Financial statements of

The Royal Institution for the Advancement of Learning / McGill University

April 30, 2018

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Independent Auditor's Report

To the Trustees of The Royal Institution for the Advancement of Learning
and the Board of Governors of McGill University

We have audited the accompanying financial statements of The Royal Institution for the Advancement of Learning / McGill University, which comprise the balance sheet as at April 30, 2018, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Institution for the Advancement of Learning / McGill University as at April 30, 2018, 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.

Deloitte LLP[1]

October 4, 2018

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

The Royal Institution for the Advancement of Learning / McGill University
Statement of revenue and expenses
Year ended April 30, 2018
(In thousands of dollars)

	Notes	2018	2017
		$	$
Revenue			
Grants			
Federal		**204,977**	206,590
Provincial		**431,238**	411,356
United States		**6,100**	6,440
Other sources		**48,071**	36,352
Contracts		**16,264**	17,363
Tuition and fees		**319,673**	294,314
Sales of goods and services		**151,374**	145,176
Gifts and bequests		**59,380**	65,663
Foreign exchange gain		**1,728**	2,657
Investment and interest income	15	**87,449**	60,934
		1,326,254	1,246,845
Expenses			
Salaries			
Academic		**347,005**	334,749
Administrative and support		**272,618**	238,610
Benefits		**116,812**	105,295
Student aid		**118,617**	111,502
Students		**39,830**	37,384
		894,882	827,540
Non-salary			
Material, supplies and publications		**45,441**	41,958
Contributions to partner institutions		**42,571**	51,222
Contract services		**22,704**	22,272
Professional fees		**23,546**	23,921
Travel		**27,303**	27,460
Cost of goods sold		**19,147**	19,361
Building occupancy costs		**34,930**	27,440
Energy		**19,058**	19,304
Other non-salary expenses		**42,308**	41,306
Hardware and software maintenance		**11,983**	10,451
Amortization of capital assets		**127,122**	115,475
Interest		**36,240**	35,038
Bank charges		**1,536**	1,327
		453,889	436,535
		1,348,771	1,264,075
Deficiency of revenue over expenses		**(22,517)**	(17,230)

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of changes in net assets

Year ended April 30, 2018

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	$	$	$	$	$	$
Net assets (deficiency), April 30, 2016	(360,058)	74,636	—	258,398	1,386,063	1,359,039
(Deficiency) excess of revenue over expenses	35,162	4,639	14,689	(71,720)	—	(17,230)
Pension liability remeasurement*	8,295	—	—	—	—	8,295
Endowment contributions and gifts in kind	—	—	—	731	31,279	32,010
Investment income items reported as direct increase in net assets	—	—	—	—	156,285	156,285
Net change in internally restricted net assets	8,858	(4,967)	—	(2,870)	(1,021)	—
Investment in capital assets	(45,743)	—	(25,403)	71,146	—	—
Other transfers	(11,090)	10,201	10,714	454	(10,279)	—
Net assets (deficiency), April 30, 2017	**(364,576)**	**84,509**	**—**	**256,139**	**1,562,327**	**1,538,399**
(Deficiency) excess of revenue over expenses	**25,147**	**6,517**	**17,718**	**(71,899)**	**—**	**(22,517)**
Pension liability remeasurement*	**3,168**	**—**	**—**	**—**	**—**	**3,168**
Post-employment benefit remeasurement*	**25,103**	**—**	**—**	**—**	**—**	**25,103**
Endowment contributions and gifts in kind	**—**	**—**	**—**	**542**	**23,390**	**23,932**
Investment loss items reported as direct decrease in net assets	**—**	**—**	**—**	**—**	**(23,526)**	**(23,526)**
Net change in internally restricted net assets	**8,734**	**(4,381)**	**—**	**(2,722)**	**(1,631)**	**—**
Investment in capital assets	**(43,757)**	**—**	**(16,710)**	**60,467**	**—**	**—**
Other transfers	**(6,778)**	**1,750**	**(1,008)**	**395**	**5,641**	**—**
Net assets (deficiency), April 30, 2018	**(352,959)**	**88,395**	**—**	**242,922**	**1,566,201**	**1,544,559**

* As at April 30, 2018, the accumulated post-employment benefit remeasurement is $40,050 ($14,947 as at April 30, 2017) and the accumulated pension liability remeasurement is $54,748 ($57,916 as at April 30, 2017).

