Financial statements of

The Royal Institution for the Advancement of Learning / McGill University

April 30, 2015

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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, 2015, 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, 2015, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP[1]

October 8, 2015

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of revenue and expenses

Year ended April 30, 2015

(In thousands of dollars)

	Notes	2015	2014
		$	$ (Restated) (Note 2)
Revenue			
Grants			
Federal		**208,514**	205,687
Provincial		**444,970**	451,634
United States		**7,126**	7,684
Other sources		**27,596**	24,750
Contracts		**18,204**	19,667
Tuition and fees		**258,489**	245,241
Sale of goods and services		**138,726**	129,170
Gifts and bequests		**46,424**	45,018
Foreign exchange gain		**3,811**	1,500
Investment and interest income	16	**65,628**	52,218
		1,219,488	1,182,569
Expenses			
Salaries			
Academic		**303,128**	287,161
Administrative and support		**223,640**	231,922
Benefits		**82,134**	71,333
Student aid		**102,853**	101,068
Student		**37,356**	37,698
		749,111	729,182
Non-salary			
Material, supplies and publications		**43,811**	39,846
Contributions to partner institutions		**45,779**	36,655
Contract services		**23,981**	22,918
Professional fees		**21,723**	19,092
Travel		**25,715**	25,052
Cost of goods sold		**17,059**	18,188
Building occupancy costs		**19,613**	24,783
Energy		**19,867**	19,061
Other non-salary expenses		**38,600**	39,933
Hardware and software maintenance		**7,220**	7,502
Amortization of capital assets		**109,009**	108,999
Interest		**29,916**	30,174
Bank charges		**1,147**	1,100
		403,440	393,303
		1,152,551	1,122,485
Excess of revenue over expenses		**66,937**	60,084

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, 2015
(In thousands of dollars)

	Notes	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
		$	$	$	$	$	$
Net assets (deficiency), April 30, 2013 as previously reported		(315,296)	58,124	—	233,701	1,054,785	1,031,314
Change in accounting policy	2	(27,740)	—	—	—	—	(27,740)
Net assets (deficiency) May 1, 2013, as restated		(343,036)	58,124	—	233,701	1,054,785	1,003,574
Excess (deficiency) of revenue over expenses		97,206	12,811	15,184	(65,117)	—	60,084
Endowment contributions and gifts in kind		—	—	—	521	40,443	40,964
Post-employment benefit remeasurement		1,563	—	—	—	—	1,563
Pension liability remeasurement		(31,102)	—	—	—	—	(31,102)
Investment income items reported as direct (decrease) increase in net assets		—	—	—	—	145,354	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		(13,426)	1,593	4,243	177	7,413	—
Net assets (deficiency), April 30, 2014		(334,238)	66,455	—	240,254	1,247,966	1,220,437
Change in accounting policy	2	(32,607)	—	—	—	—	(32,607)
Net assets (deficiency) April 30, 2014, as restated		**(366,845)**	**66,455**	**—**	**240,254**	**1,247,966**	**1,187,830**
Excess (deficiency) of revenue over expenses		**86,009**	**9,378**	**13,026**	**(41,476)**	**—**	**66,937**
Post-employment benefit remeasurement		**(9,874)**	**—**	**—**	**—**	**—**	**(9,874)**
Pension liability remeasurement		**(14,892)**	**—**	**—**	**—**	**—**	**(14,892)**
Endowment contributions and gifts in kind		**—**	**—**	**—**	**914**	**42,619**	**43,533**
Investment income items reported as direct (decrease) increase in net assets		**—**	**—**	**—**	**—**	**105,814**	**105,814**
Net change in internally restricted net assets		**7,636**	**(334)**	**(2,599)**	**(3,598)**	**(1,105)**	**—**
Investment in capital assets		**(57,342)**	**—**	**(10,496)**	**67,838**	**—**	**—**
Other transfers		**(2,688)**	**(6,315)**	**69**	**3,628**	**5,306**	**—**
Net assets (deficiency), April 30, 2015		**(357,996)**	**69,184**	**—**	**267,560**	**1,400,600**	**1,379,348**

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, 2015

(In thousands of dollars)

