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

April 30, 2019

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## Independent Auditor's Report

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

### Opinion

We have audited the financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheet as at April 30, 2019, and the statements revenue and expenses, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### Basis for Opinion

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

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Deloitte LLP*

October 3, 2019

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<sup>1</sup> 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, 2019

(In thousands of dollars)

	Notes	2019	2018
		\$	\$
<b>Revenue</b>			
Grants			
Federal		217,449	204,977
Provincial		464,754	431,238
United States		4,797	6,100
Other sources		58,191	48,071
Contracts		14,128	16,264
Tuition and fees		349,649	319,673
Sales of goods and services		154,587	151,374
Gifts and bequests		76,931	59,380
Foreign exchange gain		2,168	1,728
Investment and interest income	15	75,905	87,449
		<b>1,418,559</b>	<b>1,326,254</b>
<b>Expenses</b>			
Salaries and student support			
Academic		360,872	347,005
Administrative and support		284,922	272,618
Benefits		120,916	116,812
Student aid		127,949	118,617
Students		39,999	39,830
		<b>934,658</b>	<b>894,882</b>
Non-salary			
Material, supplies and publications		47,572	45,441
Contributions to partner institutions		47,622	42,571
Contract services		23,781	22,704
Professional fees		23,294	23,546
Travel		29,987	27,303
Cost of goods sold		19,672	19,147
Building occupancy costs		32,425	34,930
Energy		21,968	19,058
Other non-salary expenses		44,043	42,308
Hardware and software maintenance		11,753	11,983
Amortization of capital assets		141,114	127,122
Interest		37,675	36,240
Bank charges		1,556	1,536
		<b>482,462</b>	<b>453,889</b>
		<b>1,417,120</b>	<b>1,348,771</b>
<b>Excess (deficiency) of revenue over expenses</b>		<b>1,439</b>	<b>(22,517)</b>

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, 2019

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	\$	\$	\$	\$	\$	\$
<b>Net assets (deficiency), April 30, 2017</b>						
(Deficiency) excess of revenue over expenses	(364,576)	84,509	—	256,139	1,562,327	1,538,399
Pension liability remeasurement*	25,147	6,517	17,718	(71,899)	—	(22,517)
Post-employment benefit remeasurement*	3,168	—	—	—	—	3,168
Endowment contributions and gifts in kind	25,103	—	—	—	—	25,103
Investment loss items reported as direct decrease in net assets	—	—	—	542	23,390	23,932
Net change in internally restricted net assets	8,734	(4,381)	—	(2,722)	(23,526)	(23,526)
Investment in capital assets	(43,757)	—	(16,710)	60,467	(1,631)	—
Other transfers	(6,778)	1,750	(1,008)	395	5,641	—
<b>Net assets (deficiency), April 30, 2018</b>	<b>(352,959)</b>	<b>88,395</b>	<b>—</b>	<b>242,922</b>	<b>1,566,201</b>	<b>1,544,559</b>
Excess (deficiency) of revenue over expenses	63,900	12,810	18,560	(93,831)	—	1,439
Pension liability remeasurement*	4,846	—	—	—	—	4,846
Post-employment benefit remeasurement*	6,507	—	—	—	—	6,507
Endowment contributions and gifts in kind	—	—	—	1,479	42,914	44,393
Investment income items reported as direct increase in net assets	—	—	—	—	368	368
Net change in internally restricted net assets	(627)	3,798	—	(2,625)	(546)	—
Investment in capital assets	(56,711)	—	(22,509)	79,220	—	—
Other transfers	2,823	(9,190)	3,949	457	1,961	—
<b>Net assets (deficiency), April 30, 2019</b>	<b>(332,221)</b>	<b>95,813</b>	<b>—</b>	<b>227,622</b>	<b>1,610,898</b>	<b>1,602,112</b>

\* As at April 30, 2019, the accumulated post-employment benefit remeasurement is \$46,557 (\$40,050 as at April 30, 2018) and the accumulated pension liability remeasurement is \$59,594 (\$54,748 as at April 30, 2018).

