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

April 30, 2014

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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 (the "University"), which comprise the balance sheet as at April 30, 2014, 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 audits 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, 2014, 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.

*Restated comparative information*

Without modifying our opinion, we draw attention to Note 2 to the financial statement, which explains that certain comparative information for the year ended April 30, 2013, has been restated.

Deloitte LLP<sup>1</sup>

October 2, 2014

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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, 2014

(In thousands of dollars)

	Notes	2014	2013
		\$	\$ (Restated – Note 2)
<b>Revenue</b>			
<b>Grants</b>			
Federal		205,687	205,705
Provincial		451,634	434,394
United States		7,684	7,240
Other sources		24,750	38,148
<b>Contracts</b>			
Tuition and fees		245,241	228,623
Sale of goods and services		129,170	128,347
Gifts and bequests		45,018	35,417
Foreign exchange gain		1,500	1,328
Investment and interest income	16	52,218	60,916
		<b>1,182,569</b>	<b>1,158,115</b>
<b>Expenses</b>			
<b>Salaries</b>			
Academic		287,161	285,482
Administrative and support		231,922	227,123
Benefits		98,125	94,816
Student aid		101,068	100,962
Student		37,698	35,815
		<b>755,974</b>	<b>744,198</b>
<b>Non-salary</b>			
Material, supplies and publications		39,846	43,554
Contributions to partner institutions		36,655	39,978
Contract services		22,918	23,761
Professional fees		19,092	21,630
Travel		25,052	25,176
Cost of goods sold		18,188	19,156
Building occupancy costs		24,783	21,981
Energy		19,061	18,036
Other non-salary expenses		39,933	41,619
Hardware and software maintenance		7,502	7,081
Amortization of capital assets		108,999	105,850
Interest		30,174	31,243
Bank charges		1,100	1,240
		<b>393,303</b>	<b>400,305</b>
		<b>1,149,277</b>	<b>1,144,503</b>
<b>Excess of revenue over expenses</b>		<b>33,292</b>	<b>13,612</b>

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

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

**Statement of changes in net assets**

Year ended April 30, 2014

(In thousands of dollars)

Notes	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	\$	\$	\$	\$	\$	\$
				(Restated – Note 2)		(Restated – Note 2)
<b>Net assets (deficiency), May 1, 2012</b>						
Excess (deficiency) of revenue over expenses	(301,882)	53,678	—	212,944	937,215	901,955
Endowment contributions and gifts in kind	43,957	27,766	18,874	(76,985)*	—	13,612*
Investment income items reported as direct (decrease) increase in net assets	—	—	—	1,576	38,468	40,044
Net change in internally restricted net assets	(2,539)	(2,333)	(6,119)	—	86,694	75,703
Investment in capital assets	10,458	(33,580)	(3,291)	27,205	(792)	—
Other transfers	(42,943)	—	(22,012)	64,955	—	—
	(22,347)	12,593	12,548	4,006	(6,800)	—
<b>Net assets (deficiency), April 30, 2013</b>	(315,296)	58,124	—	233,701	1,054,785	1,031,314
Excess (deficiency) of revenue over expenses	70,414	12,811	15,184	(65,117)	—	33,292
Endowment contributions and gifts in kind	—	—	—	521	40,443	40,964
Investment income items reported as direct (decrease) increase in net assets	(4,586)	(3,984)	(5,584)	—	159,508	145,354
Net change in internally restricted net assets	5,778	(6,073)	(4,133)	4,457	(29)	—
Investment in capital assets	(51,221)	—	(15,294)	66,515	—	—
Other transfers	(8,840)	5,577	9,827	177	(6,741)	—
<b>Net assets (deficiency), April 30, 2014</b>	(303,751)	66,455	—	240,254	1,247,966	1,250,924

\* Includes the adjustment to prior period, see Note 2

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

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

## Balance sheet

As at April 30, 2014

(In thousands of dollars)

