Financial statements of

The Royal Institution for the Advancement of Learning/ McGill University

April 30, 2016

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Independent Auditor's Report

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

We have audited the accompanying financial statements of The Royal Institution for the Advancement of Learning/McGill University, which comprise the balance sheet as at April 30, 2016, 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, 2016, 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 6, 2016

[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, 2016

(In thousands of dollars)

	Notes	2016	2015
		$	$
Revenue			
Grants			
Federal		**217,172**	208,514
Provincial		**443,577**	444,970
United States		**7,302**	7,126
Other sources		**9,074**	27,596
Contracts		**21,133**	18,204
Tuition and fees		**274,322**	258,489
Sales of goods and services		**140,246**	138,726
Gifts and bequests		**54,151**	46,424
Foreign exchange gain		**791**	3,811
Investment and interest income	15	**44,500**	65,628
		1,212,268	1,219,488
Expenses			
Salaries			
Academic		**318,773**	303,128
Administrative and support		**232,092**	223,640
Benefits		**107,008**	82,134
Students aid		**106,022**	102,853
Students		**37,318**	37,356
		801,213	749,111
Non-salary			
Material, supplies and publications		**43,661**	43,811
Contributions to partner institutions		**40,668**	45,779
Contract services		**22,642**	23,981
Professional fees		**20,681**	21,723
Travel		**26,030**	25,715
Cost of goods sold		**17,193**	17,059
Building occupancy costs		**27,971**	19,613
Energy		**18,253**	19,867
Other non-salary expenses		**44,867**	38,600
Hardware and software maintenance		**8,294**	7,220
Amortization of capital assets		**113,432**	109,009
Interest		**38,683**	29,916
Bank charges		**1,175**	1,147
		423,550	403,440
		1,224,763	1,152,551
(Deficiency) excess of revenue over expenses before the undernoted items		**(12,495)**	66,937
Gain on sale of land and buildings		**23,151**	—
Excess of revenue over expenses		**10,656**	66,937

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, 2016

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	$	$	$	$	$	$
Net assets (deficiency) April 30, 2014	(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 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
Excess (deficiency) of revenue over expenses	**59,085**	**2,233**	**12,784**	**(63,446)**	**—**	**10,656**
Post-employment benefit remeasurement*	**(6,636)**	**—**	**—**	**—**	**—**	**(6,636)**
Pension liability remeasurement*	**(20,217)**	**—**	**—**	**—**	**—**	**(20,217)**
Endowment contributions and gifts in kind	**—**	**—**	**—**	**387**	**32,995**	**33,382**
Investment income items reported as direct decrease in net assets	**—**	**—**	**—**	**—**	**(37,494)**	**(37,494)**
Net change in internally restricted net assets	**4,325**	**694**	**137**	**(4,594)**	**(562)**	**—**
Investment in capital assets	**(42,649)**	**—**	**(14,411)**	**57,060**	**—**	**—**
Other transfers	**4,030**	**2,525**	**1,490**	**1,431**	**(9,476)**	**—**
Net assets (deficiency), April 30, 2016	**(360,058)**	**74,636**	**—**	**258,398**	**1,386,063**	**1,359,039**

* As at April 30, 2016, the cumulated post-employment benefit remeasurement is $14,947 ($8,311 as at April 30, 2015) and the cumulated pension liability remeasurement is $66,211 ($45,994 as at April 30, 2015).