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, 2019

(In thousands of dollars)

	Notes	2019 \$	2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,634	24,229
Short-term investments	17	23,609	35,325
Receivables	3 and 4	515,544	490,373
Prepaid expenses		9,282	11,105
Inventory		1,466	1,641
		<b>551,535</b>	<b>562,673</b>
Marketable securities	17	1,778,224	1,769,151
Grants and contracts related to research receivable		53,201	43,942
Capital grants receivable	4	710,157	669,255
Loans receivable	5	3,819	5,494
Capital assets	6	1,643,445	1,544,930
		<b>4,740,381</b>	<b>4,595,445</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank indebtedness	7	95,020	89,155
Accounts payable and accrued liabilities	8	236,624	242,183
Unearned revenue		38,238	29,008
Current portion of long-term debt	11	209,353	193,606
		<b>579,235</b>	<b>553,952</b>
Deferred contributions	9	613,754	558,686
Deferred capital contributions	10	974,569	895,973
Long-term debt	11	847,509	898,029
Accrued pension liability	12	37,786	53,334
Post-employment benefit obligation	12	85,416	90,912
		<b>3,138,269</b>	<b>3,050,886</b>
Commitments and contingent liabilities	19 and 20		
<b>Net assets (deficiency)</b>			
Invested in capital assets		227,622	242,922
Externally restricted for endowment purposes	13	1,610,898	1,566,201
Internally restricted	14	95,813	88,395
Unrestricted		(332,221)	(352,959)
		<b>1,602,112</b>	<b>1,544,559</b>
		<b>4,740,381</b>	<b>4,595,445</b>

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

Approved by the Board of Governors

 \_\_\_\_\_, Governor

 \_\_\_\_\_, Secretary-General

# The Royal Institution for the Advancement of Learning / McGill University

## Statement of cash flows

Year ended April 30, 2019

(In thousands of dollars)

	Notes	2019 \$	2018 \$
<b>Operating activities</b>			
Excess (deficiency) of revenue over expenses		1,439	(22,517)
Adjustments for:			
Amortization of capital assets		141,114	127,122
Amortization of bond discount		187	202
Amortization of deferred contributions	9	(418,082)	(386,559)
Amortization of deferred capital contributions	10	(71,280)	(60,967)
Change in fair value of investments	15	15,731	1,823
Change in fair value of derivative financial instruments	15	(6,277)	(3,068)
Change in pension liability		(10,702)	(14,344)
Change in post-retirement benefit obligation		1,011	1,526
Loss on disposal of capital assets		1,703	—
		<b>(345,156)</b>	<b>(356,782)</b>
Net change in non-cash working capital items	16	1,230	31,686
Increase in government grant receivable		(55,277)	(32,428)
Increase in grants and contracts related to research receivable		(17,874)	(4,213)
Increase in deferred contributions		473,150	438,387
		<b>56,073</b>	<b>76,650</b>
<b>Investing activities</b>			
Decrease (increase) in short-term investments		11,716	(8,933)
Acquisition of capital assets		(239,074)	(249,901)
Purchase of marketable securities		(1,187,189)	(1,338,580)
Proceeds from sale of marketable securities		1,168,662	1,360,333
Change in loans receivable		1,675	1,618
		<b>(244,210)</b>	<b>(235,463)</b>
<b>Financing activities</b>			
Change in bank indebtedness		5,865	(17,499)
Investment income (loss) reported as direct increase (decrease) in net assets		368	(23,526)
Endowment contributions and gifts in kind		44,393	23,932
Issuance of long-term debt		158,645	220,392
Repayment of long-term debt		(193,605)	(116,198)
Deferred capital contributions		149,876	80,448
		<b>165,542</b>	<b>167,549</b>
Net (decrease) increase in cash and cash equivalents		<b>(22,595)</b>	8,736
Cash and cash equivalents, beginning of year		24,229	15,493
<b>Cash and cash equivalents, end of year</b>		<b>1,634</b>	<b>24,229</b>

### Non-cash transactions

Capital assets additions amounting to \$33,504 (\$31,246 in 2018), included in accounts payable and accrued liabilities, have no cash flow impact.