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

The Royal Institution for the Advancement of Learning / McGill University

Balance sheet

As at April 30, 2018

(In thousands of dollars)

	Notes	2018	2017
		$	$
Assets			
Current assets			
Cash and cash equivalents		**24,229**	15,493
Short-term investments	17	**35,325**	26,392
Receivables	3	**490,373**	370,585
Prepaid expenses		**11,105**	7,109
Inventory		**1,641**	1,476
		562,673	421,055
Marketable securities	17	**1,769,151**	1,789,659
Grants and contracts related to research receivable		**43,942**	63,698
Capital grants receivable	4	**669,255**	730,511
Loans receivable	5	**5,494**	7,112
Capital assets	6	**1,544,930**	1,410,764
		4,595,445	4,422,799
Liabilities			
Current liabilities			
Bank indebtedness	7	**89,155**	106,654
Accounts payable and accrued liabilities	8	**242,183**	198,698
Unearned revenue		**29,008**	23,124
Current portion of long-term debt	11	**193,606**	113,832
		553,952	442,308
Deferred contributions	9	**558,686**	506,858
Deferred capital contributions	10	**895,973**	876,492
Long-term debt	11	**898,029**	873,407
Accrued pension liability	12	**53,334**	70,846
Post-employment benefit obligation	12	**90,912**	114,489
		3,050,886	2,884,400
Commitments and contingent liabilities	19 and 20		
Net assets (deficiency)			
Invested in capital assets		**242,922**	256,139
Externally restricted for endowment purposes	13	**1,566,201**	1,562,327
Internally restricted	14	**88,395**	84,509
Unrestricted		**(352,959)**	(364,576)
		1,544,559	1,538,399
		4,595,445	4,422,799

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

Approved by the Board of Governors

______________________, Governor

______________________, Secretary – General

Statement of cash flows

Year ended April 30, 2018

(In thousands of dollars)

	Notes	2018	2017
		$	$
Operating activities			
Deficiency of revenue over expenses		**(22,517)**	(17,230)
Adjustments for:			
Amortization of capital assets		**127,122**	115,475
Amortization of bond discount		**202**	213
Amortization of deferred contributions	9	**(386,559)**	(371,893)
Amortization of deferred capital contributions	10	**(60,967)**	(57,249)
Change in fair value of investments	15	**1,823**	(3,293)
Change in fair value of derivative financial instruments	15	**(3,068)**	808
Change in pension liability		**(14,344)**	(21,548)
Change in post-retirement benefit obligation		**1,526**	1,565
		(356,782)	(353,152)
Net change in non-cash working capital items	16	**31,686**	(15,153)
(Increase) decrease in government grant receivable		**(32,428)**	12,172
(Increase) decrease in grants and contracts related to research receivable		**(4,213)**	14,800
Increase in deferred contributions		**438,387**	388,310
		76,650	46,977
Investing activities			
(Increase) decrease in short-term investments		**(8,933)**	11,144
Acquisition of capital assets		**(249,901)**	(132,008)
Purchase of marketable securities		**(1,338,580)**	(606,948)
Proceeds from sale of marketable securities		**1,360,333**	428,247
Change in loans receivable		**1,618**	1,563
		(235,463)	(298,002)
Financing activities			
Change in bank indebtedness		**(17,499)**	11,761
Investment (loss) income reported as direct (decrease) increase in net assets		**(23,526)**	156,285
Endowment contributions		**23,932**	32,010
Issuance of long-term debt		**220,392**	75,830
Bond issuance costs		**—**	(3)
Repayment of long-term debt		**(116,198)**	(129,933)
Deferred capital contributions		**80,448**	74,993
		167,549	220,943
Net increase (decrease) in cash and cash equivalents		**8,736**	(30,082)
Cash and cash equivalents, beginning of year		**15,493**	45,575
Cash and cash equivalents, end of year		**24,229**	15,493