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, 2016

(In thousands of dollars)

	Notes	2016	2015
		$	$
Assets			
Current assets			
Cash and cash equivalents		**45,575**	72,263
Short-term investments	17	**37,536**	17,134
Receivables	3	**399,100**	289,644
Prepaid expenses		**4,919**	3,849
Inventory		**1,478**	1,869
		488,608	384,759
Marketable securities	17	**1,608,473**	1,485,821
Grants and contracts related to research receivable		**75,099**	36,739
Capital grants receivable	4	**723,402**	789,508
Loans receivable	5	**8,675**	10,186
Capital assets	6	**1,374,372**	1,340,600
		4,278,629	4,047,613
Liabilities			
Current liabilities			
Bank indebtedness	7	**120,242**	151,589
Accounts payable and accrued liabilities	8	**189,710**	181,397
Unearned revenue		**23,236**	22,136
Current portion of long-term debt	11	**127,448**	60,596
		460,636	415,718
Deferred contributions	9	**490,441**	412,231
Deferred capital contributions	10	**858,748**	838,761
Long-term debt	11	**896,152**	800,506
Accrued pension liability	12	**100,689**	96,681
Post-employment benefit obligation	12	**112,924**	104,368
		2,919,590	2,668,265
Commitments and contingent liabilities	19 and 20		
Net assets (deficiency)			
Invested in capital assets		**258,398**	267,560
Externally restricted for endowment purposes	13	**1,386,063**	1,400,600
Internally restricted	14	**74,636**	69,184
Unrestricted		**(360,058)**	(357,996)
		1,359,039	1,379,348
		4,278,629	4,047,613

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, 2016

(In thousands of dollars)

	Notes	2016	2015
		$	$
Operating activities			
Excess of revenue over expenses		**10,656**	66,937
Adjustments for			
Amortization of capital assets		**113,432**	109,009
Amortization of bond discount		**180**	198
Amortization of deferred contributions	9	**(364,986)**	(372,282)
Amortization of deferred capital contributions	10	**(57,838)**	(62,520)
Change in unrealized fair value of investments	15	**(6,202)**	5,329
Change in fair value of derivative financial instruments	15	**(2,032)**	10,752
Change in pension liability		**(16,209)**	(19,040)
Change in post-retirement benefit obligation		**1,920**	(17,512)
Gain on sale of land and buildings		**(23,151)**	—
		(344,230)	(279,129)
Net change in non-cash working capital items	16	**5,699**	1,766
Increase in government grant receivable		**(4,199)**	(1,522)
Decrease (increase) in grants and contracts related to research receivable		**(74,476)**	6,564
Increase in deferred contributions		**443,196**	370,567
		25,990	98,246
Investing activities			
(Increase) decrease in short-term investments		**(20,402)**	61,655
Acquisition of capital assets		**(147,204)**	(143,193)
Proceeds from sale of land and buildings		**23,151**	—
Purchase of marketable securities		**(1,486,451)**	(1,094,856)
Proceeds from sale of marketable securities		**1,372,033**	863,027
Change in loans receivable		**1,511**	1,643
		(257,362)	(311,724)
Financing activities			
Change in bank indebtedness		**(31,347)**	21,719
Investment income reported as direct increase (decrease) in net assets		**(37,494)**	105,814
Endowment contributions		**33,382**	43,533
Issuance of long-term debt		**224,000**	105,000
Bond issuance costs		**(1,084)**	—
Repayment of long-term debt		**(60,598)**	(94,240)
Deferred capital contributions		**77,825**	76,168
		204,684	257,994
(Decrease) increase in cash and cash equivalents		**(26,688)**	44,516
Cash and cash equivalents, beginning of year		**72,263**	27,747
Cash and cash equivalents, end of year		**45,575**	72,263

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

1. Status and nature of activities

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

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

2. Significant accounting policies

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

Consolidation

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

Revenue recognition

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

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

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

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

Gifts in kind are recorded at their fair value on receipt or at a nominal value when fair value cannot be reasonably determined. The value of gifts in kind in 2016 is $387 ($914 in 2015). 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.

2. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the University becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for investments and derivative financial instruments, which are measured at fair value at the balance sheet date. The fair value of listed 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.

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 ($17 million in 2015).

(In thousands of dollars)

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost. Constructed assets do not include interest incurred during construction. Contributed capital assets are recorded at appraised fair value at the date of contribution when fair value can be reasonably estimated; otherwise, they are recorded at a nominal amount. Amortization of assets under development commences when development is completed. The amortization 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 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 provided 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 University uses the immediate recognition approach regarding the accounting of the pension plan and the post-employment benefit 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 year 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 files was dated December 31, 2015.