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



# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

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### 1. Status and nature of activities

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

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

### 2. Accounting policies

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

#### *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 2019 is \$1.5 million (\$0.5 million in 2018). 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. 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 or less at the date of acquisition.

### *Student loans*

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

### *Inventory*

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in, first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was \$19.5 million (\$19.1 million in 2018).

**2. 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.

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

### 2. 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 in accordance with Canadian ASNPO requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of 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

	2019	2018
	\$	\$
Operating, net of provision for doubtful accounts of \$1,302 (\$1,257 as at April 30, 2018)	<b>38,674</b>	35,809
Student loans, net of provision for doubtful accounts of \$625 (\$550 as at April 30, 2018)	<b>3,989</b>	4,484
Investment income	<b>2,593</b>	2,782
Government operating grants	<b>41,197</b>	42,552
Grants and contracts related to research – short-term	<b>220,735</b>	212,120
Capital grants receivable – short-term	<b>208,356</b>	192,626
	<b>515,544</b>	490,373

### 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.

## The Royal Institution for the Advancement of Learning / McGill University

### Notes to the financial statements

April 30, 2019

(Tabular amounts 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, 2018), with maturities up to three years.

#### 6. Capital assets

	2019		2018
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	28,685	—	28,685
Land improvements	55,770	22,694	33,076
Buildings	665,916	374,973	290,943
Major renovations	1,170,502	372,086	798,416
Leasehold improvements	19,579	5,334	14,245
Equipment	541,028	304,747	236,281
Rolling stock	1,945	1,385	560
Library materials	185,921	99,681	86,240
Intangible assets	17,547	10,489	7,058
	<b>2,686,893</b>	<b>1,191,389</b>	<b>1,495,504</b>
Assets under development	147,941	—	147,941
	<b>2,834,834</b>	<b>1,191,389</b>	<b>1,643,445</b>
			1,442,144
			102,786
			1,544,930

#### 7. Bank indebtedness

In accordance with MEES regulations, McGill's Board of Governors has approved maximum borrowings of \$300.0 million from May 1, 2018 to April 30, 2019, \$380.0 million from May 1, 2019 to May 31, 2019, and \$400.0 million from June 1, 2019 to May 31, 2020 (\$300.0 million as at April 30, 2018), under short-term credit facilities, of which \$94.1 million has been used as at April 30, 2019 (\$89.2 million as at April 30, 2018). There are \$0.9 million in short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness (nil in 2018). Unsecured and uncommitted operating lines of credit, totalling \$465.0 million (\$350.0 million as at April 30, 2018), 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 3.80% for the year (3.16% in 2018). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 1.68% (1.79% as at April 30, 2018). The banker's acceptance rate in effect as at April 30, 2019, was 1.92% (1.64% as at April 30, 2018). Banker's acceptances outstanding at year-end amounted to \$10.0 million (nil as at April 30, 2018). The cross currency swaps outstanding at year-end amounting to \$84.1 million (\$63.0 million USD) (\$89.2 million (\$70.0 million USD) at 1.50% as at April 30, 2018) bear interest at a rate of 1.82%.

#### 8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$8,195,000 (\$7,841,000 as at April 30, 2018) of government remittances.

**The Royal Institution for the Advancement of Learning / McGill University**

**Notes to the financial statements**

April 30, 2019

(Tabular amounts 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.

