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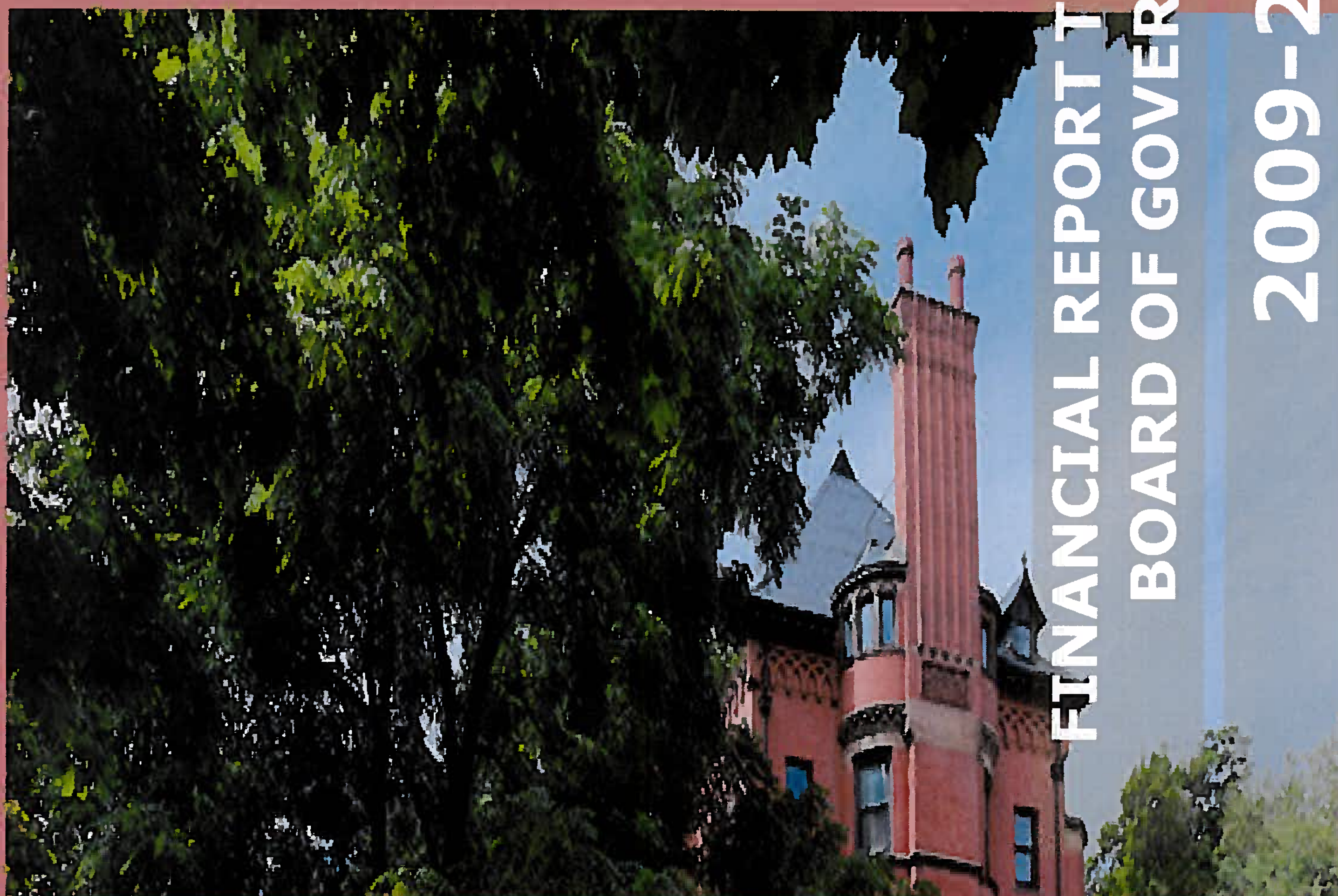
McGill

FINANCIAL REPORT TO THE BOARD OF GOVERNORS

2009-2010



THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING | McGILL UNIVERSITY
2009-2010 FINANCIAL REPORT TO THE BOARD OF GOVERNORS

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PART I

Financial Report to the Board of Governors

OVERVIEW

The Mission of McGill University is the advancement of learning through teaching, scholarship and service to society: by offering to outstanding undergraduate and graduate students the best education available; by carrying out scholarly activities judged to be excellent when measured against the highest international standards; and by providing service to society in those ways for which we are well-suited by virtue of our academic strengths.