Non-cash transactions

Capital assets additions amounting to $31,246 ($19,859 in 2017), included in accounts payable and accrued liabilities, have no cash flow impact.

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

1. Status and nature of activities

The Corporation with the legal name "Governors, Principal and Fellows of McGill College" ("McGill College") was incorporated in 1821 under Royal Charter and is a university with the power of conferring degrees. The Royal Institution for the Advancement of Learning ("The Royal Institution") was incorporated in 1802 and holds all property acquired by, transferred or bequeathed to McGill College and assumes all debt incurred by McGill College. Together, these two corporations constitute the entity known as McGill University ("McGill" or the "University"). McGill's operations include all of the activities of its teaching and research units such as the Montreal Neurological Institute, Macdonald Campus in Sainte-Anne-de-Bellevue and the Morgan Arboretum.

McGill is a not-for-profit organization dedicated to providing post-secondary education and to conducting research and is exempt from tax under the provisions of the *Canadian Income Tax Act*.

2. Significant accounting policies

The financial statements of the University have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) using the deferral method and include the following significant accounting policies:

Consolidation

The net results of not-for-profit organizations affiliated with McGill are not reported in these financial statements, as those organizations are not under the control of McGill.

Revenue recognition

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

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

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

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

Gifts in kind are recorded at their fair value on receipt or at a nominal value when fair value cannot be reasonably determined. The value of gifts in kind in 2018 is $542 ($731 in 2017). The value of contributed volunteer hours is not recognized in these financial statements.

Government operating grants are recorded in the period for which they are granted.

Research grants are recorded based on the deferral method and are recognized as revenue in the year in which related expenses are recognized.

2. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the University becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for investments and derivative financial instruments, which are measured at fair value at the balance sheet date. The fair value of listed securities is based on the latest closing price and the fair value quote received from the bank counterparty is used as a proxy for the fair value of derivative financial instruments. The fair value of non-publicly traded investment funds is based on fair value confirmation received from the fund manager with whom those instruments are negotiated. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to financial instruments measured at fair value subsequent to initial measurement are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability, and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of revenue and expenses as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the University recognizes in the statement of revenue and expenses an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the statement of revenue and expenses in the period the reversal occurs.

Foreign exchange

Monetary assets and liabilities and other assets accounted for at fair value denominated in foreign currencies are translated into Canadian dollars using foreign exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expense items are translated into Canadian dollars at the rates of exchange prevailing at the date of the transaction. The gain or loss resulting from translation is included in the statement of revenue and expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments with a term to maturity of three months of less at the date of acquisition.

Student loans

Student loans are due within one year after graduation and do not bear interest up until that time. After their due date, interest is charged based on the prevailing rates when the loan agreements were signed. A provision is recorded for estimated uncollectible amounts.

Inventory

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in, first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was $19.1 million ($19.3 million in 2017).

(In thousands of dollars)

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost. Constructed assets do not include interest incurred during construction. Contributed capital assets are recorded at appraised fair value at the date of contribution when fair value can be reasonably estimated; otherwise, they are recorded at a nominal amount. Amortization of assets under development commences when development is completed. The amortization is calculated on a straight-line basis over the estimated useful lives in years of various asset categories as follows:

Land improvements	10 or 20 years
Buildings	20 to 50 years
Major renovations	20 to 40 years
Leasehold improvements	Over term of lease, to a maximum of 10 years
Equipment	3 to 20 years
Rolling stock	5 years
Library materials	10 years
Intangible assets (primarily software)	3 to 5 years

Net assets

Balances invested in capital assets represent net assets that are not available for other purposes because they have been invested in capital assets.

