |
| Unrestricted Operating Fund | | |
| Shares of private companies | 1,069 | 771 |
| Investment in limited partnerships | 2,540 | 2,540 |
| Loan to an organization with economic interest, 3.22% as at April 30, 2021 and 2020, cashable in monthly blended instalments of \$3,301 | 788 | 793 |
| Shares of a public company | 312 | 108 |
| | <u>4,709</u> | <u>4,212</u> |

10 - TANGIBLE CAPITAL ASSETS

| | 2021 | | |
|---|------------------|-----------------------------|------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| | \$ | \$ | \$ |
| Land and land improvements | | | |
| Land | 3,081 | | 3,081 |
| Land improvements | 57,260 | 32,472 | 24,788 |
| Buildings | | | |
| Buildings acquired or constructed | 487,224 | 140,360 | 346,864 |
| Building renovations | 294,431 | 111,757 | 182,674 |
| Machinery and equipment | | | |
| Computer hardware | 7,659 | 3,626 | 4,033 |
| Multimedia communication equipment | 8,512 | 4,044 | 4,468 |
| Furniture and fixtures | 2,649 | 1,002 | 1,647 |
| Other equipment | 4,775 | 2,077 | 2,698 |
| Specialized equipment related to teaching | 229,597 | 150,778 | 78,819 |
| Library collection | 10,954 | 4,152 | 6,802 |
| Automotive equipment | 1,538 | 691 | 847 |
| Telecommunications networks | 1,133 | 959 | 174 |
| Constructions in progress | 37,399 | | 37,399 |
| Works of art | 3,961 | | 3,961 |
| Assets not subject to amortization | 664 | | 664 |
| Equipment deposits | 3,848 | | 3,848 |
| Leasehold improvements | 1,357 | 1,014 | 343 |
| | <u>1,156,042</u> | <u>452,932</u> | <u>703,110</u> |

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Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

10 - TANGIBLE CAPITAL ASSETS (Continued)

| | 2020 | | |
|---|------------------|-----------------------------|------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| | \$ | \$ | \$ |
| Land and land improvements | | | |
| Land | 3,081 | | 3,081 |
| Land improvements | 45,694 | 30,816 | 14,878 |
| Buildings | | | |
| Buildings acquired or constructed | 485,491 | 130,228 | 355,263 |
| Building renovations | 268,395 | 103,970 | 164,425 |
| Machinery and equipment | | | |
| Computer hardware | 7,868 | 3,776 | 4,092 |
| Multimedia communication system | 7,921 | 3,785 | 4,136 |
| Furniture and fixtures | 2,083 | 909 | 1,174 |
| Other equipment | 4,609 | 1,817 | 2,792 |
| Specialized equipment related to teaching | 245,267 | 158,591 | 86,676 |
| Library collection | 9,784 | 3,468 | 6,316 |
| Automotive equipment | 1,606 | 677 | 929 |
| Telecommunications networks | 2,071 | 1,688 | 383 |
| Constructions in progress | 37,097 | | 37,097 |
| Works of art | 3,917 | | 3,917 |
| Assets not subject to amortization | 654 | | 654 |
| Equipment deposits | 1,234 | | 1,234 |
| Leasehold improvements | 1,343 | 816 | 527 |
| | <u>1,128,115</u> | <u>440,541</u> | <u>687,574</u> |

Tangible capital assets in the amount of \$119,000 for the year ended April 30, 2021 (\$398,000 for the year ended April 30, 2020) were acquired in the form of donations.

Trade payables and other operating liabilities include an amount of \$94,000 as at April 30, 2021 (\$83,000 as at April 30, 2020) related to the acquisition of tangible capital assets.