	Notes	2015	2014
		$	$ (Restated) (Note 2)
Assets			
Current assets			
Cash and cash equivalents		**72,263**	27,747
Short-term investments	18	**17,134**	78,789
Receivables	4	**289,644**	352,631
Prepaid expenses		**3,849**	3,161
Inventory		**1,869**	1,836
		384,759	464,164
Marketable securities	18	**1,485,821**	1,270,073
Grants and contracts related to research receivable		**36,739**	42,097
Capital grants receivable	5	**789,508**	736,149
Loans receivable	6	**10,186**	11,829
Capital assets	7	**1,340,600**	1,306,416
		4,047,613	3,830,728
Liabilities			
Current liabilities			
Bank indebtedness	8	**151,589**	129,870
Accounts payable and accrued liabilities	9	**181,397**	185,888
Unearned revenue		**22,136**	25,102
Current portion of long-term debt	12	**60,596**	94,211
		415,718	435,071
Deferred contributions	10	**412,231**	413,946
Deferred capital contributions	11	**838,761**	825,113
Long-term debt	12	**800,506**	755,933
Accrued pension liability	13	**96,681**	100,829
Post-employment benefit obligation	13	**104,368**	112,006
		2,668,265	2,642,898
Commitments and contingent liabilities	20 and 21		
Net assets (deficiency)			
Invested in capital assets		**267,560**	240,254
Externally restricted for endowment purposes	14	**1,400,600**	1,247,966
Internally restricted	15	**69,184**	66,455
Unrestricted		**(357,996)**	(366,845)
		1,379,348	1,187,830
		4,047,613	3,830,728

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

Approved by the Board of Governors

S.H. Cobbett
_______________________________, Governor

_______________________________, Secretary – General

The Royal Institution for the Advancement of Learning / McGill University

Statement of cash flows

Year ended April 30, 2015

(In thousands of dollars)

	Notes	2015	2014
		$	$ (Restated) (Note 2)
Operating activities			
Excess of revenue over expenses		**66,937**	60,084
Adjustments for			
Amortization of capital assets		**109,009**	108,999
Amortization of bond discount		**198**	204
Amortization of deferred contributions	10	**(372,282)**	(369,164)
Amortization of deferred capital contributions	11	**(62,520)**	(61,655)
Change in unrealized fair value of investments	16	**5,329**	6,569
Change in fair value of derivative financial instruments	16	**10,752**	(2,400)
Change in pension liability		**(19,040)**	(9,852)
Change in post-retirement benefit obligation		**(17,512)**	(27,881)
		(279,129)	(295,096)
Net change in non-cash working capital items	17	**1,766**	14,018
Increase in government grant receivable		**(1,522)**	(26,163)
Decrease in grants and contracts related to research receivable		**6,564**	9,927
Increase in deferred contributions		**370,567**	371,602
		98,246	74,288
Investing activities			
Decrease (increase) in short-term investments		**61,655**	(42,672)
Acquisition of capital assets		**(143,193)**	(140,716)
Purchase of marketable securities		**(1,094,856)**	(907,524)
Proceeds from sale of marketable securities		**863,027**	750,094
Change in loans receivable		**1,643**	1,700
		(311,724)	(339,118)
Financing activities			
Change in bank indebtedness		**21,719**	(48,293)
Investment income reported as direct increase in net assets		**105,814**	145,354
Endowment contributions		**43,533**	40,964
Issuance of long-term debt		**105,000**	219,000
Repayment of long-term debt		**(94,240)**	(159,684)
Deferred capital contributions		**76,168**	75,786
		257,994	273,127
Net change in cash and cash equivalents		**44,516**	8,297
Cash and cash equivalents, beginning of year		**27,747**	19,450
Cash and cash equivalents, end of year		**72,263**	27,747

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

1. Status and nature of activities

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

The University adopted during the year, retrospectively, Section 3463 of the *CPA Canada Handbook – Accounting* titled “Reporting employee future benefits by not-for-profit organizations” (“Section 3463”). Previously, the University accounted for operations related to its defined benefit plan and post-employment benefit using the deferral and amortization method.

Section 3463 eliminates the deferral and amortization as a choice of accounting method for accounting for defined benefit plans as well as the niche of three months for the valuation of assets and obligations under the plan. It also requires that changes in the fair value of plan assets and changes in the valuation for defined benefits, including the costs of past services, actuarial gains and losses and gains and losses of a regulation or a compression, are recognized immediately in the statement of changes in net assets. Therefore, the asset or liability for defined benefits recognized in the balance sheet reflects the obligation in respect of the defined benefit net of the fair value of plan assets adjusted for any valuation impairment at the reporting date. In addition, Section 3463 requires the separate identification of revaluations and other elements of the other costs associated with the pension plan, which increases the visibility of the impact of periodic reassessments. These items are presented separately in the statement of revenue and expenses and changes in net assets.