	<b>2019</b>	<b>2018</b>
	\$	\$
Balance, beginning of year	<b>558,686</b>	506,858
Restricted funds received during the year	<b>413,838</b>	390,122
Gifts and bequests	<b>59,312</b>	48,265
Amortization of deferred contributions	<b>(418,082)</b>	(386,559)
Balance, end of year	<b>613,754</b>	558,686

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

	<b>2019</b>	<b>2018</b>
	\$	\$
Federal grants	<b>336,128</b>	310,004
Provincial grants	<b>101,845</b>	94,887
United States grants	<b>4,197</b>	3,380
Other grant sponsors	<b>22,021</b>	17,043
Contracts	<b>23,895</b>	16,362
Gifts and bequests	<b>111,671</b>	97,092
Endowment income	<b>8,928</b>	14,886
Investment income	<b>5,069</b>	5,032
	<b>613,754</b>	558,686

**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:

	<b>2019</b>	<b>2018</b>
	\$	\$
Balance, beginning of year	<b>895,973</b>	876,492
Deferred capital contributions received	<b>149,876</b>	80,448
Amortization of deferred capital contributions	<b>(71,280)</b>	(60,967)
Balance, end of year	<b>974,569</b>	895,973
Composed of contributions from the following sources:		
MEES	<b>510,672</b>	459,388
Other provincial	<b>158,626</b>	151,565
Federal	<b>176,043</b>	150,575
Gifts and donations	<b>117,110</b>	122,344
Specific grant agreements	<b>12,118</b>	12,101
Balance, end of year	<b>974,569</b>	895,973

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

### 11. Long-term debt

	2019	2018
	\$	\$
Government of Québec debt notes <sup>(i)</sup>		
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	<b>161,192</b>	172,753
4.125%, due August 24, 2020	<b>1,440</b>	2,117
2.559%, due December 1, 2021	<b>1,511</b>	—
1.709%, due March 1, 2022	<b>6,544</b>	7,363
2.947%, due September 1, 2022	<b>5,026</b>	6,369
2.947%, due September 1, 2022	<b>4,828</b>	6,119
2.226%, due September 1, 2022	<b>6,465</b>	8,312
3.013%, due September 28, 2022	<b>4,054</b>	4,994
2.044%, due October 1, 2022	<b>3,491</b>	4,485
1.639%, due March 1, 2023	<b>3,533</b>	4,341
2.324%, due September 1, 2024	<b>9,871</b>	11,666
2.949%, due March 1, 2025	<b>31,942</b>	37,081
2.408%, due September 1, 2026	<b>46,920</b>	49,680
2.149%, due September 1, 2026	<b>14,988</b>	16,615
2.280%, due September 1, 2027	<b>41,703</b>	43,440
2.787%, due September 1, 2027	<b>61,010</b>	65,087
3.021%, due December 1, 2028	<b>11,342</b>	—
3.082%, due December 1, 2029	<b>122,128</b>	—
4.991%, due June 1, 2034	<b>16,000</b>	17,000
3.680%, due June 1, 2034	<b>44,100</b>	46,200
3.161%, due June 1, 2034	<b>48,400</b>	50,600
2.933%, due December 1, 2042	<b>58,156</b>	60,579
3.218%, due December 1, 2043	<b>23,664</b>	—
Total	<b>728,308</b>	762,285
McGill Senior Unsecured Debentures <sup>(ii)</sup>		
6.150% Series "A", mature on September 22, 2042	<b>150,000</b>	150,000
3.975% Series "B", mature on January 29, 2056	<b>160,000</b>	160,000
Loan payable <sup>(iii)</sup>	<b>23,496</b>	24,454
Other	<b>11</b>	36
Bond discounts and issuance costs	<b>(4,953)</b>	(5,140)
Total long-term debt	<b>1,056,862</b>	1,091,635
Current portion	<b>209,353</b>	193,606
	<b>847,509</b>	898,029

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

### 11. Long-term debt (continued)

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

	Annual payment	Final payment on maturity
	\$	\$
2.413%, due May 29, 2019	11,562	161,191
4.125%, due August 24, 2020*	677	—
2.559%, due December 1, 2021	581	349
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	6,242
2.408%, due September 1, 2026	2,760	27,600
2.149%, due September 1, 2026	1,626	3,606
2.280%, due September 1, 2027	1,738	27,799
2.787%, due September 1, 2027	4,077	28,394
3.021%, due December 1, 2028	1,110	1,352
3.082%, due December 1, 2029	10,812	14,008
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
3.218%, due December 1, 2043	947	936

\* 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%.



# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

### 11. Long-term debt (continued)

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

	\$
2020	209,353
2021	48,319
2022	51,579
2023	43,870
2024	38,832

### 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 benefit obligation*

The University provides post-employment benefits other than pension benefits to eligible retired employees, including health and dental care. The present value of these commitments as at April 30, 2019, is estimated at \$85.4 million (\$90.9 million as at April 30, 2018). 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:

	2019	2018
	\$	\$
Cash payments recognized	<b>49,897</b>	51,226
Benefit costs	<b>24,540</b>	22,982
Accrued pension liability		
Defined benefit cost		
Current service cost	<b>7,189</b>	7,340
Interest cost on accrued benefit obligation	<b>1,813</b>	2,229
	<b>9,002</b>	9,569

**The Royal Institution for the Advancement of Learning / McGill University**

**Notes to the financial statements**

April 30, 2019

(Tabular amounts 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:

	<b>2019</b>	2018
	\$	\$
Accrued benefit obligations	<b>307,366</b>	317,231
Fair value of plan assets	<b>269,580</b>	263,897
Plan deficit	<b>37,786</b>	53,334
Accrued pension liability	<b>37,786</b>	53,334

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

	<b>2019</b>	2018
	%	%
Cash equivalents	<b>7.3</b>	2.0
Alternative assets	<b>3.3</b>	3.1
Equity	<b>48.5</b>	50.6
Fixed income	<b>40.9</b>	44.3

The significant assumptions used are as follows:

	<b>2019</b>	2018
	%	%
Discount rate		
Active	<b>5.75</b>	5.75
Retirees	<b>4.50</b>	4.50
Price inflation allowance	<b>3.00</b>	3.00

*Post-employment benefit obligation - unfunded benefits*

	<b>2019</b>	2018
	\$	\$
Balance, beginning of year	<b>90,912</b>	114,489
Current service cost	<b>784</b>	1,210
Interest cost on accrued benefit obligation	<b>4,329</b>	5,190
Benefits paid	<b>(4,102)</b>	(4,874)
Net actuarial gain	<b>(6,507)</b>	(25,103)
Balance, end of year	<b>85,416</b>	90,912

**The Royal Institution for the Advancement of Learning / McGill University**

**Notes to the financial statements**

April 30, 2019

(Tabular amounts 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):

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

**13. Externally restricted for endowment purposes**

	2019	2018
	\$	\$
Faculty endowments	<b>603,090</b>	588,696
Student aid	<b>476,603</b>	461,875
Research endowments	<b>118,319</b>	118,930
Emerging priorities	<b>32,866</b>	21,455
Library endowments	<b>25,934</b>	25,531
Student services	<b>9,484</b>	9,514
Annuities	<b>4,021</b>	3,930
Accumulated income	<b>340,581</b>	336,270
	<b>1,610,898</b>	1,566,201

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.

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts 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 4.00% 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 1.10% (1.10% in 2018) 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

	2019	2018
	\$	\$
Self-financing teaching and research	33,498	31,767
Professor start-up funds	9,540	7,489
Other	52,775	49,139
	<b>95,813</b>	<b>88,395</b>

### 15. Investment and interest income

	2019	2018
	\$	\$
Change in fair value of investments	(15,731)	(1,823)
Change in fair value of derivative financial instruments	6,277	3,068
Interest income	7,850	5,844
Investment income	77,509	80,360
	<b>75,905</b>	<b>87,449</b>