This report provides a summary of the operational and financial activities of The Royal Institution for the Advancement of Learning | McGill University ("McGill") for the fiscal year ended May 31, 2010 and includes the audited financial statements of the University as at May 31, 2010. In accordance with new directives issued by the *Ministère de l'Education, du Loisir, et du Sport* (MELS), McGill's financial statements are being presented in accordance with Generally Accepted Accounting Principles (GAAP). In prior years, the accounting principles were dictated by MELS and excluded certain significant liabilities which are now being accounted for under GAAP. The introduction of these new liabilities, including vacation accrual, pension accruals, and provision for post-retirement benefits, have been recorded on a retrospective basis and consequently as a restatement of the prior years' fund balances, including the accumulated deficit. Section 2 of this Report, "Financial Highlights" provides for a more in-depth analysis of these changes.

The activities which support McGill's mission are captured internally in four distinct funds: Operating, Restricted, Plant, and Endowment. With the introduction of GAAP financials, the University's operational results are essentially reflected by the excess of revenue over expenses affecting Operating Net Assets, including the net amortization expense associated with Capital Assets in the Plant Fund. Both the Restricted and Endowment related activity no longer have an impact on the results of operations for the year, since these funds do not directly contribute to the annual surplus or deficit from "operations" due to the adoption of the GAAP deferral method.

McGill's overall balance sheet incorporates assets, liabilities, and Net Asset balances as reflected in the past and also includes the assets and liabilities held in trust (new GAAP requirement). In addition, GAAP changes have resulted in a recognition of amounts due from the Province with respect to capital assets. The overall liabilities now reflect deferred contributions which will be amortized into income in the future, and new liabilities related to future employee benefits. The majority of the Long-Term Assets consists of buildings, equipment, and other long-term assets, and its Net Assets Balance is represented as "Investments in Capital Assets". The Endowment related net assets contain the total investments held in perpetuity for the purpose of earning income for spending, as designated by the respective donors. These net assets are considered externally restricted. See Section 2 for more details.

This Report also includes various sections containing highlights relating to our students and our professoriate, as well as other specific information, as contained in Section 1.

1. OPERATIONAL HIGHLIGHTS

OVERALL PERFORMANCE

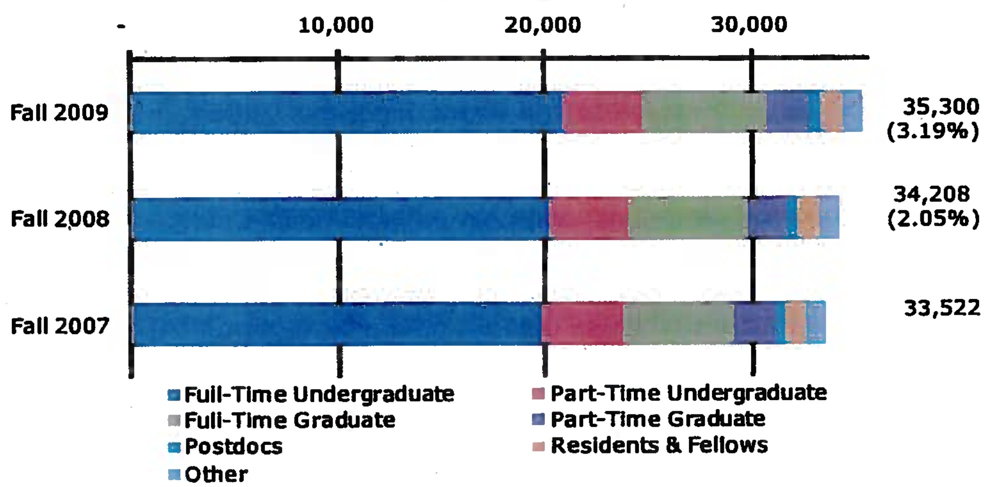
McGill continues to distinguish itself from peer institutions, as indicated in the following performance highlights:

- In 2009, McGill ranked 18th globally in the Times Higher Education-QS World University rankings, the 6th year in a row that we placed in the top 25.
- McGill remained number one among Canadian medical-doctoral universities in the Maclean's university rankings for the 5th year in a row.
- In 2009, McGill's subsidized on-site daycare, holiday shutdown, and phased-in retirement program are among the reasons the University has, for a second year running, been named one of Canada's Top 100 Employers, a list unveiled in the October 14, 2009 issue of Maclean's. This was the ninth annual edition of the country's most comprehensive independent study of workplace benefits.

STUDENTS

Total student enrolment in the fall of 2009 surpassed the 35,000 mark between its downtown and Macdonald campuses. The majority of the students enrolled in either full (59%) or part-time (11%) undergraduate programs, as highlighted in the chart below. Graduate students (full and part-time) accounted for an additional 23%. Residents, fellows, post-docs, and other students accounted for the remaining 7%. Overall, enrolment grew by 3.2% (prior year: 2.1%).

Student Enrolment



Source: McGill Enrolment Services

The total student enrolment is distributed amongst our 11 faculties and our Centre for Continuing Education, as depicted in the table below which outlines fall 2009 enrolments.

Enrolment by Faculty (Full-time and Part-time)

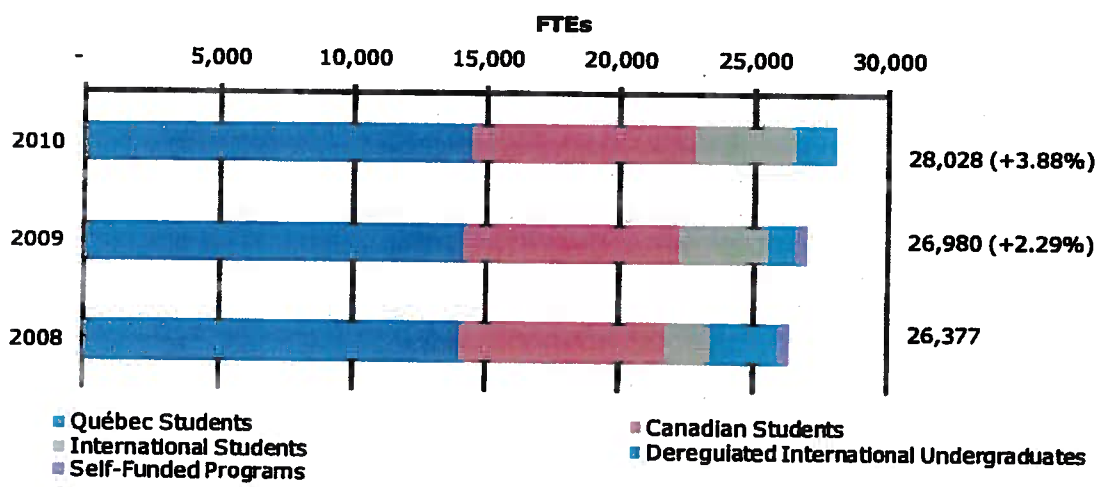
	Students	Percentage of Student Population
Agricultural & Environmental Sciences	1,633	4.6%
Arts	7,616	21.6%
Arts & Science (B.A. & Sc.)	558	1.6%
Continuing Education	4,355	12.3%
Dentistry	204	0.6%
Education	2,643	7.5%
Engineering	3,879	11.0%
Law	809	2.3%
Medicine(i)	4,465	12.6%
Desautels Faculty of Management	2,959	8.4%
Schulich School of Music	847	2.4%
Religious Studies	114	0.3%
Science	5,218	14.8%
	35,300	100.0%