11 - INTANGIBLE ASSETS

| | 2021 | | |
|----------------|---------------|-----------------------------|------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| | \$ | \$ | \$ |
| IT development | 21,894 | 4,420 | 17,474 |
| Software | 799 | 340 | 459 |
| | <u>22,693</u> | <u>4,760</u> | <u>17,933</u> |
| | | | |
| | 2020 | | |
| | Cost | Accumulated amortization | Net carrying amount |
| | \$ | \$ | \$ |
| IT development | 22,911 | 6,214 | 16,697 |
| Software | 786 | 430 | 356 |
| | <u>23,697</u> | <u>6,644</u> | <u>17,053</u> |

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Notes to Consolidated Financial Statements

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(the amounts in the tables are expressed in thousands of dollars)

12 - BANK INDEBTEDNESS

| | 2021 | 2020 |
|-----------------------------|--------------|---------------|
| | \$ | \$ |
| Unrestricted Operating Fund | | |
| Bank overdraft | 3,382 | 3,194 |
| Bank loans | 15 | 6,836 |
| | <u>3,397</u> | <u>10,030</u> |
| Capital Asset Fund | | |
| Bank loans | 3,674 | 46,837 |
| | <u>7,071</u> | <u>56,867</u> |

The University has an authorized line of credit facility of \$216,000,000, bearing interest at prime rate less 0.25% (2.2%; 2.2% as at April 30, 2020) or at the bankers' acceptance rate (0.49%; 0.68% as at April 30, 2020) for the temporary financing of the operations of the operating funds and the Capital Asset Fund, renewable in June 2022. As at April 30, 2021, the balance is not used (\$50,000,000 as at April 30, 2020).

As at April 30, 2020, the entire credit facility beared interest at the bankers' acceptance rate.

Subsequent to year-end, the University obtained the renewal of the credit facility, for an authorized amount of \$185,000,000, at the same interest rate, renewable in June 2022.

In addition, the University has a credit facility of an authorized amount of \$35,479,048 and used amount of \$3,674,069 (\$3,658,711 as at April 30, 2020), bearing interest at the average rate of bankers' acceptances of 1 month less 0.1% (0.3125%; 0.4975% as at April 30, 2020) for the temporary financing of the operations of the Capital Asset Fund within the framework of the precision medicine and translational research pavilion project until the loans are converted into long-term funding.

13 - TRADE PAYABLES AND OTHER OPERATING LIABILITIES

| | 2021 | 2020 |
|--|---------------|---------------|
| | \$ | \$ |
| Unrestricted Operating Fund | | |
| Accounts payable and other accrued liabilities | 34,307 | 38,167 |
| Salaries and benefits payable | 18,068 | 16,191 |
| | <u>52,375</u> | <u>54,358</u> |
| Operating Fund with Restrictions | | |
| Accounts payable and other accrued liabilities | 12 | 112 |
| Capital Asset Fund | | |
| Accounts payable and other accrued liabilities | 2,691 | 2,462 |
| | <u>55,078</u> | <u>56,932</u> |

14 - UNEARNED REVENUE

| | 2021 | 2020 |
|-----------------------|--------------|--------------|
| | \$ | \$ |
| Student academic fees | 2,366 | 2,465 |
| Sales | 2,946 | 3,177 |
| Grants | 472 | 2,798 |
| Other | 457 | 334 |
| | <u>6,241</u> | <u>8,774</u> |

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

15 - LONG-TERM DEBT

| | 2021 | 2020 |
|--|--------------|--------------|
| | \$ | \$ |
| Unrestricted Operating Fund | | |
| <i>Redistributions payable to investors</i> | | |
| At the rate of 5%, payable in annual capital instalments of an amount equivalent to 65% of royalty income, taking into account minimum amounts of annual royalties, in the Inolife R&D Inc. file | 351 | 334 |
| At a rate of 12%, payable in consideration of the fair market value of an investment upon sale and upon receipt of royalties, in the SoundBite Medical Solutions Inc. file | 970 | 861 |
| | <u>1,321</u> | <u>1,195</u> |
| Less: Current portion | (98) | (98) |
| | <u>1,223</u> | <u>1,097</u> |
| Capital Asset Fund | | |
| <i>Mortgages</i> | | |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$1,080,000 plus interest, at the rate of 4.94%, maturing in June 2034 | 16,200 | 17,280 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$780,000 plus interest, at the rate of 3.592%, maturing in June 2034 | 14,820 | 15,600 |
| Secured by the disposal and the transport of a MES grant, annual blended instalments of \$563,441, at the rate of 2.12%, maturing in February 2025 | 2,125 | 2,629 |
| Secured by the disposal and the transport of a MES grant, annual blended instalments of \$116,729, at the rate of 2.12%, maturing in February 2025 | 440 | 545 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$530,029 plus interest, at the rate of 2.161%, maturing in March 2025 | 2,320 | 2,850 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$760,000 plus interest, at the rate of 3.149%, maturing in June 2034 | 15,200 | 15,960 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$1,147,648 plus interest, at the rate of 2.842%, maturing in March 2031 | 11,262 | 12,410 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$2,326,821 plus interest, at the rate of 2.149%, maturing in September 2026 | 30,451 | 32,778 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$2,565,681 plus interest, at the rate of 2.408%, maturing in September 2026 | 17,505 | 20,071 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$249,597 plus interest, at the rate of 2.433%, maturing in October 2025 | 1,201 | 1,451 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$1,141,177 plus interest, at the rate of 2.933%, maturing in December 2042 | 25,106 | 26,247 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$3,136,760 plus interest, at the rate of 2.787%, maturing in September 2027 | 38,408 | 41,545 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$876,933 plus interest, at the rate of 3.137%, maturing in December 2043 | 20,169 | 21,046 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$394,296 plus interest, at the rate of 2.796%, maturing in December 2026 | 2,207 | 2,601 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$691,854 plus interest, at the rate of 2.423%, maturing in December 2039 | 13,145 | 13,837 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$182,667 plus interest, at the rate of 2.336%, maturing in December 2034 | 2,560 | 2,743 |