Furthermore, the expected return on plan assets is no longer applied to the fair value of the assets to calculate the costs of benefits. Under Section 3463, the same discount rate must be applied to the accrued benefit obligation and the plan assets to establish the financial cost.

(In thousands of dollars)

2. Change in accounting policy (continued)

The retrospective application of the new standard resulted in the following changes to amounts previously reported:

	Initial balances	Adjustment	Adjusted balances
	$	$	$
Balance sheet			
Accrued pension liability			
As at May 1, 2013	(41,899)	(37,677)	(79,576)
As at April 30, 2014	(29,301)	(71,528)	(100,829)
Post-employment benefit obligation			
As at May 1, 2013	(118,783)	9,937	(108,846)
As at April 30, 2014	(120,440)	8,434	(112,006)
Unrestricted net assets			
As at May 1, 2013	(315,296)	(27,740)	(343,036)
As at April 30, 2014	(303,751)	(63,094)	(366,845)
Statement of revenue and expenses for the year ended April 30, 2014			
Expenses	98,125	(26,792)	71,333
Excess of revenue over expenses	33,292	26,792	60,084
Statement of changes in net assets for the year ended April 30, 2014			
Changes due to remeasurement	—	(29,539)	(29,539)

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 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.

3. Significant accounting policies (continued)

Revenue recognition (continued)

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 2015 is $914 ($521 in 2014). The value of contributed volunteer hours is not recognized in these financial statements.

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 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.

(In thousands of dollars)

3. Significant accounting policies (continued)

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.

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 $17 million ($18.2 million in 2014).

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 years
Buildings	20 to 50 years
Major renovations	20 to 50 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.

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

(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 actuarial gain (loss) is recorded in the statement of revenue and expenses.

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

	2015	2014
	$	$
Operating, net of provision for doubtful accounts of $1,986 ($2,229 in 2014)	**29,354**	39,907
Student loans, net of provision for doubtful accounts of $469 ($410 in 2014)	**4,298**	4,029
Investment income	**2,271**	1,931
Government operating grants	**37,720**	55,913
Grants and contracts related to research – short-term	**155,434**	156,640
Capital grants receivable – short-term	**60,567**	94,211
	289,644	352,631

(In thousands of dollars)

5. Capital grants receivable

Capital grants receivable relate to capital grants approved by Ministère de l'Education, de l'Enseignement Supérieur et de la Recherche (MEESR), formerly Ministère de l'Enseignement Supérieure, Recherche et Science (MESRS), 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 4.125% (3.013% to 4.267% in 2014), with maturities up to eight years.

7. Capital assets

			2015	2014
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**28,706**	**—**	**28,706**	28,706
Land improvements	**36,888**	**13,134**	**23,754**	24,512
Buildings	**631,406**	**340,879**	**290,527**	299,437
Major renovations	**911,716**	**234,497**	**677,219**	642,726
Leasehold improvements	**17,045**	**4,654**	**12,391**	1,978
Equipment	**461,655**	**263,849**	**197,806**	201,332
Rolling stock	**1,708**	**1,350**	**358**	510
Library materials	**158,503**	**89,860**	**68,643**	64,894
Intangible assets	**12,184**	**8,824**	**3,360**	4,687
	2,259,811	**957,047**	**1,302,764**	1,268,782
Assets under development	**37,836**	**—**	**37,836**	37,634
	2,297,647	**957,047**	**1,340,600**	1,306,416

8. Bank indebtedness

In accordance with MEESR regulations, McGill's Board of Governors has approved maximum borrowings of $300 million ($300 million as at April 30, 2014), under short-term credit facilities, of which $152 million has been used as at April 30, 2015 ($130 million as at April 30, 2014). Unsecured and uncommitted lines of credit, totalling $350 million ($350 million as at April 30, 2014), 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, which averaged 2.95% for the year (3.00% as at April 30, 2014). Through the use of bankers' acceptances, the average cost of borrowing for the year was 1.41% (1.47% as at April 30, 2014). The rate in effect as at April 30, 2015, was 1.13% (1.39% as at April 30, 2014). Bankers' acceptances outstanding at year-end bear interest at rates ranging from 1.01% to 1.52% (1.30% to 1.58% as at April 30, 2014).

(In thousands of dollars)

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $2,452,007 ($2,046,478 as at April 30, 2014) 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.