Endowments must be used in accordance with the various purposes established by donors, with endowment principal maintained intact over time in accordance with McGill's endowment policy.

Internally restricted net assets are funds set aside for specific purposes as determined by the Board of Governors from time to time.

Employee future benefits

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits for eligible plan members. The University also has certain post-employment benefits plans and a legacy defined benefit pension plan.

The cost of providing defined pension benefits and post-employment benefit plans other than pensions is determined by independent actuaries. The University has chosen to evaluate the accrued benefit obligations by using the actuarial valuation for funding purposes. The actuarial valuation performed every three years is based on the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial evaluation for funding purposes was dated December 31, 2017.

For the purpose of calculating the expected return on plan assets, the assets are valued at fair value.

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits (continued)

The University recognizes:

- in the balance sheet, the accrued benefit obligations, reduced by the fair value of plan assets and adjusted for any valuation allowance (either the defined benefit asset or the accrued benefit obligation);
- in the statement of revenue and expenses, the cost of the plan for the year; and
- in the statement of changes in net assets, revaluations and other items arising in particular from the difference between the actual return on plan assets and the return calculated using the discount rate determined from actuarial gains and losses, past services, settlement, compression and asset ceiling for defined benefits.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of revenue and expenses reported in the financial statements. In particular, significant estimates are made regarding valuation of receivables, fair values of non-publicly traded investments and financial instruments, estimated useful lives of capital assets, provisions for contingencies, pay equity and employee future benefits. Actual results may ultimately differ from these estimates.

3. Receivables

	2018	2017
	$	$
Operating, net of provision for doubtful accounts of $1,257 ($2,081 as at April 30, 2017)	**35,809**	33,443
Student loans, net of provision for doubtful accounts of $550 ($515 as at April 30, 2017)	**4,484**	4,712
Investment income	**2,782**	2,785
Government operating grants	**42,552**	23,204
Grants and contracts related to research – short-term	**212,120**	188,151
Capital grants receivable – short-term	**192,626**	118,290
	490,373	370,585

4. Capital grants receivable

Capital grants receivable relate to capital grants approved by Ministère de l’Éducation et de l’Enseignement supérieur (MEES), but funded through long-term debt issued in McGill’s name or not yet funded. These amounts are due immediately; however, only a portion of their collection is expected within the next fiscal year and the remainder is presented as long-term.

(In thousands of dollars)

5. Loans receivable

Loans receivable bear interest at rates varying from 3.013% to 4.125% (3.013% to 4.125% as at April 30, 2017), with maturities up to four years.

6. Capital assets

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	28,685	—	28,685	28,685
Land improvements	56,090	20,294	35,796	36,054
Buildings	666,096	365,740	300,356	273,942
Major renovations	1,090,127	333,620	756,507	701,213
Leasehold improvements	18,818	3,891	14,927	10,672
Equipment	501,180	284,449	216,731	206,035
Rolling stock	595	48	547	374
Library materials	179,809	96,170	83,639	77,681
Intangible assets	12,169	7,213	4,956	3,741
	2,553,569	1,111,425	1,442,144	1,338,397
Assets under development	102,786	—	102,786	72,367
	2,656,355	1,111,425	1,544,930	1,410,764

7. Bank indebtedness

In accordance with MEES regulations, McGill's Board of Governors has approved maximum borrowings of $300 million ($300 million as at April 30, 2017), under short-term credit facilities, of which $89.2 million has been used as at April 30, 2018 ($84.0 million as at April 30, 2017). There are no short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness ($22.6 million in 2017). Unsecured and uncommitted operating lines of credit, totalling $350 million ($350 million as at April 30, 2017), are available to McGill and are normally drawn through bankers' acceptances for periods of up to one year. The lines of credit bear interest at the prime rate or banker's acceptance rate. The prime rate averaged 3.16% for the year (2.70% in 2017). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 1.79% (1.01% as at April 30, 2017). The banker's acceptance rate in effect as at April 30, 2018, was 1.64% (0.93% as at April 30, 2017). There are no bankers' acceptances outstanding at year-end (bearing interest at rates from 0.91% to 0.95% as at April 30, 2017). The cross currency swaps outstanding at year-end amounting to $89.2 million ($70 million USD; nil as at April 30, 2017) bear interest at a rate of 1.50%.