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

15 - LONG-TERM DEBT (Continued)

| | 2021 | 2020 |
|---|----------------|----------------|
| | \$ | \$ |
| Capital Asset Fund | | |
| <i>Mortgages</i> | | |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$3,318,096 plus interest, at the rate of 2.228%, maturing in December 2030 | 33,273 | 36,591 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$627,600 plus interest, at the rate of 2.336%, maturing in December 2034 | 8,479 | 9,107 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$861,648 plus interest, at the rate of 2.103%, maturing in December 2027 | 6,255 | 7,116 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$354,600 plus interest, at the rate of 1.980%, maturing in December 2024 | 1,418 | 1,773 |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$753,285 plus interest, at the rate of 1.954%, maturing in December 2040 | 15,066 | |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$219,140 plus interest, at the rate of 1.727%, maturing in December 2035 | 3,287 | |
| Secured by the disposal and the transport of a MES grant, annual capital instalments of \$1,046,004 plus interest, at the rate of 0.795%, maturing in December 2025 | 5,230 | |
| Secured by the disposal and the transport of a MCC grant, semi-annual capital instalments of \$112,500 plus interest, at the rate of 3.064%, maturing in March 2038 | 3,825 | 4,050 |
| Secured by the disposal and the transport of a MEI grant, semi-annual blended instalments of \$5,114,411, at the rate of 3.119%, maturing in September 2022 | 14,774 | 24,248 |
| Secured by a building, monthly blended instalments of \$5,848, financed with the proceeds from a Government of Quebec grant: | | |
| School of Music, 6.875%, maturing in September 2020 | | 29 |
| <i>Loans from other sources</i> | | |
| Secured by a building, monthly blended instalments of \$458,635, at the rate of 5.042%, maturing in December 2039 | 66,464 | 68,558 |
| Secured by a building, monthly blended instalments of \$124,951, at the rate of 4.73%, maturing in March 2040 | 18,716 | 19,315 |
| Secured by a building, monthly blended instalments of \$122,778, at the rate of 3.846%, maturing in July 2030 | 11,451 | 12,463 |
| | <u>401,357</u> | <u>412,843</u> |

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

15 - LONG-TERM DEBT (Continued)

| | <u>2021</u> | <u>2020</u> |
|---|-----------------|-----------------|
| | \$ | \$ |
| <i>Bank loans</i> | | |
| Payable from a contribution from the Unrestricted Operating Fund: | | |
| Multifunctional pavilion, monthly blended instalments of \$27,411, at the rate of 2.868%, maturing in June 2024 | 995 | 1,290 |
| At the 1-month CDOR variable rate plus 0.71% (1.1225%; 1.3075% as at April 30, 2020), payable in monthly blended instalments of \$180,671, maturing in March 2036 | 26,551 | 27,974 |
| At the 1-month CDOR variable rate plus 0.85% (1.2625%; 1.4475% as at April 30, 2020), payable in monthly blended instalments of \$94,702, maturing in April 2037 | 18,055 | 18,616 |
| At the 1-month CDOR variable rate plus 1.07% (1.4825%; 1.6675% as at April 30, 2020), payable in monthly blended instalments of \$29,794, maturing in February 2038 | 5,743 | 5,867 |
| | <u>51,344</u> | <u>53,747</u> |
| | 452,701 | 466,590 |
| Less: Current portion | <u>(40,021)</u> | <u>(37,473)</u> |
| | <u>412,680</u> | <u>429,117</u> |
| | <u>413,903</u> | <u>430,214</u> |