	2015	2014
	$	$
Balance, beginning of year	**413,946**	411,508
Restricted funds received during the year	**339,236**	337,375
Gifts and bequests	**31,331**	34,227
Amortization of deferred contributions	**(372,282)**	(369,164)
Balance, end of year	**412,231**	413,946

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

	2015	2014
	$	$
Federal grants	**194,164**	201,909
Provincial grants	**50,966**	55,562
United States grants	**3,729**	3,571
Other grant sponsors	**68,081**	61,655
Contracts	**14,674**	14,855
Gifts and bequests	**58,814**	56,445
Endowment income	**16,989**	15,169
Investment income	**4,814**	4,780
	412,231	413,946

(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:

	2015	2014
	$	$
Balance, beginning of year	825,113	810,982
Deferred capital contributions received	76,168	75,786
Amortization of deferred capital contributions	(62,520)	(61,655)
Balance, end of year	838,761	825,113
Represented by		
Net deferred contributions – MEESR	436,010	410,275
Net deferred contributions – Other provincial	130,328	134,456
Net deferred contributions – Federal	123,310	127,794
Net deferred contributions – Other	149,113	152,588
Balance, end of year	838,761	825,113

12. Long-term debt

	2015	2014
	$	$
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
	16,356	16,356

(In thousands of dollars)

12. Long-term debt (continued)

	2015	2014
	$	$
a) (Continued)		
2) Notes (ii)		
3.320%, matured in June 1, 2014	**—**	10,287
3.690%, matured in December 1, 2014	**—**	19,208
3.839%, matured in December 1, 2014	**—**	27,801
4.267%, due December 1, 2015 (iii)	**180**	353
3.601%, due June 2, 2016	**6,767**	7,575
2.820%, due June 2, 2016	**21,494**	23,121
2.849%, due December 1, 2016	**57,960**	61,226
1.928%, due April 25, 2017	**6,473**	7,468
2.323%, due December 1, 2017	**58,564**	60,720
2.472%, due December 1, 2017	**18,755**	20,170
2.213%, due June 1, 2018	**165,376**	176,188
2.112%, due June 1, 2018	**3,837**	4,418
2.406%, due December 1, 2018	**15,781**	16,890
2.413%, due May 29, 2019	**207,438**	219,000
4.125%, due August 24, 2020	**3,993**	4,570
3.013%, due September 28, 2022	**7,654**	8,489
2.949%, due March 1, 2025	**52,500**	—
4.991%, due June 1, 2034	**20,000**	21,000
3.680%, due June 1, 2034	**52,500**	—
Total notes	**699,272**	688,484
Total Government of Quebec debt	**715,628**	704,840
b) McGill Senior Unsecured Debentures (iv), 6.15% Series "A," mature on September 22, 2042	**150,000**	150,000
c) Other	**122**	150
d) Bond discounts and issuance costs	**(4,648)**	(4,846)
Total long-term debt	**861,102**	850,144
Current portion of long-term debt	**(60,596)**	(94,211)
	800,506	755,933

(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
	$	$
3.601%, due June 2, 2016	808	5,959
2.820%, due June 2, 2016	1,626	19,868
2.849%, due December 1, 2016	2,760	55,200
1.928%, due April 25, 2017	994	5,479
2.323%, due December 1, 2017	2,662	53,240
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	2,091
2.406%, due December 1, 2018	1,110	12,451
2.413%, due May 29, 2019	11,562	161,190
4.125%, due August 24, 2020	600*	—
3.013%, due September 28, 2022	860*	—
2.949%, due March 1, 2025	5,140	6,240
4.991%, due June 1, 2034	1,000	1,000
3.680%, due June 1, 2034	2,100	12,600

* 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 MEESR 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:

	$
2016	60,596
2017	124,430
2018	103,062
2019	168,922
2020	171,117

(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, 2015, is estimated at $104.4 million ($112.0 million as at April 30, 2014). 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:

	2015	2014
	$	$
Cash payments recognized	**52,390**	44,893
Benefit costs	**19,444**	21,397
Accrued pension liability		
Defined benefit cost		
Current service cost	**5,830**	4,695
Interest cost on accrued benefit obligation	**4,369**	3,635
	10,199	8,330

(In thousands of dollars)

13. Employee future benefits (continued)

Pension plan defined contribution plan (continued)

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

	2015	2014
	$	$ (Restated) (Note 2)
Accrued pension liability	**(351,784)**	(338,987)
Fair value of Plan assets	**255,103**	238,158
Plan deficit	**(96,681)**	(100,829)
Obligation for defined benefits	**(96,681)**	(100,829)