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $7,841 ($7,462 as at April 30, 2017) of government remittances.

(In thousands of dollars)

9. Deferred contributions

Deferred contributions represent the unspent portion of funds received for restricted purposes other than capital asset purchases, which are included under deferred capital contributions in Note 10.

	2018	2017
	$	$
Balance, beginning of year	**506,858**	490,441
Restricted funds received during the year	**390,122**	349,299
Gifts and bequests	**48,265**	39,011
Amortization of deferred contributions	**(386,559)**	(371,893)
Balance, end of year	**558,686**	506,858

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

	2018	2017
	$	$
Federal grants	**310,004**	282,542
Provincial grants	**94,887**	78,339
United States grants	**3,380**	4,451
Other grant sponsors	**17,043**	21,957
Contracts	**16,362**	15,574
Gifts and bequests	**97,092**	79,029
Endowment income	**14,886**	20,003
Investment income	**5,032**	4,963
	558,686	506,858

10. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as grant revenue in the statement of revenue and expenses. The deferred capital contributions balance consists of the following:

	2018	2017
	$	$
Balance, beginning of year	**876,492**	858,748
Deferred capital contributions received	**80,448**	74,993
Amortization of deferred capital contributions	**(60,967)**	(57,249)
Balance, end of year	**895,973**	876,492
Composed of contributions from the following sources:		
MEES	**459,388**	459,157
Other provincial	**151,565**	149,068
Federal	**150,575**	128,932
Gifts and donations	**122,344**	127,556
Specific grant agreements	**12,101**	11,779
Balance, end of year	**895,973**	876,492

(In thousands of dollars)

11. Long-term debt

	2018	2017
	$	$
Government of Québec debt Notes[(i)]		
2.323%, due December 1, 2017	**—**	53,240
2.472%, due December 1, 2017	**—**	15,925
2.213%, due June 1, 2018	**132,940**	143,752
2.112%, due June 1, 2018	**2,092**	2,673
2.406%, due December 1, 2018	**12,452**	13,561
2.413%, due May 29, 2019	**172,753**	184,315
4.125%, due August 24, 2020	**2,117**	2,768
1.709%, due March 1, 2022	**7,363**	8,181
2.947%, due September 1, 2022	**6,369**	7,674
2.947%, due September 1, 2022	**6,119**	7,373
2.226%, due September 1, 2022	**8,312**	—
3.013%, due September 28, 2022	**4,994**	5,907
2.044%, due October 1, 2022	**4,485**	—
1.639%, due March 1, 2023	**4,341**	5,149
2.324%, due September 1, 2024	**11,666**	—
2.949%, due March 1, 2025	**37,081**	42,220
2.408%, due September 1, 2026	**49,680**	52,440
2.149%, due September 1, 2026	**16,615**	18,241
2.280%, due September 1, 2027	**43,440**	—
2.787%, due September 1, 2027	**65,087**	—
4.991%, due June 1, 2034	**17,000**	18,000
3.680%, due June 1, 2034	**46,200**	48,300
3.161%, due June 1, 2034	**50,600**	52,800
2.933%, due December 1, 2042	**60,579**	—
Total	**762,285**	682,519
McGill Senior Unsecured Debentures[(ii)],		
6.150% Series “A”, mature on September 22, 2042	**150,000**	150,000
3.975% Series “B”, mature on January 29, 2056	**160,000**	160,000
Loan payable[(iii)]	**24,454**	—
Other	**36**	62
Bond discounts and issuance costs	**(5,140)**	(5,342)
Total long-term debt	**1,091,635**	987,239
Current portion	**(193,606)**	(113,832)
	898,029	873,407