Source: McGill Enrolment Services

(i) Total enrolment in Medicine includes 747 undergraduate students registered in Bachelor of Science medical disciplines (i.e. Nursing, Physical Therapy, and Occupational Therapy) who are required to enrol in Medicine courses in the first years of their programs. The rest of the undergraduate class account for 706 students, those in the graduate program total 1,606 students, post-docs total 354 students, and residents and fellows make up the remaining 1,052 students.

These student enrolments effectively translate into full-time equivalent units (FTEs) which are the root of government funding (grants), tuition and fees. The following chart highlights the billed FTEs over the last three years, realizing that McGill's overall student population is made up of students originating from Québec and the rest of Canada, as well as International students.

The MELS funding model funds students at various amounts based on their discipline of study. For example, an undergraduate student in Arts (classified as *Lettres* by MELS) is currently funded at annual amount of $5,125. On the other hand, a student in Dentistry (classified as *Médicine dentaire* by MELS) is currently funded at $29,350 per year.



Source: McGill Financial Services

During the year, MELS finalized its definition of *Frais Institutionelles Obligatoires* (FIOs) which essentially represent those administrative fees charged by universities to students in addition to tuition. MELS' objective was to limit the annual increase in these fees, based on the total of all these fees. In the past, McGill FIOs did not include "fees" charged to graduate students for additional sessions and at the same time McGill considered these charges as tuition, and not fees. However, MELS has dictated otherwise and required a change in how these students are charged. Accordingly, the FTE counts reported in the past, which included these additional session students, have been restated, with the effect of the current presentation of FTEs excluding approximately 1,000 FTEs which would have otherwise been reported as FTEs subject to tuition.

Tuition Fees

The tuition (regulated by MELS) for a full-time Quebec student in 2009-10 was $1,968 ($66.60 per credit), as compared to $1,868 in fiscal 2009. The tuition for a full-time out-of-province Canadian student was $5,500.80 ($183.36 per credit) up from $5,378.40 ($179.28 per credit) in fiscal 2009. The tuition for an International student in 2009-10 ranged from $13,965 ($465.50 per credit) to $26,667 ($888.89 per credit) depending on the program. The Canadian average is now approximately $5,200 per year.

Currently, MELS regulations require all Canadian Masters students to pay the out-of-province supplement, while Canadian Ph.D. students are exempt. These supplements are paid to the University, but an equivalent amount is deducted from the University's operating grant. No exemption exists for International students, but some tuition waivers do exist for a certain number of International students. As well, students from "francophonie" countries are exempt from paying the supplements, further to bilateral agreements between Quebec and those countries. MBA and Masters students in Manufacturing Management do not pay the supplement, but they do pay the self-funded tuition rate, similar to those registered in Educational Leadership and the Nunavut Teacher Education Program (NTEP). The total supplements deducted from our operating grants amounted to $66.3 million (2009: $62.9 million).

In fiscal 2009, the government permitted the deregulation of certain undergraduate disciplines, including Management, Science, Engineering, Law, Mathematics, and Computer Science. All other tuition fees in excess of the Quebec (regulated) tuition fee are effectively remitted in their entirety to the Government of Quebec via a "claw-back" in the annual operating grants.

Overall, the total numbers of full-time equivalent (FTE) students was above budget by approximately 2%. The deregulated international FTEs, as described above, are presented under the caption of "Deregulated International Undergraduates". The overall number of international FTEs (excluding those exempt from the supplement) increased by 20% to 4,282 (compared to a budget of 3,554), although this increase occurred in the funded segment of the international student population.

