

**Université de Sherbrooke**  
**Consolidated Financial Statements**  
**April 30, 2020**

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## Independent Auditor's Report

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

### 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, 2020, 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, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 S.E. N.C. R. L.*<sup>1</sup>

Sherbrooke  
September 28, 2020

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<sup>1</sup> CPA auditor, CA public accountancy permit no. A125487

## Université de Sherbrooke Consolidated Operations

Year ended April 30, 2020  
(in thousands of dollars)

	Unrestricted Operating Fund		Operating Fund with Restrictions		Capital Asset Fund		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Revenues</b>								
Grants								
Ministère de l'Éducation et de l'Enseignement supérieur	301,821	290,064	7,443	4,158	26,514	25,371	335,778	319,593
Other	14,211	13,865	156,849	141,469	28,051	26,868	199,111	182,202
Student academic fees								
Regular education	53,847	50,966					53,847	50,966
Special education	6,277	6,621					6,277	6,621
Sales	30,032	31,603					30,032	31,603
Donations and contributions								
La Fondation de l'Université de Sherbrooke	12		8,161	7,504			8,173	7,504
Other organizations	863	906					863	906
Net investment income (Note 5)	698	588					698	588
Gain on disposal of tangible capital assets					47	48		48
Extraordinary element (Note 6)	2,622	12,675					2,622	12,675
Other revenues	31,012	29,348					31,012	29,348
	<u>441,395</u>	<u>436,636</u>	<u>172,453</u>	<u>153,131</u>	<u>54,612</u>	<u>52,287</u>	<u>668,460</u>	<u>642,054</u>
<b>Expenses</b>								
Teaching	255,484	249,054	51,234	47,118			306,718	296,172
Research	18,802	17,281	114,062	100,445			132,864	117,726
Community services	6,517	7,999	3,084	2,535			9,601	10,534
Academic support	31,006	30,587		2			31,006	30,589
Student services and assistance	18,864	19,667	3,767	2,945			22,631	22,612
Institutional support, including overheads	44,598	40,251	306	86			44,904	40,337
Institutional support, land and building	29,579	29,801					29,579	29,801
Ancillary enterprises	14,459	12,523					14,459	12,523
Employee future benefits	(3,736)	(3,891)					(3,736)	(3,891)
Interest on obligations and loans								
Amortization of tangible and intangible capital assets					15,927	16,504	15,927	16,504
Capital assets below capitalization threshold					52,484	50,327	52,484	50,327
Non-capitalizable assets					744	563	744	563
Transfers to other organizations					288	78	288	78
					4,064	2,506	4,064	2,506
	<u>415,573</u>	<u>403,272</u>	<u>172,453</u>	<u>153,131</u>	<u>73,507</u>	<u>69,978</u>	<u>661,533</u>	<u>626,381</u>
<b>Excess (deficiency) of revenues over expenses</b>	<u>25,822</u>	<u>33,364</u>	<u>-</u>	<u>-</u>	<u>(18,895)</u>	<u>(17,691)</u>	<u>6,927</u>	<u>15,673</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, 2020  
(in thousands of dollars)

	Unrestricted Operating Fund		Operating Fund with Restrictions		Capital Asset Fund		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Fund balances (negative), beginning of year	(48,253)	(35,797)			51,763	40,684	3,510	4,887
Excess (deficiency) of revenues over expenses	25,822	33,364			(18,895)	(17,691)	6,927	15,673
Employee future benefits - remeasurements and other items	(122,728)	(17,148)					(122,728)	(17,148)
Restricted contributions for the acquisition of tangible capital assets not subject to amortization	(21,760)	(28,672)			398	98	398	98
Interfund transfers (Note 8)	(166,919)	(48,253)	-	-	21,760	28,672	(111,893)	3,510
Fund balances (negative), end of year			-	-	55,026	51,763		

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

## Université de Sherbrooke

### Consolidated Cash Flows

Year ended April 30, 2020  
(in thousands of dollars)