(In thousands of dollars)

11. Long-term debt (continued)

(i) Notes are secured by the Government of Québec, and regular interest and capital repayments are made by the Government on McGill's behalf. Interest on the notes is paid semi-annually and capital repayments are due on each note's anniversary date. Capital repayments due annually and final payments including lump sums due at maturity are as follows:

	Annual payment	Final payment on maturity
	$	$
2.213%, due June 1, 2018	—	132,940
2.112%, due June 1, 2018	—	2,092
2.406%, due December 1, 2018	—	12,452
2.413%, due May 29, 2019	11,562	161,191
4.125%, due August 24, 2020*	677	—
1.709%, due March 1, 2022	819	4,906
2.947%, due September 1, 2022*	1,291	720
2.947%, due September 1, 2022*	1,344	750
2.226%, due September 1, 2022	1,847	924
3.013%, due September 28, 2022*	940	—
2.044%, due October 1, 2022	994	509
1.639%, due March 1, 2023	808	1,109
2.324%, due September 1, 2024	1,795	896
2.949%, due March 1, 2025	5,140	6,241
2.408%, due September 1, 2026	2,760	27,600
2.149%, due September 1, 2026	1,626	3,607
2.280%, due September 1, 2027	1,738	27,798
2.787%, due September 1, 2027	4,077	28,394
4.991%, due June 1, 2034	1,000	1,000
3.680%, due June 1, 2034	2,100	12,600
3.161%, due June 1, 2034	2,200	15,400
2.933%, due December 1, 2042	2,423	2,427

* Annual payments vary from year to year.

(ii) In September 2002, McGill issued $150 million of unsecured debentures. In January 2016, McGill issued $160 million of unsecured debentures. Unlike MEES notes, McGill will be required to repay these obligations from resources generated by McGill. Semi-annual interest payments are paid by McGill.

(iii) In August 2017, McGill entered into a 10-year loan agreement of $25 million, with a 20-year amortization period. The loan bears interest at the banker's acceptance rate plus 0.73% with a 10-year rate swap for an all-in rate of 2.84%.

(In thousands of dollars)

11. Long-term debt (continued)

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

	$
2019	193,606
2020	195,903
2021	34,868
2022	38,363
2023	31,001

12. Employee future benefits

Pension plans

The University has a defined contribution pension plan (the "Plan"), which has a defined benefit component that provides a minimum level of pension benefits for eligible plan members. Employee contributions are accumulated together with employer contributions and invested in the Plan's accumulation fund. Upon an employee's retirement, the accumulated amount is available for the purchase of a retirement annuity to be underwritten by a provider of the retiree's choice. Prior to January 1, 2011, employees were able to obtain a McGill annuity upon retirement.

The University measures its accrued benefit obligations and fair value of the plan assets for accounting purposes as at April 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as at December 31, 2017, and the next required valuation will be no later than as at December 31, 2020.

Post-employment obligations

The University provides post-employment benefits other than pension benefits to eligible retired employees, including health and dental care. The present value of these commitments as at April 30, 2018, is estimated at $90.9 million ($114.5 million as at April 30, 2017).
These amounts are recorded as liabilities.

Pension plan defined contribution plan

The University has a defined contribution pension plan offered to basically all employees. The University contributes to the Plan up to a maximum of 10.8% of the employees' basic earnings depending on the age of the employee.