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

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits (continued)

The University uses the immediate recognition approach by which the University recognizes:

– in the statement of financial position, 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 operations, the cost of the plan for the year; and

– in the statement of changes in fund balances, 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 benefit.

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, provisions for contingencies, pay equity and employee future benefits. Actual results may ultimately differ from these estimates.

3. Receivables

	2016	2015
	$	$
Operating, net of provision for doubtful accounts of $2,112 ($1,986 as at April 30, 2015)	**32,140**	29,354
Student loans, net of provision for doubtful accounts of $564 ($469 as at April 30, 2015)	**4,371**	4,298
Investment income	**2,447**	2,271
Government operating grants	**41,176**	37,720
Grants and contracts related to research – short-term	**191,550**	155,434
Capital grants receivable – short-term	**127,416**	60,567
	399,100	289,644

4. Capital grants receivable

Capital grants receivable relate to capital grants approved by Ministère de l'Éducation et de l'Enseignement supérieur ("MEES"), formerly Ministère de l'Éducation et de l'Enseignement supérieur et de la Recherche (MEESR), 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.

(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, 2015), with maturities up to eight years.

6. Capital assets

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	28,685	—	28,685	28,706
Land improvements	50,508	15,635	34,873	23,754
Buildings	630,722	348,515	282,207	290,527
Major renovations	954,727	265,340	689,387	677,219
Leasehold improvements	17,783	6,447	11,336	12,391
Equipment	469,257	266,505	202,752	197,806
Rolling stock	1,583	1,190	393	358
Library materials	164,247	91,044	73,203	68,643
Intangible assets	10,810	8,417	2,393	3,360
	2,328,322	1,003,093	1,325,229	1,302,764
Assets under development	49,143	—	49,143	37,836
	2,377,465	1,003,093	1,374,372	1,340,600

7. Bank indebtedness

In accordance with MEES regulations, McGill's Board of Governors has approved maximum borrowings of $300 million ($300 million as at April 30, 2015), under short-term credit facilities, of which $120 million has been used as at April 30, 2016 ($152 million as at April 30, 2015). Unsecured and uncommitted lines of credit, totalling $350 million ($350 million as at April 30, 2015), 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 2.73% for the year (2.95% in 2015). Through the use of bankers' acceptances, the average cost of borrowing for the year was 1.03% (1.41% as at April 30, 2015). The banker's acceptance rate in effect as at April 30, 2016, was 0.99% (1.13% as at April 30, 2015). Bankers' acceptances outstanding at year-end bear interest at rates ranging from 0.98% to 0.99% (1.01% to 1.52% as at April 30, 2015).

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $7,340 ($2,452 as at April 30, 2015) of government remittances.

(In thousands of dollars)

9. Deferred contributions

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

	2016	2015
	$	$
Balance, beginning of year	**412,231**	413,946
Restricted funds received during the year	**407,761**	339,236
Gifts and bequests	**35,435**	31,331
Amortization of deferred contributions	**(364,986)**	(372,282)
Balance, end of year	**490,441**	412,231

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

	2016	2015
	$	$
Federal grants	**221,658**	194,164
Provincial grants	**69,996**	50,966
United States grants	**4,803**	3,729
Other grant sponsors	**90,387**	68,081
Contracts	**13,059**	14,674
Gifts and bequests	**69,715**	58,814
Endowment income	**16,004**	16,989
Investment income	**4,819**	4,814
	490,441	412,231

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:

	2016	2015
	$	$
Balance, beginning of year	**838,761**	825,113
Deferred capital contributions received	**77,825**	76,168
Amortization of deferred capital contributions	**(57,838)**	(62,520)
Balance, end of year	**858,748**	838,761
Represented by		
Net deferred contributions – MEES	**455,331**	436,010
Net deferred contributions – Other provincial	**136,667**	130,328
Net deferred contributions – Federal	**121,848**	123,310
Net deferred contributions – Gifts donations	**132,852**	137,983
Net deferred contributions – Specific grant agreements	**12,050**	11,130
Balance, end of year	**858,748**	838,761