	2020	2019
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	6,927	15,673
Non-cash items		
Gain on disposal of tangible capital assets	(47)	(48)
Changes in fair value of financial assets designated as held for trading	96	
Amortization of deferred contributions related to tangible and intangible capital assets	(45,510)	(42,678)
Amortization of tangible and intangible capital assets	52,484	50,327
Employee future benefits	(3,736)	(3,891)
Net change in other assets and liabilities	(16,748)	21,513
Cash flows from operating activities	<u>(6,534)</u>	<u>40,896</u>
<b>INVESTING ACTIVITIES</b>		
Investments		(296)
Disposal of investments		280
Acquisition of tangible and intangible capital assets	(60,956)	(50,634)
Disposal of tangible capital assets	172	303
Cash flows from investing activities	<u>(60,784)</u>	<u>(50,347)</u>
<b>FINANCING ACTIVITIES</b>		
Net change in bank loans	20,065	(25,707)
Long-term loans	71,218	29,491
Repayment of long-term loans	(88,730)	(38,251)
Deferred contributions related to tangible capital assets	56,060	44,778
Cash flows from financing activities	<u>58,613</u>	<u>10,311</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(8,705)</b>	<b>860</b>
Cash and cash equivalents, beginning of year	<u>5,511</u>	<u>4,651</u>
Cash and cash equivalents, end of year	<u>(3,194)</u>	<u>5,511</u>

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



# Université de Sherbrooke Consolidated Balance Sheet

April 30, 2020  
(in thousands of dollars)

	Unrestricted Operating Fund		Operating Fund with Restrictions		Capital Asset Fund		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>ASSETS</b>								
Current								
Cash		5,511						5,511
Accounts receivable and other (Note 9)	55,347	58,982	129,917	84,770	8,309	7,541	193,573	151,293
Inventories	619	572					619	572
Prepaid expenses	7,635	8,974					7,635	8,974
Interfund account, without interest			48,277	63,623				
	63,601	74,039	178,194	148,393	8,309	7,541	201,827	166,350
Long-term								
Accounts receivable and other (Note 9)	388	308			67,683	71,051	68,071	71,359
Prepaid expenses	274	79					274	79
Investments (Note 10)	4,212	4,308					4,212	4,308
Defined benefit asset (Note 22)		721						721
Tangible capital assets (Note 11)					687,574	680,749	687,574	680,749
Tangible assets (Note 12)					17,053	15,195	17,053	15,195
	68,475	79,455	178,194	148,393	780,619	774,536	979,011	938,761
<b>LIABILITIES</b>								
Current								
Bank indebtedness (Note 13)	10,030	15			46,837	33,593	56,867	33,608
Trade payables and other operating liabilities (Note 14)	54,358	58,429	112	209	2,462	2,779	56,932	61,417
Unearned revenue (Note 15)	8,774	9,914				569	8,774	10,483
Interfund account, without interest	42,765	58,205			5,512	5,418		
Current portion of long-term debt	98	65			37,473	88,730	37,571	88,795
	116,025	126,628	112	209	92,284	131,089	160,144	194,303
Long-term								
Long-term debt (Note 16)	1,097	1,080			429,117	395,422	430,214	396,502
Defined benefit liability (Note 22)	118,272						118,272	
Deferred contributions								
Operating Fund with Restrictions (Note 17)			178,082	148,184			178,082	148,184
Related to tangible and intangible capital assets (Note 18)								
	235,394	127,708	178,194	148,393	725,593	722,773	204,192	196,262
							1,090,904	935,251
<b>FUND BALANCES (NEGATIVE)</b>								
Internal restriction (Note 19)	37,687	34,913					37,687	34,913
Deficit taking account internal restriction	(204,606)	(83,166)					(204,606)	(83,166)
Invested in capital assets	(166,919)	(48,253)			55,026	51,763	55,026	51,763
	68,475	79,455	178,194	148,393	780,619	774,536	(111,893)	3,510
							979,011	938,761

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

Approved by the Board of Directors  


Rector

  
Vice-rector - administration and sustainable development

# Université de Sherbrooke

## Notes to Consolidated Financial Statements

April 30, 2020

(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 starting in mid-March following directives ordered by the Quebec government. For the financial year ended April 30, 2020, all of the financial impacts have been recognized in the consolidated financial statements.