## The Royal Institution for the Advancement of Learning / McGill University

### Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

#### 16. Net change in non-cash working capital items

	2019	2018
	\$	\$
Receivables (operating, student loans and investment income)	(2,181)	(2,135)
Prepaid expenses	1,823	(3,996)
Inventory	175	(165)
Accounts payable and accrued liabilities	(7,817)	32,098
Unearned revenue	9,230	5,884
	<b>1,230</b>	<b>31,686</b>

#### 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, 2019, McGill's foreign-denominated marketable securities had a fair value of \$1.09 billion (\$1.07 billion as at April 30, 2018), the most significant of which were US dollar-denominated marketable securities of \$651 million (\$660 million as at April 30, 2018).

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

McGill is exposed to 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 is also exposed to other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The University is exposed to other price risk through its marketable securities.

McGill'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, 2019, 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\$250.4 million with a forward rate of 1.3429 as at April 30, 2019, maturing through December 2021 (US\$259.5 million with a forward rate of 1.2812 as at April 30, 2018 that matured on June 27, 2018). As at April 30, 2019, the fair value of these contracts was an unrealized loss of \$1.7 million, which was recorded in marketable securities (an unrealized loss of \$1.5 million as at April 30, 2018).

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

### 17. Financial instruments (continued)

#### *Derivatives (continued)*

In October 2003, McGill entered into an agreement with RBC Dominion Securities (RBCDS) whereby it invested in a US\$13.0 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 \$67.7 million (\$61.5 million as at April 30, 2018) and is included in marketable securities.

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, 2019, the fair value of the swap is \$40.9 million (\$38.7 million as at April 30, 2018).

The future value of this investment, including accumulated growth to the year 2042, is planned to be used to redeem the \$150.0 million of outstanding senior debentures.

The University entered into rate lock contracts amounting to \$207.0 million of nominal value with a settlement date of May 17, 2019. As at April 30, 2019, the fair value of the rate locks is an unrealized loss of \$4.2 million which has been included in marketable securities (an unrealized loss of \$3.9 million as at April 30, 2018). The University entered into the rate lock contracts to protect against a rate increase for the remaining anticipated issuances of \$240.0 million of long-term debt. The contracts are rolled-over every 3 months with a settlement at market value, yielding a realized gain or loss, until the full issuance of the long-term debt.

The University also entered into cross-currency swaps amounting to \$84.1 million with settlement dates between May 13, 2019 and May 14, 2019 and bearing interest at a rate of 1.76%. As at April 30, 2019, 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:

	2019	2018
	%	%
Canadian equity	12	10
U.S. equity	22	20
Non-North American equity	22	22
Canadian fixed income	16	17
U.S. fixed income	1	1
Hedge funds	7	11
Alternate strategies, including private equity and other	20	19
	<b>100</b>	<b>100</b>

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 0.92% to 6.45% (0.79% to 6.83% as at April 30, 2018).

### 18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of \$1.2 million, as at April 30, 2019, amounted to \$220.6 million (\$210.0 million as at April 30, 2018, net of doubtful account of \$1.1 million). These have not been recognized in the financial statements.

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2019

(Tabular amounts in thousands of dollars)

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### 19. Commitments

#### *Operating leases*

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

	\$
2020	11,502
2021	11,771
2022	10,633
2023	10,314
2024	11,314
2025 and thereafter	<u>32,315</u>
	<u>87,849</u>

#### *Construction in progress*

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling \$90.0 million. These commitments are expected to be met in the normal course of operations.

#### *Private equity and private real estate funding commitments*

As part of its investment activities, McGill places some of its endowment investments through private equity and private real estate funds. McGill is committed to invest an additional \$193.3 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, 2019, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

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

### 21. Subsequent event

On July 23, 2019, McGill issued \$90 million Series C unsecured debentures, bearing interest at 2.926%, with semi-annual interest payments, maturing on July 26, 2049.

### 22. Comparative figures

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