	Notes	2014 \$	2013 \$ (Restated – Note 2)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		27,747	19,450
Short-term investments	18	78,789	36,117
Receivables	4	352,631	411,900
Prepaid expenses		3,161	3,930
Inventory		1,836	2,088
		<b>464,164</b>	<b>473,485</b>
Marketable securities	18	1,270,073	1,116,812
Grants and contracts related to research receivable		42,097	42,229
Capital grants receivable	5	736,149	657,108
Loans receivable	6	11,829	13,529
Capital assets	7	1,306,416	1,274,699
		<b>3,830,728</b>	<b>3,577,862</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank indebtedness	8	129,870	178,163
Accounts payable and accrued liabilities	9	185,888	169,986
Unearned revenue		25,102	24,603
Current portion of long-term debt	12	94,211	159,657
		<b>435,071</b>	<b>532,409</b>
Deferred contributions	10	413,946	411,508
Deferred capital contributions	11	825,113	810,982
Long-term debt	12	755,933	630,967
Accrued pension liability	13	29,301	41,899
Post-employment benefit obligation	13	120,440	118,783
		<b>2,579,804</b>	<b>2,546,548</b>
Commitments and contingent liabilities	20 and 21		
<b>Net assets (deficiency)</b>			
Invested in capital assets		240,254	233,701
Externally restricted for endowment purposes	14	1,247,966	1,054,785
Internally restricted	15	66,455	58,124
Unrestricted		(303,751)	(315,296)
		<b>1,250,924</b>	<b>1,031,314</b>
		<b>3,830,728</b>	<b>3,577,862</b>

The accompanying notes are an integral part of these 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, 2014

(In thousands of dollars)

	Notes	2014	2013
		\$	\$
			(Restated – Note 2)
<b>Operating activities</b>			
Excess of revenue over expenses		33,292	13,612
Adjustments for			
Amortization of capital assets		108,999	105,850
Amortization of bond discount		204	204
Amortization of deferred contributions	10	(369,164)	(380,149)
Amortization of deferred capital contributions	11	(61,655)	(63,355)
Change in unrealized fair value of investments		6,569	2,635
Change in fair value of derivative financial instruments		(2,400)	1,395
		<b>(284,155)</b>	<b>(319,808)</b>
Net change in non-cash working capital items	17	14,018	(2,712)
Increase in government grant receivable		(26,163)	(37,277)
Decrease in grants and contracts related to research receivable		9,927	39,209
Increase in deferred contributions		371,602	353,969
Decrease in pension liability		(12,598)	(7,280)
Increase in post-retirement benefit obligation		6,866	5,064
Post-retirement benefit obligation payments		(5,209)	(4,839)
		<b>74,288</b>	<b>26,326</b>
<b>Investing activities</b>			
(Increase) decrease in short-term investments		(42,672)	48,361
Acquisition of capital assets		(140,716)	(159,164)
Purchase of marketable securities		(907,524)	(1,025,493)
Proceeds from sale of marketable securities		750,094	857,604
Change in loans receivable		1,700	(7,204)
		<b>(339,118)</b>	<b>(285,896)</b>
<b>Financing activities</b>			
Change in bank indebtedness		(48,293)	(41,016)
Investment income reported as direct increase in net assets		145,354	75,703
Endowment contributions		40,964	40,044
Issuance of long-term debt		219,000	201,234
Repayment of long-term debt		(159,684)	(132,427)
Deferred capital contributions		75,786	97,825
		<b>273,127</b>	<b>241,363</b>
Net change in cash and cash equivalents		8,297	(18,207)
Cash and cash equivalents, beginning of year		19,450	37,657
<b>Cash and cash equivalents, end of year</b>		<b>27,747</b>	<b>19,450</b>

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



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

## Notes to the financial statements

April 30, 2014

(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 Ste-Anne de Bellevue and the Morgan Arboretum.

### 2. Prior-period adjustment

In the preparation of its 2014 financial statements, McGill discovered an error in the amortization period of deferred capital contributions – MESRS in 2013. The correction of the amortization period in the prior period results in a decrease in provincial grant revenue, a decrease in excess of revenue over expenses, a decrease in net assets invested in capital assets and an increase in deferred capital contributions in the amount of \$21.8 million.

### 3. 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 include 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 direct increases 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.