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 the coronavirus with precision on the number of students, especially those from abroad, on internships, on openness to gatherings (shows, sport, etc.), on occupancy of residences, on the impact of costs related to the reopening of construction sites and on the financial commitment of certain research partners. The MEES has, however, stipulated that the general grant for 2020-2021 will be based on the 2018-2019 student numbers for all universities. An internal risk management committee headed by the assistant rector has been set up to monitor financial impacts.

### 3 - ACCOUNTING CHANGES

On May 1, 2019, the University applied Section 4433, Tangible Capital Assets Held by Not-for-profit Organizations, of Part III of the *CPA Canada Handbook – Accounting*. This section replaces Section 4431 of the same name. In accordance with this new section, not-for-profit organizations are now required to comply with the guidance in Sections 3061, Property, Plant and Equipment, and 3110, Asset Retirement Obligations, and with the reporting requirements of Section 3063, Impairment of Long-lived Assets, of Part II of the *CPA Canada Handbook – Accounting*, except for the guidance in Section 4433.

Application of Section 3061 by not-for-profit organizations now requires that they consider the guidance on componentization of the cost of an item of property, plant and equipment made up of significant separable component parts. For its part, Section 4433 presents new tangible capital assets impairment standards.

On May 1, 2019, the University applied Section 4434, Intangible Assets Held by Not-for-profit Organizations, of Part III of the *CPA Canada Handbook – Accounting*. This section replaces Section 4432 of the same name. In accordance with this new section, not-for-profit organizations are now required to comply with the guidance in Section 3064, Goodwill and Intangible Assets, and with the reporting requirement of Section 3063, Impairment of Long-lived Assets, of Part II of the *CPA Canada Handbook – Accounting*, except for the guidance in Section 4434. For its part, Section 4434 presents new intangible assets impairment standards.

In accordance with the transitional provisions, these new sections, applicable to years beginning on or after January 1, 2019, were applied prospectively.

Application of these new sections did not have any impact on the University's consolidated financial statements.

### 4 - 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.

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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 23 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.

###### *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.

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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.

##### 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.

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *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.

##### **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.

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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.

##### 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.

#### 5 - NET INVESTMENT INCOME

	2020	2019
	\$	\$
Investments measured at amortized cost		
Unrestricted		
Interest income	698	588

#### 6 - EXTRAORDINARY ELEMENT

	2020	2019
	\$	\$
Investments in equity instruments measured at cost		
Unrestricted		
Dividend income	2,622	12,675

#### 7 - INTEREST EXPENSES

	2020	2019
	\$	\$
Interest on long-term debt	14,845	15,993
Interest on short-term debt	1,508	1,117
	<u>16,353</u>	<u>17,110</u>

#### 8 - INTERFUND TRANSFERS

Unrestricted resources of \$21,760,000 for the year ended April 30, 2020 (\$28,672,000 for the year ended April 30, 2019) 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.

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 9 - ACCOUNTS RECEIVABLE AND OTHER

	2020	2019
	\$	\$
Unrestricted Operating Fund		
Sales, independent companies and others	10,689	9,512
Grants - MEES	41,924	46,750
Student academic fees	3,122	3,028
	<u>55,735</u>	<u>59,290</u>
Less: Sales, independent companies and others cashable for more than one year	(388)	(308)
	<u>55,347</u>	<u>58,982</u>
Operating Fund with Restrictions		
Grants, contracts and others	<u>129,917</u>	<u>84,770</u>
Capital Asset Fund		
Grants - MEES	68,849	71,547
Other	7,143	7,045
	<u>75,992</u>	<u>78,592</u>
Less: MEES grants cashable for more than one year	(66,228)	(68,848)
Less: Other grants cashable for more than one year	(1,455)	(2,203)
	<u>8,309</u>	<u>7,541</u>
	<u>193,573</u>	<u>151,293</u>