The contractual principal repayments of long-term debt for the next years are as follows:

| | Unrestricted Operating Fund \$ | Capital Asset Fund \$ |
|---------------------------|---|-----------------------------|
| 2022 | 98 | 40,021 |
| 2023 | | 35,520 |
| 2024 | | 30,790 |
| 2025 | | 31,018 |
| 2026 | | 29,454 |
| 2027 and subsequent years | | 285,898 |

16 - DEFERRED CONTRIBUTIONS - OPERATING FUND WITH RESTRICTIONS

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|------------------|------------------|
| | \$ | \$ |
| Research grants | | |
| Balance, beginning of year | 178,082 | 148,184 |
| Amounts granted | 234,389 | 202,351 |
| Amounts recognized as revenue | <u>(193,308)</u> | <u>(172,453)</u> |
| Balance, end of year | <u>219,163</u> | <u>178,082</u> |

17 - DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE AND INTANGIBLE CAPITAL ASSETS

| | <u>2021</u> | <u>2020</u> |
|--|-----------------|-----------------|
| | \$ | \$ |
| Balance, beginning of year | 204,192 | 196,262 |
| Contributions received as tangible capital assets | 68 | |
| Contributions received for the acquisition of tangible and intangible capital assets | 34,731 | 34,927 |
| Amounts recognized as revenue | <u>(25,978)</u> | <u>(26,997)</u> |
| Balance, end of year | <u>213,013</u> | <u>204,192</u> |

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Notes to Consolidated Financial Statements

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(the amounts in the tables are expressed in thousands of dollars)

18 - INTERNALLY RESTRICTED FUND BALANCES

The main categories of internally restricted fund balances of the Unrestricted Operating Fund are as follows:

| | 2021 | 2020 |
|---|---------------|---------------|
| | \$ | \$ |
| Research support | 32,374 | 28,162 |
| Continuing education fund | 7,913 | 6,332 |
| Employee assistance programs | 37 | 37 |
| Improvement | 586 | 500 |
| Support for specific projects | 2,041 | 1,495 |
| Teaching support | 946 | 994 |
| Faculty support for research | 112 | 153 |
| Support for human resources development | 8 | 14 |
| | <u>44,017</u> | <u>37,687</u> |

19 - CONTINGENCIES

Lawsuits

In the normal course of operations, the University faces various lawsuits including claims relating to labor law and the Civil Code. Although it is not possible to predict with certainty the outcome of the legal proceedings initiated and in progress as at April 30, 2021, in the opinion of management, these litigations will be resolved without a material impact on the University's consolidated financial statements.

Loan guarantees

The University guarantees loans contracted by a not-for-profit organization in the amount of \$244,191 as at April 30, 2021 (\$346,330 for an organization as at April 30, 2020) and has not required any consideration in exchange for assuming these responsibilities. Under the terms of the agreements, until September 2024, the University must be prepared to fulfill the not-for-profit organization's debt repayment obligations if the latter is unable to do so. The maximum amount the University may be required to settle under the agreements is of \$2,700,000 (\$2,700,000 as at April 30, 2020). In the opinion of management, it is unlikely that these guarantees will be exercised and, accordingly, no liability has been recorded in the consolidated financial statements in this respect.