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

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### 3. Significant accounting policies (continued)

#### *Revenue recognition (continued)*

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 contributed volunteer hours is not recognized in these financial statements. The value of gifts in kind in 2014 is \$521 (\$1,576 in 2013).

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

#### *Financial instruments*

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 shares 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 the 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 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 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. 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 consist of cash on hand and highly liquid investment instruments, which mature within 90 days or less from the date of acquisition.

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

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### 3. Significant accounting policies (continued)

#### *Student loans*

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

#### *Inventory*

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in, first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was \$18.2 million (\$19.2 million in 2013).

#### *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 rates are calculated on a straight-line basis over the estimated useful lives in years of various asset categories as follows:

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

#### *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.

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

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 3. Significant accounting policies (continued)

#### *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 benefits other than pensions is determined periodically by independent actuaries. 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). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, being 12 years (2013 – 12 years).

Past-service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendments. The most recent actuarial evaluation for funding purposes filed was dated December 31, 2012.

#### *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 private equity investments and financial instruments, estimated useful lives of capital assets, and provisions for contingencies, pay equity and employee future benefits. Actual results may ultimately differ from these estimates.

### 4. Receivables

	2014	2013
	\$	\$
Operating, net of provision for doubtful accounts of \$2,229 (April 30, 2013 – \$2,270)	39,907	37,308
Student loans, net of provision for doubtful accounts of \$410 (April 30, 2013 – \$340)	4,029	3,506
Investment income	1,931	1,649
Government grant	55,913	43,345
Grants and contracts related to research	156,640	166,435
Capital grants receivable – short term	94,211	159,657
	<b>352,631</b>	<b>411,900</b>

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 5. Capital grants receivable

Capital grants receivable relate to capital grants approved by the Ministère de l'Enseignement Supérieur, Recherche, et Science (MESRS), formerly Ministère de l'Enseignement Supérieure, Recherche, Science et Technologie (MESRST), 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 are presented as long-term.

### 6. Loans receivable

Loans receivable bear interest at rates varying from 3.013% to 4.267% (2013 – 3.013% to 4.267%), with maturities up to 9 years.

### 7. Capital assets

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	28,706	—	28,706	28,706
Land improvements	35,875	11,363	24,512	25,586
Buildings	631,406	331,969	299,437	308,134
Major renovations	849,355	206,629	642,726	583,808
Leasehold improvements	4,716	2,738	1,978	2,625
Equipment	490,703	289,371	201,332	199,083
Rolling stock	1,762	1,252	510	756
Library materials	153,016	88,122	64,894	63,172
Intangible assets	15,417	10,730	4,687	2,013
	<b>2,210,956</b>	<b>942,174</b>	<b>1,268,782</b>	<b>1,213,883</b>
Assets under development	37,634	—	37,634	60,816
	<b>2,248,590</b>	<b>942,174</b>	<b>1,306,416</b>	<b>1,274,699</b>

### 8. Bank indebtedness

As required by MESRS, McGill's Board of Governors has approved maximum borrowings of \$300 million (\$300 million as at April 30, 2013), under short-term credit facilities, of which \$130 million has been used as at April 30, 2014 (April 30, 2013 – \$178 million). Unsecured and uncommitted lines of credit, totalling \$350 million (April 30, 2013 – \$330 million), 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, which averaged 3.00% for the year (April 30, 2013 – 3.00%). Through the use of bankers' acceptances, the average cost of borrowing for the year was 1.47% (April 30, 2013 – 1.49%). The rate in effect as at April 30, 2014, was 1.39% (1.50% as at April 30, 2013). Bankers' acceptances outstanding at year-end bear interest at rates ranging from 1.30% to 1.58% (1.29% to 1.68% as at April 30, 2013).

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$2,046,478 (\$9,431,255 as at April 30, 2013), of government remittances.

### 10. Deferred contributions

Deferred contributions represent the unspent portion of funds received for restricted purposes other than capital purchases, which are included under deferred capital contributions in Note 11.