#### 10 - INVESTMENTS

	2020	2019
	\$	\$
Unrestricted Operating Fund		
Shares of private companies	771	771
Investment in limited partnerships	2,540	2,540
Loan to an organization with economic interest, 3.22% as at April 30, 2020 and 2019, cashable in monthly blended instalments of \$3,301	793	793
Shares of a public company	108	204
	<u>4,212</u>	<u>4,308</u>

#### 11 - TANGIBLE CAPITAL ASSETS

	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 equipment	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>

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 11 - TANGIBLE CAPITAL ASSETS (Continued)

	2019		
	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
Land and land improvements			
Land	3,081		3,081
Land improvements	43,168	29,513	13,655
Buildings			
Buildings acquired or constructed	472,379	120,846	351,533
Building renovations	259,345	95,399	163,946
Machinery and equipment			
Computer hardware	7,205	3,060	4,145
Multimedia communication system	8,376	3,981	4,395
Furniture and fixtures	1,881	942	939
Other equipment	3,952	1,600	2,352
Specialized equipment related to teaching	232,666	143,077	89,589
Library collection	8,479	2,845	5,634
Automotive equipment	1,206	444	762
Telecommunications networks	3,183	2,512	671
Constructions in progress	32,711		32,711
Works of art	3,610		3,610
Assets not subject to amortization	562		562
Equipment deposits	2,438		2,438
Leasehold improvements	1,343	617	726
	<u>1,085,585</u>	<u>404,836</u>	<u>680,749</u>

Tangible capital assets in the amount of \$398,000 for the year ended April 30, 2020 (\$108,000 for the year ended April 30, 2019) were acquired in the form of donations.

Trade payables and other operating liabilities include an amount of \$83,000 as at April 30, 2020 (\$145,000 as at April 30, 2019) related to the acquisition of tangible capital assets.

#### 12 - INTANGIBLE ASSETS

	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>
	2019		
	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
IT development	18,987	4,226	14,761
Software	824	390	434
	<u>19,811</u>	<u>4,616</u>	<u>15,195</u>



## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 13 - BANK INDEBTEDNESS

	2020	2019
	\$	\$
Unrestricted Operating Fund		
Bank overdraft	3,194	
Bank loans	6,836	15
	<u>10,030</u>	<u>15</u>
Capital Asset Fund		
Bank loans	46,837	33,593
	<u>56,867</u>	<u>33,608</u>

The University has an authorized line of credit facility of \$223,000,000, bearing interest at prime rate less 0.25% (2.2%; 3.7% as at April 30, 2019) or at the bankers' acceptance rate (0.68%; 2.06% as at April 30, 2019) for the temporary financing of the operations of the operating funds and the Capital Asset Fund, renewable in June 2022. As at April 30, 2020, the balance used is of \$50,000,000 (\$30,000,000 as at April 30, 2019).

As at April 30, 2020 and 2019, the entire credit facility bears interest at the bankers' acceptance rate.

Subsequent to year-end, the University obtained the renewal of the credit facility, for an authorized amount of \$216,000,000, at the same interest rate, renewable in June 2021.

In addition, the University has a credit facility of an authorized and used amount of \$3,658,711 (\$3,592,621 as at April 30, 2019), bearing interest at the average rate of bankers' acceptances of 1 month less 0.1% (0.4975%) (average rate of bankers' acceptances of 1 month plus 0.3% (2.03%) as at April 30, 2019) 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.