20 - COMMITMENTS

Operating lease and service contracts

The University has entered into leases and contracts for premises and services. The balance of commitments stands at \$15,959,000, of which approximately 96% of the amounts payable in 2021-2022 for leases are specifically funded by the MES. Minimum lease payments for the next years are as follows:

| | Operating lease | Service contracts |
|---------------------------|--------------------|----------------------|
| | \$ | \$ |
| 2022 | 3,645 | 5,544 |
| 2023 | 3,359 | 2,251 |
| 2024 | 131 | 345 |
| 2025 | 133 | 277 |
| 2026 | 116 | 135 |
| 2027 and subsequent years | 6 | 17 |

Tangible capital assets

Following the approval of the MES, the University entered into acquisition contracts. Commitments not materialized as at April 30, 2021 amount to approximately \$40,238,000, of which an amount of \$3,848,000 has already been paid as a deposit on equipment.

Université de Sherbrooke

Notes to Consolidated Financial Statements

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(the amounts in the tables are expressed in thousands of dollars)

21 - EMPLOYEE FUTURE BENEFITS

The University has a hybrid plan with a combination of two components, a defined benefit component and a defined contribution component. This plan guarantees the payment of retirement benefits to most of its employees. Moreover, the University offers a group insurance plan including health care insurance, disability insurance and life insurance. Health care insurance is also offered for eligible retirees until October 31, 2014 (this benefit is no longer offered since November 1, 2014).

The defined benefit component guarantees a minimum annual amount. This amount is set according to a predetermined formula based on the number of years of credited service as well as the average salary of the best five years. The defined contribution component, for its part, accumulates, with interest, the contributions of the employee and those of the University and the accumulated amount will be used to provide the employee with an income at retirement. The retirement benefit will come from one or the other of these components, depending on which will provide the highest benefit when the employee retires.

The indexation offered on the annuities payable under the plan corresponds to 50% of the consumer price index, subject to a maximum indexation of 2% per year.

Health insurance and life insurance plans are contributory plans and employee contributions are adjusted annually. The plan also provides long- and short-term disability insurance guarantees, and these disability insurance plans may or may not be contributory depending on the category to which the employee belongs.

The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2018.

Université de Sherbrooke Notes to Consolidated Financial Statements

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(the amounts in the tables are expressed in thousands of dollars)

22 - CONTROLLED ENTITIES AND RELATED PARTY TRANSACTIONS (Continued)

| | La Fondation de l'Université de Sherbrooke (a) | | Les Éditions DELISME Inc. (b) | |
|---|--|---------|-------------------------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| Results of operations | | | | |
| Total revenues | 35,292 | 14,786 | | 63 |
| Total expenses | 3,877 | 5,432 | 61 | 36 |
| Excess (deficiency) of revenues over expenses, before contributions to the University | 31,415 | 9,354 | (61) | 27 |
| Cash flows | | | | |
| Operating activities | 165 | 4,304 | (56) | (74) |
| Investing activities | (5,515) | (8,041) | | |
| Financing activities | 5,359 | 3,724 | | |
| Net increase (decrease) in cash and cash equivalents | 9 | (13) | (56) | (74) |

(a) The University controls La Fondation de l'Université de Sherbrooke because the two entities have integrated objectives. The purpose of the Foundation is to promote the development of teaching and university research. The Foundation is a registered charity under the Income Tax Act.

As at April 30, 2021, the balance receivable from La Fondation de l'Université de Sherbrooke is of \$18,089,000 (\$22,120,000 as at April 30, 2020); the balance payable is of \$575,000 (\$936,000 as at April 30, 2020).

The Foundation partly assumes its direct operating and management costs as well as the costs of fundraising and philanthropic development activities. From May 1, 2013, the University has assumed all the costs relating to the accounting services and assistance with the financial operations of the Foundation and of the major Campaign "Together" (2004-2009) as well as part of the costs relating to the Foundation's fundraising and philanthropic development activities in consideration for an annual allocation paid to the University. In addition, the University fully assumes the costs relating to the recognition of donors and allows the Foundation to use its premises and its institutional database free of charge.

(b) The University controls Les Éditions DELISME Inc. since it acquired all of its shares on May 15, 2012.

