Financial statements of

The Royal Institution for the Advancement of Learning / McGill University

April 30, 2018

Deloitte LLP
La Tour Deloitte
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The Royal Institution for the Advancement of Learning / McGill University

Balance sheet

As at April 30, 2018

(In thousands of dollars)

	Notes	2018	2017
		$	$
Assets			

The Royal Institution for the Advancement of Learning / McGill University

Statement of cash flows

Year ended April 30, 2018

(In thousands of dollars)

	Notes	2018	2017
		$	$
Operating activities			
Deficiency of revenue over expenses		**(22,517)**	(17,230)
Adjustments for:			
Amortization of capital assets		**127,122**	115,475
Amortization of bond discount		**202**	213
Amortization of deferred contributions	9	**(386,559)**	(371,893)
Amortization of deferred capital contributions	10	**(60,967)**	(57,249)
Change in fair value of investments	15	**1,823**	(3,293)
Change in fair value of derivative financial instruments	15	**(3,068)**	808
Change in pension liability		**(14,344)**	(21,548)
Change in post-retirement benefit obligation		**1,526**	1,565
		(356,782)	(353,152)
Net change in non-cash working capital items	16	**31,686**	(15,153)
(Increase) decrease in government grant receivable		**(32,428)**	12,172
(Increase) decrease in grants and contracts related to research receivable		**(4,213)**	14,800
Increase in deferred contributions		**438,387**	388,310
		76,650	46,977
Investing activities			
(Increase) decrease in short-term investments		**(8,933)**	11,144
Acquisition of capital assets		**(249,901)**	(132,008)
Purchase of marketable securities		**(1,338,580)**	(606,948)
Proceeds from sale of marketable securities		**1,360,333**	428,247
Change in loans receivable		**1,618**	1,563
		(235,463)	(298,002)
Financing activities			
Change in bank indebtedness			

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits (continued)

The University recognizes:

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

Use of estimates

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

3. Receivables

	2018	2017
	$	$
Operating, net of provision for doubtful accounts of $1,257 ($2,081 as at April 30, 2017)	**35,809**	33,443
Student loans, net of provision for doubtful accounts of $550 ($515 as at April 30, 2017)	**4,484**	4,712
Investment income	**2,782**	2,785
Government operating grants	**42,552**	

(In thousands of dollars)

5. Loans receivable

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

6. Capital assets

			2018	2017
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**28,685**	**—**	**28,685**	28,685
Land improvements	**56,090**	**20,294**	**35,796**	36,054
Buildings	**666,096**	**365,740**	**300,356**	273,942
Major renovations	**1,090,127**	**333,620**	**756,507**	701,213
Leasehold improvements	**18,818**	**3,891**	**14,927**	10,672
Equipment	**501,180**	**284,449**	**216,731**	206,035
Rolling stock				

(In thousands of dollars)

11. Long-term debt

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

(In thousands of dollars)

11. Long-term debt (continued)

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

	Annual payment	Final payment on maturity
	$	$
2.213%, due June 1, 2018	—	132,940
2.112%, due June 1, 2018	—	2,092
2.406%, due December 1, 2018	—	12,452
2.413%, due May 29, 2019	11,562	161,191
4.125%, due August 24, 2020*	677	—
1.709%, due March 1, 2022	819	4,906
2.947%, due September 1, 2022*	1,291	720
2.947%, due September 1, 2022*	1,344	750

11. Long-term debt (continued)

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

	$
2019	193,606

12. Employee future benefits (continued)

Post-employment benefit obligation – unfunded benefits (continued)

The significant assumptions used ar e as follows (weighted average):

16. Net change in non-cash working capital items

	2018	2017
	$	$

(In thousands of dollars)

19. Commitments

Operating leases

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

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

Construction in progress

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

Private equity and private real estate funding commitments

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

20. Contingent liabilities

Litigation

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

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

21. Comparative figures

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