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

	2018	2017
	$	$
Cash payments recognized	**51,226**	57,731
Benefit costs	**22,982**	21,565
Accrued pension liability		
Defined benefit cost		
Current service cost	**7,340**	7,382
Interest cost on accrued benefit obligation	**2,229**	3,538
	9,569	10,920

(In thousands of dollars)

12. Employee future benefits (continued)

Pension plan defined contribution plan (continued)

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

	2018	2017
	$	$
Accrued benefit obligations	**317,231**	338,387
Fair value of plan assets	**263,897**	267,541
Plan deficit	**53,334**	70,846
Accrued pension liability	**53,334**	70,846

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

	2018	2017
	%	%
Cash equivalents	**2.0**	1.9
Alternative assets	**3.1**	9.2
Equity	**50.6**	39.4
Fixed income	**44.3**	49.5

The significant assumptions used are as follows:

	2018	2017
	%	%
Discount rate		
Active	**5.75**	5.75
Retirees	**4.50**	3.90
Price inflation allowance	**3.00**	3.00

Post-employment benefit obligation – unfunded benefits

	2018	2017
	$	$
Balance, beginning of year	**114,489**	112,924
Current service cost	**1,210**	1,144
Interest cost on accrued benefit obligation	**5,190**	5,077
Benefits paid	**(4,874)**	(4,656)
Net actuarial loss	**(25,103)**	—
Balance, end of year	**90,912**	114,489

(In thousands of dollars)

12. Employee future benefits (continued)

Post-employment benefit obligation – unfunded benefits (continued)

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

	2018	2017
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	**5.75**	5.75
Discount rate - retirees	**4.50**	3.90
Rate of compensation increase – Academics	**5.70**	5.70
Rate of compensation increase – Non-academics	**3.00**	3.00
Health care cost trend rates		
Current trend rate	**4.00**	5.50
Ultimate trend rate	**4.00**	5.00
Year of ultimate trend rate	**2040**	2019

13. Externally restricted for endowment purposes

	2018	2017
	$	$
Faculty endowments	**588,696**	610,914
Student aid	**461,875**	476,444
Research endowments	**118,930**	125,884
Emerging priorities	**21,455**	23,996
Library endowments	**25,531**	27,173
Student services	**9,514**	10,542
Annuities	**3,930**	4,289
Accumulated income	**336,270**	283,085
	1,566,201	1,562,327

Endowments consist of externally restricted donations received by the University. The endowment principal is required to be maintained intact over time subject to the University's capital preservation investment and disbursement policy. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they are provided.

(In thousands of dollars)

13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% plus an additional 0.25% from fiscal year 2016 to fiscal year 2019 of the average fair value of the endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that the actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. In accordance with the policy, the unspent portion of the amount made available for spending is capitalized and recorded as a direct increase in endowment funds. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

In addition, the Board of Governors has approved a charge of 1.1% (1.1% in 2017) of the fair value of investments to cover internal and external investment management costs. As these costs are recorded in the operating and restricted funds, this amount is included in the interfund transfers each year.

14. Internally restricted net assets

	2018	2017
	$	$
Self-financing teaching and research	**31,767**	30,427
Professor start-up funds	**7,489**	9,436
Other	**49,139**	44,646
	88,395	84,509

15. Investment and interest income

	2018	2017
	$	$
Change in fair value of investments	**(1,823)**	3,293
Change in fair value of derivative financial instruments	**3,068**	(808)
Investment and interest income	**86,204**	58,449
	87,449	60,934

(In thousands of dollars)

16. Net change in non-cash working capital items

	2018	2017
	$	$
Receivables (operating, student loans and investment income)	**(2,135)**	(1,982)
Prepaid expenses	**(3,996)**	(2,190)
Inventory	**(165)**	2
Accounts payable and accrued liabilities	**32,098**	(10,871)
Unearned revenue	**5,884**	(112)
	31,686	(15,153)

17. Financial instruments

Financial risks

McGill is subject to market risk, which is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The concentration of risk is minimized because of McGill's diversification of its investment portfolio.