Université de Sherbrooke Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

22 - CONTROLLED ENTITIES AND RELATED PARTY TRANSACTIONS (Continued)

Moreover, the University exercises significant influence on two not-for-profit organizations through its number of representatives on the board of directors or the weight of their presence on the board. The transactions concluded in the normal course of operations and measured at the exchange amount, as well as the balance sheet balances with these entities are as follows:

| | Centre de Collaboration MiQro Innovation (C2MI) | | Accélérateur de création d'entreprise technologique (ACET) | |
|--|--|-------|--|------|
| | 2021 | 2020 | 2021 | 2020 |
| Revenues | | | | |
| Grants | | | | |
| Others | | | 11 | 8 |
| Sales | 7,630 | 6,088 | | |
| Donations and contributions Other organizations | 769 | | 2 | 2 |
| Expenses | | | | |
| Teaching | | | | |
| Research | 2,453 | 297 | 153 | 160 |
| Community services | | 35 | 33 | 32 |
| Institutional support | 83 | 79 | 598 | 598 |
| Ancillary enterprises | 11,533 | 7,791 | | |

The University also holds an economic interest in two not-for-profit organizations. The University has no control or significant influence over these organizations. During the year, the first organization granted contributions to the University of approximately \$5,711,000 (\$6,235,000 for the year ended April 30, 2020) for various projects of the Operating Fund with Restrictions.

Université de Sherbrooke

Notes to Consolidated Financial Statements

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(the amounts in the tables are expressed in thousands of dollars)

23 - FINANCIAL RISKS

Credit risk

The University is exposed to credit risk regarding the financial assets recognized on the consolidated balance sheet. The University has determined that the financial assets with more credit risk exposure are grants and other receivables and the loan to receive since failure of any of these parties to fulfil their obligations could result in significant financial losses for the University.

Market risk

The University's financial instruments expose it to market risk, in particular, to interest rate risk, currency risk and other price risk, resulting from operating, investing and financing activities.

Interest rate risk

The University is exposed to interest rate risk with respect to financial assets and liabilities bearing fixed and variable interest rates.

Some investments and long-term debts bear interest at a fixed rate and the University is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

The bank loans and some long-term debts bear interest at a variable rate and the University is, therefore, exposed to the cash flow risk resulting from interest rate fluctuations.

An interest rate swap with a \$33,400,000 notional, maturing on the same date as the corresponding debt, that is in March 2036, has been designated to hedge the interest rate risk relating to that debt. Under the terms of the swap, the University pays interest at a fixed rate of 2.725% and receives interest at variable rates for an amount that corresponds exactly to the interest payable on the debt. As at April 30, 2021, the variable interest rate is of 1.123% (1.308% as at April 30, 2020).

Another interest rate swap with a \$20,200,000 notional, maturing on the same date as the corresponding debt, that is in April 2037, has been designated to hedge the interest rate risk relating to that debt. Under the terms of the swap, the University pays interest at a fixed rate of 3.13% and receives interest at variable rates for an amount that corresponds exactly to the interest payable on the debt. As at April 30, 2021, the variable interest rate is of 1.263% (1.448% as at April 30, 2020).

Another interest rate swap with a \$6,120,000 notional, maturing on the same date as the corresponding debt, that is in February 2038, has been designated to hedge the interest rate risk relating to that debt. Under the terms of the swap, the University pays interest at a fixed rate of 4.015% and receives interest at variable rates for an amount that corresponds exactly to the interest payable on the debt. As at April 30, 2021, the variable interest rate is of 1.483% (1.668% as at April 30, 2020).

Currency risk

The majority of the University's transactions are in Canadian dollars. Currency risk results from the University's purchases denominated in foreign currency which are primarily in U.S. dollars. As at April 30, 2021, the University is exposed to currency risk due to cash denominated in U.S. dollars totalling \$14,000 (\$109,000 as at April 30, 2020) and other payables denominated in U.S. dollars totalling \$228,000 (\$138,000 as at April 30, 2020).

Other price risk

The University is exposed to other price risk due to the shares of private companies and shares of a public company, since changes in market prices, other than those arising from currency risk and interest rate risk, could result in changes in fair value of these instruments.

Université de Sherbrooke

Notes to Consolidated Financial Statements

April 30, 2021

(the amounts in the tables are expressed in thousands of dollars)

23 - FINANCIAL RISKS (Continued)

Liquidity risk

The University's liquidity risk represents the risk that the University could encounter difficulty in meeting obligations associated with its financial liabilities. The University is, therefore, exposed to liquidity risk with respect to all of the financial liabilities recognized on the consolidated balance sheet.