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

	2015	2014
	%	%
Cash equivalents	**2.7**	2.0
Real estate	**11.1**	12.4
Equity	**31.9**	33.0
Fixed income	**54.4**	52.6

The significant assumptions used are as follows:

	2015	2014
	%	%
Discount rate		
Active	**5.75**	5.75
Retirees	**4.75**	4.75
Price inflation allowance	**3.00**	3.00

(In thousands of dollars)

13. Employee future benefits (continued)

Post-employment benefit obligation – unfunded benefits

	2015	2014
	$	$ (Restated) (Note 2)
Balance, beginning of year	**112,006**	108,846
Current service cost	**1,353**	1,288
Interest cost on accrued benefit obligation	**5,805**	5,606
Benefit paid	**(4,922)**	(5,297)
Net actuarial (gain) loss	**(9,874)**	1,563
Balance, end of year	**104,368**	112,006

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

	2015	2014
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	**5.75**	5.75
Retirees	**4.75**	4.75
Rate of compensation increase – Academics	**5.7**	4.5
Rate of compensation increase – Non-academics	**4.0**	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	**2019**	2016

14. Externally restricted for endowment purposes

	2015	2014
	$	$
Faculty endowments	**597,152**	521,692
Student aid	**458,751**	410,407
Research endowments	**118,459**	109,232
Emerging priorities	**25,265**	20,486
Library endowments	**27,426**	25,477
Student services	**9,327**	7,801
Annuities	**3,156**	2,722
Accumulated income	**161,064**	150,149
	1,400,600	1,247,966

(In thousands of dollars)

14. Externally restricted for endowment purposes (continued)

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% (4.25% in 2014) 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.

15. Internally restricted net assets

	2015	2014
	$	$
Self-financing teaching and research	**23,111**	17,638
Professor start-up funds	**9,666**	10,633
Other	**36,407**	38,184
	69,184	66,455

16. Investment and interest income

	2015	2014
	$	$
Change in unrealized fair value of investments	**5,329**	6,569
Change in fair value of derivative financial instruments	**10,752**	(2,400)
Investment and interest income	**49,547**	48,049
	65,628	52,218

(In thousands of dollars)

17. Net change in non-cash working capital items

	2015	2014
	$	$
Receivables (operating, student loans and investment income)	**9,944**	(3,404)
Prepaid expenses	**(688)**	769
Inventory	**(33)**	252
Accounts payable and accrued liabilities	**(4,491)**	15,902
Unearned revenue	**(2,966)**	499
	1,766	14,018

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, 2015, McGill's foreign-denominated marketable securities had a fair value of CAD$974 million (CAD$903 million in 2014), the most significant of which were US$ denominated marketable securities of CAD$702 million (CAD$617 million in 2014).

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, 2015, 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 EURO29 million with a forward rate of 1.3821 and US$299 million with a forward rate of 1.2418 as at April 30, 2015, that matured on June 10, 2015 (EURO33.0 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). As at April 30, 2015, the fair value of these contracts approximated an unrealized gain of $9.6 million, which was recorded in marketable securities (an unrealized gain of $3.2 million in 2014).

(In thousands of dollars)

18. 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 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 $56.7 million ($45.9 million in 2014) 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, 2015, the fair value of the swap is $33.8 million ($25.9 million in 2014).

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 March 31, 2016. The fair value of commodity financial swap 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 $0.2 million lower than the fixed price contracted. The resulting liability has been recorded in the balance sheet within the accounts payable and accrued liabilities.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2015	2014
	%	%
Canadian equity	**11**	10
U.S. equity	**21**	17
Non-North American equity	**19**	23
Canadian fixed income	**14**	13
U.S. fixed income	**4**	4
Hedge funds	**18**	19
Alternate strategies, including private equity and other	**13**	14
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest at rates ranging from 0.72% to 4.38% (0.97% to 1.00% in 2014).

19. Pledges

Outstanding donation pledges as at April 30, 2015, amounted to $136.8 million ($141.6 million in 2014). These have not been recognized in the financial statements.

(In thousands of dollars)

20. Commitments

Operating leases

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

	$
2016	5,483
2017	4,272
2018	2,663
2019	2,954
2020	1,790
2021 and thereafter	6,442
	23,604

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $56.2 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 $68.6 million within the next four years in accordance with its arrangements with these funds.

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, 2015, 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.

22. Comparative figures

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