The University has foreign currency risk arising from its foreign-denominated marketable securities. As at April 30, 2018, McGill's foreign-denominated marketable securities had a fair value of $1.07 billion ($1.04 billion as at April 30, 2017), the most significant of which were US dollar-denominated marketable securities of $660 million ($744 million as at April 30, 2017).

The University has interest rate risk from the impact of interest rate changes on McGill's cash flows for variable rate debt and financial position for the impact of changes in interest rates on the fair value of fixed-income marketable securities.

McGill is exposed to credit risk from its debtors. A significant portion of McGill's receivables is due from governments, which are believed to be at low risk of default. For the remaining receivables, the concentration of risk is minimized because of McGill's large and diverse base of counterparties and investments.

McGill's objective is to have sufficient liquidity to meet its liabilities when due. McGill monitors its cash balances and cash flows generated from operations to meet its requirements. As at April 30, 2018, the most significant financial liabilities are bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Derivatives

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of US$259.5 million with a forward rate of 1.2812 as at April 30, 2018, maturing through June 2018 (US$298 million with a forward rate of 1.3368 as at April 30, 2017 that matured on May 30, 2017). As at April 30, 2018, the fair value of these contracts was an unrealized loss of $1.5 million, which was recorded in marketable securities (an unrealized loss of $16.7 million as at April 30, 2017).

In October 2003, McGill entered into an agreement with RBC Dominion Securities (RBCDS) whereby it invested in a US$13 million US dollar-denominated bond maturing in 2029. Under this agreement, the bond principal and the semi-annual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill $85.7 million in 2029. The fair value of the bond and the swap agreement is $61.5 million ($64.3 million as at April 30, 2017) and is included in marketable securities.

(In thousands of dollars)

17. Financial instruments (continued)

Derivatives (continued)

The US dollar-denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable in exchange for a fixed amount of proceeds. As at April 30, 2018, the fair value of the swap is $38.7 million ($38.6 million as at April 30, 2017).

The future value of this investment, including accumulated growth to the year 2042, is planned to be used to redeem the $150 million of outstanding senior debentures.

The University entered into bond forward contracts amounting to $207 million with a settlement date of May 17, 2018. As at April 30, 2018, the fair value of the forwards is an unrealized loss of $3.9 million which has been included in marketable securities (an unrealized loss of $10.2 million as at April 30, 2017).

The University also entered into cross-currency swaps amounting to $89.2 million with settlement dates between May 16, 2018 and June 12, 2018 and bearing interest at a rate of 1.50%. As at April 30, 2018, the fair value of the swaps approximate their carrying value and therefore no gain or loss was recorded in the statement of revenue and expenses.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2018	2017
	%	%
Canadian equity	**10**	13
U.S. equity	**20**	22
Non-North American equity	**22**	18
Canadian fixed income	**17**	15
U.S. fixed income	**1**	2
Hedge funds	**11**	13
Alternate strategies, including private equity and other	**19**	17
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 0.79% to 6.83% (0.48% to 5.65% as at April 30, 2017).

18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of $1.1 million, as at April 30, 2018, amounted to $210.0 million ($179.0 million as at April 30, 2017, net of doubtful account of $0.6 million). These have not been recognized in the financial statements.

(In thousands of dollars)

19. Commitments

Operating leases

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

	$
2019	9,603
2020	5,782
2021	5,716
2022	5,540
2023	5,177
2024 and thereafter	15,945
	47,763

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $115.4 million. These commitments are expected to be met in the normal course of operations.

Private equity and private real estate funding commitments

As part of its investment activities, McGill places some of its endowment investments through private equity and private real estate funds. McGill is committed to invest an additional $139.6 million within the next four years in accordance with its arrangements with these funds.

20. Contingent liabilities

Litigation

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the *Civil Code of Québec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2018, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

In the normal course of McGill's building construction projects, various claims secured by construction hypothecs have been made by building contractors to secure payments. Such hypothecs are related to the buildings constructed or under construction.

21. Comparative figures

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