#### 14 - TRADE PAYABLES AND OTHER OPERATING LIABILITIES

	2020	2019
	\$	\$
Unrestricted Operating Fund		
Accounts payable and other accrued liabilities	38,167	37,302
Salaries and benefits payable	16,191	21,127
	<u>54,358</u>	<u>58,429</u>
Operating Fund with Restrictions		
Accounts payable and other accrued liabilities	112	209
Capital Asset Fund		
Accounts payable and other accrued liabilities	2,462	2,779
	<u>56,932</u>	<u>61,417</u>

#### 15 - UNEARNED REVENUES

	2020	2019
	\$	\$
Student academic fees	2,465	2,497
Sales	3,177	3,734
Grants	2,798	3,931
Other	334	321
	<u>8,774</u>	<u>10,483</u>

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 16 - LONG-TERM DEBT

	2020	2019
	\$	\$
<b>Unrestricted Operating Fund</b>		
<i>Redistributions payable to investors</i>		
At the rate of 5%, payable by 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	334	381
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	861	764
	<u>1,195</u>	<u>1,145</u>
Less: Current portion	(98)	(65)
	<u>1,097</u>	<u>1,080</u>
<b>Capital Asset Fund</b>		
<i>Mortgages</i>		
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$1,080,000 plus interest, at the rate of 4.94%, maturing in June 2034	17,280	18,360
Rate of 2.463%		9,734
Rate of 2.437%		7,978
Rate of 2.398%		39,910
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$780,000 plus interest, at the rate of 3.592%, maturing in June 2034	15,600	16,380
Secured by the disposal and the transport of a MEES grant, annual blended instalments of \$563,441, at the rate of 2.12%, maturing in February 2025	2,629	3,123
Secured by the disposal and the transport of a MEES grant, annual blended instalments of \$116,729, at the rate of 2.12%, maturing in February 2025	545	647
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$530,029 plus interest, at the rate of 2.161%, maturing in March 2025	2,850	3,380
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$760,000 plus interest, at the rate of 3.149%, maturing in June 2034	15,960	16,720
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$1,147,648 plus interest, at the rate of 2.842%, maturing in March 2031	12,410	13,557
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$2,326,821 plus interest, at the rate of 2.149%, maturing in September 2026	32,778	35,105
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$2,565,681 plus interest, at the rate of 2.408%, maturing in September 2026	20,071	22,636
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$249,597 plus interest, at the rate of 2.433%, maturing in October 2025	1,451	1,700

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 16 - LONG-TERM DEBT (Continued)

	2020	2019
	\$	\$
<b>Capital Asset Fund</b>		
<i>Mortgages</i>		
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$1,141,177 plus interest, at the rate of 2.933%, maturing in December 2042	26,247	27,388
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$3,136,760 plus interest, at the rate of 2.787%, maturing in September 2027	41,545	44,682
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$876,933 plus interest, at the rate of 3.137%, maturing in December 2043	21,046	21,923
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$394,296 plus interest, at the rate of 2.796%, maturing in December 2026	2,601	2,995
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$691,854 plus interest, at the rate of 2.423%, maturing in December 2039	13,837	
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$182,667 plus interest, at the rate of 2.336%, maturing in December 2034	2,743	
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$3,318,096 plus interest, at the rate of 2.228%, maturing in December 2030	36,591	
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$627,600 plus interest, at the rate of 2.336%, maturing in December 2034	9,107	
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$861,648 plus interest, at the rate of 2.103%, maturing in December 2027	7,116	
Secured by the disposal and the transport of a MEES grant, annual capital instalments of \$354,600 plus interest, at the rate of 1.980%, maturing in December 2024	1,773	
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	4,050	4,275
Secured by the disposal and the transport of a MESI grant, semi-annual blended instalments of \$5,114,411, at the rate of 3.119%, maturing in September 2022	24,248	33,434
Secured by a building, monthly blended instalments of \$5,848, financed with the proceeds from a Government of Quebec grant:		
Rate of 6.875%		187
School of Music, 6.875%, maturing in September 2020	29	95
<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	68,558	70,541
Secured by a building, monthly blended instalments of \$124,951, at the rate of 4.73%, maturing in March 2040	19,315	19,883
Secured by a building, monthly blended instalments of \$122,778, at the rate of 3.846%, maturing in July 2030	12,463	13,435
	<u>412,843</u>	<u>428,068</u>