	2014	2013
	\$	\$
Balance, beginning of year	411,508	437,688
Restricted funds received during the year	337,375	319,163
Gifts and bequests	34,227	34,806
Amortization of deferred contributions	(369,164)	(380,149)
Balance, end of year	<b>413,946</b>	<b>411,508</b>

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

	2014	2013
	\$	\$
Federal grants	201,909	207,596
Provincial grants	55,562	51,007
United States grants	3,571	4,344
Other grant sponsors	61,655	58,589
Contracts	14,855	18,190
Gifts and bequests	56,445	52,354
Endowment income	15,169	14,918
Investment income	4,780	4,510
	<b>413,946</b>	<b>411,508</b>

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 11. 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:

	2014	2013
	\$	(Restated – Note 2) \$
Balance, beginning of year	810,982	776,512
Deferred capital contributions received	75,786	97,825
Amortization of deferred capital contributions	(61,655)	(63,355)
Balance, end of year	<u>825,113</u>	<u>810,982</u>
Represented by		
Net deferred contributions – MESRS	410,275	392,155
Net deferred contributions – Other provincial	134,456	135,316
Net deferred contributions – Federal	127,794	128,362
Net deferred contributions – Other	152,588	155,149
Balance, end of year	<u>825,113</u>	<u>810,982</u>

### 12. Long-term debt

	2014	2013
	\$	\$
a)		
1) Bonds (i)		
4.50% Series "11C," due May 27, 2015	4,703	4,703
4.40% Series "13C," due February 24, 2016	4,653	4,653
4.50% Series "14C," due March 8, 2016	7,000	7,000
	<u>16,356</u>	<u>16,356</u>

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

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

	2014	2013
	\$	\$
a) (Continued)		
2) Notes (ii)		
4.355% matured on September 16, 2013	—	68,313
4.607% matured on September 16, 2013	—	28,000
3.240% matured on September 23, 2013	—	32,375
3.320%, due June 1, 2014	10,287	11,216
3.690%, due December 1, 2014	19,208	20,966
3.839%, due December 1, 2014	27,801	30,241
4.267%, due December 1, 2015 (iii)	353	519
3.601%, due June 2, 2016	7,575	8,383
2.820%, due June 2, 2016	23,121	24,747
2.849%, due December 1, 2016	61,226	63,480
1.928%, due April 25, 2017	7,468	8,462
2.323%, due December 1, 2017	60,720	63,888
2.472%, due December 1, 2017	20,170	21,585
2.213%, due June 1, 2018	176,188	187,000
2.112%, due June 1, 2018	4,418	5,000
2.406%, due December 1, 2018	16,890	18,000
2.413%, due May 29, 2019	219,000	—
4.125%, due August 24, 2020	4,570	5,123
3.013%, due September 28, 2022	8,489	9,300
4.991%, due June 1, 2034	21,000	22,000
Total notes	<b>688,484</b>	<b>628,598</b>
Total Government of Quebec debt	<b>704,840</b>	<b>644,954</b>
b) McGill Senior Unsecured Debentures (iv), 6.15% Series "A," mature on September 22, 2042	<b>150,000</b>	150,000
c) Royal Bank loans, 5.81%, matured on March 19, 2014	—	543
d) Other	<b>150</b>	177
e) Bond discounts and issuance costs	<b>(4,846)</b>	<b>(5,050)</b>
Total long-term debt	<b>850,144</b>	<b>790,624</b>
Current portion of long-term debt	<b>(94,211)</b>	<b>(159,657)</b>
	<b>755,933</b>	<b>630,967</b>



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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

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

- (i) These bonds are secured by an assignment of subsidies covering principal and interest granted to McGill by the Government of Quebec under Orders-in-Council.
- (ii) These notes are secured by the Government of Quebec, 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 lump-sum payments due at maturity are as follows:

	Annual payment	Lump-sum payment
	\$	\$
3.320%, due June 1, 2014	928	9,359
3.690%, due December 1, 2014	1,758	17,450
3.839%, due December 1, 2014	2,441	25,360
3.601%, due June 2, 2016	808	5,959
2.820%, due June 2, 2016	1,626	19,869
2.849%, due December 1, 2016	2,760	55,706
1.928%, due April 25, 2017	994	5,480
2.323%, due December 1, 2017	2,662	52,734
2.472%, due December 1, 2017	1,415	15,925
2.213%, due June 1, 2018	10,812	132,940
2.112%, due June 1, 2018	582	2,090
2.406%, due December 1, 2018	1,110	12,450
2.413%, due May 29, 2019	11,562	161,190
4.125%, due August 24, 2020	576*	—
3.013%, due September 28, 2022	835*	—
4.991%, due June 1, 2034	1,000	1,000

\* Annual payments vary from year to year.