(In thousands of dollars)

11. Long-term debt

	2016	2015
	$	$
a)		
1) Bonds		
4.50% Series "11C", matured on May 27, 2015	—	4,703
4.40% Series "13C", matured on February 24, 2016	—	4,653
4.50% Series "14C", matured on March 8, 2016	—	7,000
	—	16,356
2) Notes (i)		
4.267%, matured on December 1, 2015	—	180
3.601%, due June 2, 2016	5,958	6,767
2.820%, due June 2, 2016	19,868	21,494
2.849%, due December 1, 2016	55,200	57,960
1.928%, due April 25, 2017	5,479	6,473
2.323%, due December 1, 2017	55,902	58,564
2.472%, due December 1, 2017	17,340	18,755
2.213%, due June 1, 2018	154,564	165,376
2.112%, due June 1, 2018	3,255	3,837
2.406%, due December 1, 2018	14,671	15,781
2.413%, due May 29, 2019	195,877	207,438
4.125%, due August 24, 2020	3,393	3,993
1.709%, due March 1, 2022	9,000	—
3.013%, due September 28, 2022	6,793	7,654
2.949%, due March 1, 2025	47,360	52,500
4.991%, due June 1, 2034	19,000	20,000
3.680%, due June 1, 2034	50,400	52,500
3.161%, due June 1, 2034	55,000	—
Total notes	719,060	699,272
Total Government of Quebec debt	719,060	715,628
b) McGill Senior Unsecured Debentures (ii),		
6.150% Series "A", mature on September 22, 2042	150,000	150,000
3.975% Series "B", mature on January 29, 2056	160,000	—
c) Other	92	122
d) Bond discounts and issuance costs	(5,552)	(4,648)
Total long-term debt	1,023,600	861,102
Current portion	(127,448)	(60,596)
	896,152	800,506

(In thousands of dollars)

11. Long-term debt (continued)

(i) 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	5,958
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	624*	—
1.709%, due March 1, 2022	819	4,907
3.013%, due September 28, 2022	886*	—
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
3.161%, due June 1, 2034	2,200	15,400

* Annual payments vary from year to year.

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

In January 2016, McGill issued $160 million of unsecured debentures. Unlike MEES 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:

	$
2017	127,448
2018	106,081
2019	171,941
2020	174,136
2021	12,173

(In thousands of dollars)

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, 2015, and the next required valuation will be as at December 31, 2018.

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, 2016, is estimated at $112.9 million ($104.4 million as at April 30, 2015). 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:

	2016	2015
	$	$
Cash payments recognized	**52,530**	52,390
Benefit costs	**20,826**	19,444
Accrued pension liability		
Defined benefit cost		
Current service cost	**7,420**	5,830
Interest cost on accrued benefit obligation	**4,307**	4,369
	11,727	10,199

(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:

	2016	2015
	$	$
Accrued pension liability	**(352,161)**	(351,784)
Fair value of Plan assets	**251,472**	255,103
Plan deficit	**(100,689)**	(96,681)
Obligation for defined benefits	**(100,689)**	(96,681)

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

	2016	2015
	%	%
Cash equivalents	**3.0**	2.7
Alternative assets	**12.6**	11.1
Equity	**30.8**	31.9
Fixed income	**53.6**	54.4

The significant assumptions used are as follows:

	2016	2015
	%	%
Discount rate		
Active	**5.75**	5.75
Retirees	**3.90**	4.75
Price inflation allowance	**3.00**	3.00

(In thousands of dollars)

12. Employee future benefits (continued)

Post-employment benefit obligation – unfunded benefits

	2016	2015
	$	$
Balance, beginning of year	**104,368**	112,006
Current service cost	**1,082**	1,353
Interest cost on accrued benefit obligation	**5,265**	5,805
Benefit paid	**(4,427)**	(4,922)
Net actuarial (gain) loss	**6,636**	(9,874)
Balance, end of year	**112,924**	104,368