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 16 - LONG-TERM DEBT (Continued)

	2020	2019
	\$	\$
<i>Bank loans</i>		
Funded by the Government of Quebec		
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	1,290	1,577
At the 1-month CDOR variable rate plus 0.71% (1.3075%; 2.693% as at April 30, 2019), payable in monthly blended instalments of \$180,671, maturing in March 2036	27,974	29,359
At the 1-month CDOR variable rate plus 0.85% (1.4475%; 2.833% as at April 30, 2019), payable in monthly blended instalments of \$94,702, maturing in April 2037	18,616	19,161
At the 1-month CDOR variable rate plus 1.07% (1.6675%; 3.053% as at April 30, 2019), payable in monthly blended instalments of \$29,794, maturing in February 2038	5,867	5,987
	<u>53,747</u>	<u>56,084</u>
	466,590	484,152
Less: Current portion	<u>(37,473)</u>	<u>(88,730)</u>
	429,117	395,422
	<u>430,214</u>	<u>396,502</u>

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

	Unrestricted Operating Fund	Capital Asset Fund
	\$	\$
2021	98	37,473
2022	163	38,002
2023	73	33,502
2024		28,772
2025		29,000
2026 and subsequent years		299,841

#### 17 - DEFERRED CONTRIBUTIONS - OPERATING FUND WITH RESTRICTIONS

	2020	2019
	\$	\$
Research grants		
Balance, beginning of year	148,184	132,848
Amounts granted	202,351	168,467
Amounts recognized as revenue	<u>(172,453)</u>	<u>(153,131)</u>
Balance, end of year	<u>178,082</u>	<u>148,184</u>

#### 18 - DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE AND INTANGIBLE CAPITAL ASSETS

	2020	2019
	\$	\$
Balance, beginning of year	196,262	198,408
Contributions received as tangible capital assets		10
Contributions received for the acquisition of tangible and intangible capital assets	34,927	23,421
Amounts recognized as revenue	<u>(26,997)</u>	<u>(25,577)</u>
Balance, end of year	<u>204,192</u>	<u>196,262</u>

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

#### 19 - INTERNALLY RESTRICTED FUND BALANCES

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

	2020	2019
	\$	\$
Research support	28,162	26,407
Continuing education fund	6,332	5,619
Employee assistance programs	37	98
Improvement	500	471
Support for specific projects	1,495	1,063
Teaching support	994	1,041
Faculty support for research	153	200
Support for human resources development	14	14
	<u>37,687</u>	<u>34,913</u>

#### 20 - 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, 2020, 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 \$346,330 as at April 30, 2020 (\$4,161,442 for two organizations as at April 30, 2019) 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 (\$7,560,000 as at April 30, 2019). 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.

#### 21 - COMMITMENTS

##### Operating lease and service contracts

The University has entered into leases and contracts for premises and services. The balance of commitments stands at \$19,906,000, of which approximately 96% of the amounts payable in 2020-2021 for leases are specifically funded by the MEES. Minimum lease payments for the next years are as follows:

	Operating lease	Service contracts
	\$	\$
2021	3,631	5,233
2022	3,670	2,086
2023	3,406	1,669
2024	57	42
2025	58	15
2026 and subsequent years	39	

##### Tangible capital assets

Following the approval of the MEES, the University entered into acquisition contracts. Commitments not materialized as at April 30, 2020 amount to approximately \$41,781,000, of which an amount of \$1,234,000 has already been paid as a deposit on equipment.