- (iii) These notes are secured by a grant receivable from the Ministère de l'Économie de l'Innovation et des Exportations ("MEIE"). Semi annual payments of capital and interest are paid by MEIE, on McGill's behalf, to Financement Québec.
- (iv) In September 2002, McGill issued \$150 million of unsecured debentures. Unlike MESRS bonds and notes, McGill will be required to repay these obligations from resources generated by McGill. Semi annual interest payments are paid by McGill.

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

	\$
2015	94,211
2016	53,357
2017	117,190
2018	95,822
2019	161,682

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 13. 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, 2012, and the next required valuation will be as at December 31, 2015.

#### *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, 2014, is estimated at \$120.4 million (\$118.8 million as at April 30, 2013). 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% of the employees' basic earnings depending on the age of the employee.

The significant information about the University's defined contribution plan is as follows:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cash payments recognized	<b>44,893</b>	37,615
Benefit costs	<b>21,397</b>	24,333
Accrued pension liability		
Defined benefit cost		
Current service cost	<b>2,476</b>	943
Interest cost on accrued benefit obligation	<b>3,107</b>	1,315
	<b>5,583</b>	2,258

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 13. Employee future benefits (continued)

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

	2014	2013
	\$	\$
Accrued pension liability	(330,429)	(355,045)
Fair value of Plan assets	238,158	242,000
Plan deficit	(92,271)	(113,045)
Unamortized net actuarial loss	62,970	71,146
Obligation for defined benefits	(29,301)	(41,899)

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

	2014	2013
	%	%
Cash equivalents	2.0	6.2
Real estate	12.4	17.2
Equity	33.0	26.2
Fixed income	52.6	50.3
Other	—	0.1

*Pension plan defined contribution plan (continued)*

The significant assumptions used are as follows:

	2014	2013
	%	%
Discount rate	3.50	3.00
Expected long-term rate of return on Plan assets	4.75	4.75
Price inflation allowance	3.00	3.00

*Post-employment benefit obligation – unfunded benefits*

	2014	2013
	\$	\$
Balance, beginning of year	118,783	118,558
Current service cost	2,336	1,674
Interest cost on accrued benefit obligation	5,333	5,194
Benefit paid	(5,209)	(4,839)
Net actuarial loss	2,605	1,604
Past service costs	(3,408)	(3,408)
Balance, end of year	120,440	118,783

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 13. Employee future benefits (continued)

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

	2014	2013
	%	%
Accrued benefit obligation as at year-end		
Discount rate	4.5	4.0
Rate of compensation increase – Academics	4.5	4.5
Rate of compensation increase – Non-academics	3.5	3.5
Health care cost trend rates		
Current trend rate	8.0	8.0
Ultimate trend rate	5.0	5.0
Year of ultimate trend rate	2016	2016

### 14. Externally restricted for endowment purposes

	2014	2013
	\$	\$
Faculty endowments	521,692	446,067
Student aid	410,407	354,051
Research endowments	109,232	96,611
Emerging priorities	20,486	18,316
Library endowments	25,477	22,911
Student services	7,801	6,243
Annuities	2,722	2,197
Accumulated income	150,149	108,389
	<b>1,247,966</b>	<b>1,054,785</b>

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

Investment income on endowments, which comprises interest, dividends and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (2013 – 4.25%) 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. 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.