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

	2016	2015
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	**5.75**	5.75
Retirees	**3.90**	4.75
Rate of compensation increase – Academics	**5.7**	5.7
Rate of compensation increase – Non-academics	**3.0**	4.0
Health care cost trend rates		
Current trend rate	**5.7**	6.0
Ultimate trend rate	**5.0**	5.0
Year of ultimate trend rate	**2019**	2019

13. Externally restricted for endowment purposes

	2016	2015
	$	$
Faculty endowments	**548,710**	597,152
Student aid	**423,741**	458,751
Research endowments	**107,655**	118,459
Emerging priorities	**18,453**	25,265
Library endowments	**24,821**	27,426
Student services	**8,792**	9,327
Annuities	**4,003**	3,156
Accumulated income	**249,888**	161,064
	1,386,063	1,400,600

(In thousands of dollars)

13. 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% plus an additional 0.25% for Fiscal 2016 to Fiscal 2019 (4.25% in 2015) 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.

14. Internally restricted net assets

	2016	2015
	$	$
Self-financing teaching and research	**26,720**	23,111
Professor start-up funds	**9,191**	9,666
Other	**38,725**	36,407
	74,636	69,184

15. Investment and interest income

	2016	2015
	$	$
Change in unrealized fair value of investments	**(6,202)**	5,329
Change in fair value of derivative financial instruments	**(2,032)**	10,752
Investment and interest income	**52,734**	49,547
	44,500	65,628

(In thousands of dollars)

16. Net change in non-cash working capital items

	2016	2015
	$	$
Receivables (operating, student loans and investment income)	**(3,035)**	9,944
Prepaid expenses	**(1,070)**	(688)
Inventory	**391**	(33)
Accounts payable and accrued liabilities	**8,313**	(4,491)
Unearned revenue	**1,100**	(2,966)
	5,699	1,766

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, 2016, McGill's foreign-denominated marketable securities had a fair value of CAD$882 million (CAD$974 million as at April 30, 2015), the most significant of which were US$ denominated marketable securities of CAD$656 million (CAD$702 million as at April 30, 2015).

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, 2016, 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$281 million with a forward rate of 1.3366 as at April 30, 2016, that matured on June 15, 2016 (€29 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). As at April 30, 2016, the fair value of these contracts approximated an unrealized gain of $23.6 million, which was recorded in marketable securities (an unrealized gain of $9.6 million as at April 30, 2015).

(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 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 $62.5 million ($56.7 million as at April 30, 2015) 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, 2016, the fair value of the swap is $38.2 million ($33.8 million as at April 30, 2015).

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

The University entered into bond forward contracts amounting to $214 million with various maturity dates, and a settlement date of May 20, 2016. As at April 30, 2016, the fair value of the bond forwards is $7.8 million lower and has been recorded as an unrealized loss and is included in marketable securities.

The University entered into a swap agreement for the purchase of natural gas maturing March 2017. The fair value of this 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 approximates the fixed price contracted for 2016 and 2015.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2016	2015
	%	%
Canadian equity	13	11
U.S. equity	17	21
Non-North American equity	16	19
Canadian fixed income	14	14
U.S. fixed income	4	4
Hedge funds	16	18
Alternate strategies, including private equity and other	20	13
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest at rates ranging from 0.47% to 5.10% (0.72% to 4.38% as at April 30, 2015).

18. Pledges

Outstanding donation pledges as at April 30, 2016, amounted to $141.8 million ($136.8 million as at April 30, 2015). These have not been recognized in the financial statements.

(In thousands of dollars)

19. Commitments

Operating leases

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

	$
2017	6,082
2018	5,325
2019	4,518
2020	2,155
2021	2,177
2022 and thereafter	5,292
	25,549

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $51.2 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 $45.2 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 Quebec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2016, 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.