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

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#### **22 - 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,

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

April 30, 2020

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

### 22 - EMPLOYEE FUTURE BENEFITS (Continued)

The funded status of the employee benefit plans is as follows:

	Pension plan		Other plans		Total	
	2020	2019	2020	2019	2020	2019
Defined benefit obligations	\$ 535,966	\$ 433,307	\$ 1,965	\$ 1,989	\$ 537,931	\$ 435,296
Fair value of plan assets	419,659	436,017			419,659	436,017
Funding status - surplus (deficit) and defined benefit asset (liability)	(116,307)	2,710	(1,965)	(1,989)	(118,272)	721

#### Significant assumptions

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

	Pension plan		Other plans	
	2020	2019	2020	2019
Accrued benefit obligation				
Discount rate	5.70%	5.50%	5.70%	5.50%
Compensation growth rate				
Benefit costs	Table			
Discount rate	according to	3.00%	3.00%	3.00%
Compensation growth rate	age (2.5 to 5%)			
	5.50%	5.50%	5.50%	5.50%
	3.00%	3.00%	3.00%	3.00%

### 23 - CONTROLLED ENTITIES AND RELATED PARTY TRANSACTIONS

The condensed financial statements of each of the non-consolidated entities are as follows:

	La Fondation de l'Université de Sherbrooke (a)		Les Éditions DELISME Inc. (b)	
	2020	2019	2020	2019
Financial position				
Total assets	\$ 103,770	\$ 99,942	\$ 369	\$ 472
Total liabilities	22,434	17,931	410	540
Total net assets	81,336	82,011	(41)	(68)
	103,770	99,942	369	472

## Université de Sherbrooke Notes to Consolidated Financial Statements

April 30, 2020

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

### 23 - CONTROLLED ENTITIES AND RELATED PARTY TRANSACTIONS (Continued)

	La Fondation de l'Université de Sherbrooke (a)		Les Éditions DELISME Inc. (b)	
	2020	2019	2020	2019
	\$	\$	\$	\$
Results of operations				
Total revenues	14,786	22,626	63	207
Total expenses	5,432	4,873	36	48
Excess of revenues over expenses, before contributions to the University	9,354	17,753	27	159
Cash flows				
Operating activities	4,304	2,530	(74)	206
Investing activities	(8,041)	(5,002)		
Financing activities	3,724	2,477		
Net increase (decrease) in cash and cash equivalents	(13)	5	(74)	206

(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, 2020, the balance receivable from La Fondation de l'Université de Sherbrooke is of \$22,120,000 (\$17,558,000 as at April 30, 2019); the balance payable is of \$936,000 (\$1,268,000 as at April 30, 2019).

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, 2020

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

### 23 - 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)	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Revenues</b>				
Grants				
Others		164		8
Sales	6,088	3,863		
Donations and contributions				
Other organizations		3	2	3
<b>Expenses</b>				
Teaching			160	152
Research	297	302		31
Community services	35	13	32	184
Institutional support	79	103	598	315
Ancillary enterprises	7,791	7,602		

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 \$6,235,000 (\$5,520,000 for the year ended April 30, 2019) for various projects of the Operating Fund with Restrictions.

## Université de Sherbrooke

### Notes to Consolidated Financial Statements

April 30, 2020

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

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#### 24 - 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 currency risk, interest rate 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, 2020, the variable interest rate is of 1.308% (2.688% as at April 30, 2019).

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, 2020, the variable interest rate is of 1.448% (2.825% as at April 30, 2019).

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, 2020, the variable interest rate is of 1.668% (3.048% as at April 30, 2019).

##### *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, 2020, the University is exposed to currency risk due to cash denominated in U.S. dollars totalling \$109,000 (\$5,000 as at April 30, 2019) and other payables denominated in U.S. dollars totalling \$138,000 (\$1,324,000 as at April 30, 2019).

##### *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, 2020

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

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### **24 - 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.

### **25 - COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

The main reclassification, as at April 30, 2020 and for the year then ended, is the reclassification of \$6,443,000 from Sales to Student academic fees - Special education, in order to reflect the change in SIFU.