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 15. Internally restricted net assets

	2014	2013
	\$	\$
Self-financing teaching and research	17,638	11,125
Professor start-up funds	10,633	10,648
Other	38,184	36,351
	<u>66,455</u>	<u>58,124</u>

### 16. Investment and interest income

	2014	2013
	\$	\$
Change in unrealized fair value of investments	6,569	2,635
Change in fair value of derivative financial instruments	(2,400)	1,395
Investment and interest income	48,049	56,886
	<u>52,218</u>	<u>60,916</u>

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

	2014	2013
	\$	\$
Receivables	(3,404)	(1,656)
Prepaid expenses	769	(415)
Inventory	252	351
Accounts payable and accrued liabilities	15,902	(3,144)
Unearned revenue	499	2,152
	<u>14,018</u>	<u>(2,712)</u>

### 18. 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, 2014, McGill's foreign-denominated marketable securities had a fair value of CAN\$903 million (April 30, 2013 – CAN\$743), the most significant of which were US\$ denominated marketable securities of CAN\$617 million (April 30, 2013 – CAN\$512 million).

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

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### 18. Financial instruments (continued)

#### *Financial risks (continued)*

The University has interest rate risk from the impact of interest rate changes on McGill's cash flows for variable rate debt and financial position for the impact of changes in interest rates on the fair value of fixed-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, 2014, 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 EURO\$33.0 million with a forward rate of 1.52333 and US\$255.5 million with a forward rate of 1.11107 as at April 30, 2014, that matured on June 11, 2014 (EURO\$23.5 million with a forward rate of 1.34376 that matured on June 12, 2013, and US\$105 million with a forward rate of 1.02820 that matured on July 31, 2013, as at April 30, 2013). As at April 30, 2014, the fair value of these contracts approximated an unrealized gain of \$3.2 million which was recorded in marketable securities (April 30, 2013 - an unrealized gain of \$2.5 million).

In October 2003, McGill entered into an agreement with RBC Dominion Securities ("RBCDS") whereby it invested in a US\$13 million US-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 \$46.0 million (2013 - \$48.4 million) 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, 2014, the fair value of the swap is \$25.9 million (2013 - \$28.2 million).

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

The University entered into a swap agreement for the purchase of natural gas maturing at various dates until June 30, 2014. The fair value of commodity financial swaps is determined using the discounted value of expected cash flows. Expected future cash flows are determined using forward prices or rates in effect on the valuation date of the underlying financial index under the contractual term of the instrument. These cash flows are then discounted using a curve that reflects the credit risk of McGill or the counterparty, as applicable. The fair value of the swap is \$0.03 million lower than the fixed price contracted (2013 - \$0.3 million lower) resulting in a change in fair value gain of \$0.27 million in the year (gain of \$1.1 million in 2013). The resulting liability has been recorded in the balance sheet within the accounts payable and accrued liabilities.

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

### 18. Financial instruments (continued)

#### *Marketable securities*

The marketable securities portfolio comprises the following types of investments:

	2014	2013
	%	%
Canadian equity	10	12
U.S. equity	17	19
Non-North American equity	23	21
Canadian fixed income	13	16
U.S. fixed income	4	—
Hedge funds	19	18
Alternate strategies, including private equity and other	14	14
	<u>100</u>	<u>100</u>

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest at rates ranging from 0.97% to 1.00% (2013 – 0.99% to 1.04%).

### 19. Pledges

Outstanding donation pledges as at April 30, 2014, amounted to \$141.6 million (April 30, 2013 - \$173.4 million). These have not been recognized in the financial statements.

### 20. Commitments

#### *Operating leases*

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

	\$
2015	5,379
2016	5,171
2017	3,660
2018	2,288
2019	2,033
Thereafter	4,505
	<u>23,036</u>

#### *Construction in progress*

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling \$56.9 million. These commitments are expected to be met in the normal course of operations.

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

## Notes to the financial statements

April 30, 2014

(In thousands of dollars)

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### 20. Commitments (continued)

#### *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 \$92.4 million within the next four years in accordance with its arrangements with these funds.

#### *Retirement program*

McGill initiated a voluntary retirement program in fiscal 2013 to qualifying employees which expired on June 2, 2013. Signed agreements during the year amounted to \$11.4 million, and \$1.5 million is recorded as accounts payable and accrued liabilities. The total liability related to these contracts is expected to be paid during the next fiscal year.

### 21. 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 Quebec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2014, 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.