The deregulation of the aforementioned programs generated revenues of $27.6 million in fiscal 2010 ($24.1 million in 2008-09). Since fiscal 2009, the University has been allowed to charge over and above the mandated "supplement" amount (which is expected to increase annually) for these deregulated disciplines. In years 1 to 5, the University will retain an incremental 20% per year of the supplement, so that after five years 100% of the supplement paid will be retained. During the same period, the annual MELS funding for each of these students will decrease by an incremental 20%, resulting in no funding for these students subsequent to the fifth year. All support and building operating grants will not be affected by this new policy.

New Programs

During the year, the University introduced many new programs in order to enhance its offerings to students. These include the following:

Agricultural and Environmental Science	B.Sc. (Ag.Env.Sc.)	Specialization in International Development (24 cr.) B.Eng. (Bioresource): Major in Bioresource Engineering: Professional Agrology (113 cr.) Specialization in Agri-Business (24 cr.) Specialization in Environmental Economics (24 cr.) International Agriculture - Minor (24 cr.) FAES Internship Option (0 cr.) Minor in Animal Biology (24 cr.) Minor in Animal Health and Disease (24 cr.)
Arts	B.A. M.A.	Neo Hellenic Studies - Minor Concentration (18 cr.) Islamic Studies: Gender and Women's Studies (Thesis) (45 cr.)
Arts & Science	B.A. & Sc.	Sustainability, Science and Society (54 cr.)
Continuing Education		Certificate in Finance (30 cr.) Diploma in Finance (30 cr.) Diploma in Supply Chain and Operation Management (30 cr.)
Dentistry		Certificate in General Practice Residency
Education	M.A.	Counselling Psychology: Non-Thesis- Project (45 cr.) Teaching and Learning (MATL)
Medicine		Graduate Diploma in Primary Care Nurse Practitioner (30 cr.) Graduate Certificate in Theory in Primary Care (15 cr.) Graduate Certificate in Theory in Neonatalogy (15 cr.)
Music	Ph.D.	Graduate Diploma in Professional Performance (30 cr.) Music: Gender and Women's Studies
Religious Studies	M.A.	Religious Studies: Gender and Women's Studies (45 cr.)
	Ph.D.	Religious Studies: Gender and Women's Studies
Science	B.Sc.	Honours in Software Engineering (72-75 cr.) Minor in Natural History (24 cr.)

Source: McGill Academic Planning Office

Graduation

Degrees are awarded at three periods during the academic year, Fall, Winter, and Summer Convocations. The following chart depicts the total number of degrees awarded during these three terms during the academic year.

Degrees Awarded

	2008-2009	2007-2008
Undergraduate	4,819	4,836
Masters	1,421	1,274
Doctoral	455	399
Certificates & Diplomas (UG, Grad)	750	722
CE Non-credit Certificates	205	208
	7,650	7,439

Source: McGill Enrolment Services

Degrees Awarded, by Faculty

	2008-2009	2007-2008
Agricultural & Environmental Sciences	359	309
Arts	1,743	1,752
Arts & Science (B.A. & Sc.)	107	67
Centre for Continuing Education	773	768
Dentistry	46	36
Education	668	671
Engineering	731	692
Law	222	219
Medicine	775	723
Desautels Faculty of Management	962	879
Schulich School of Music	212	201
Religious Studies	22	29
Science	1,030	1,093
	7,650	7,439

Source: McGill Enrolment Services

International Students

We now welcome over 6,800 International students of whom 82% are from the 20 countries listed below.

International Students - Full-time and Part-time

Top 20 Countries	Fall 2009
1. USA	2,305
2. France	695
3. China	413
4. India	291
5. Saudi Arabia	248
6. Iran	238
7. South Korea	232
8. Pakistan	197
9. United Kingdom	128
10. Mexico	121
11. Germany	108
12. Japan	104
13. Australia	89
13. Bangladesh	89
15. Lebanon	70
16. Egypt	57
17. Brazil	54
17. Turkey	54
19. Italy	52
20. Malaysia	49
21. Other	1,235
Number of students from all foreign countries	6,829

Source: McGill Enrolment Services

Student Mobility and Student Exchange Programs

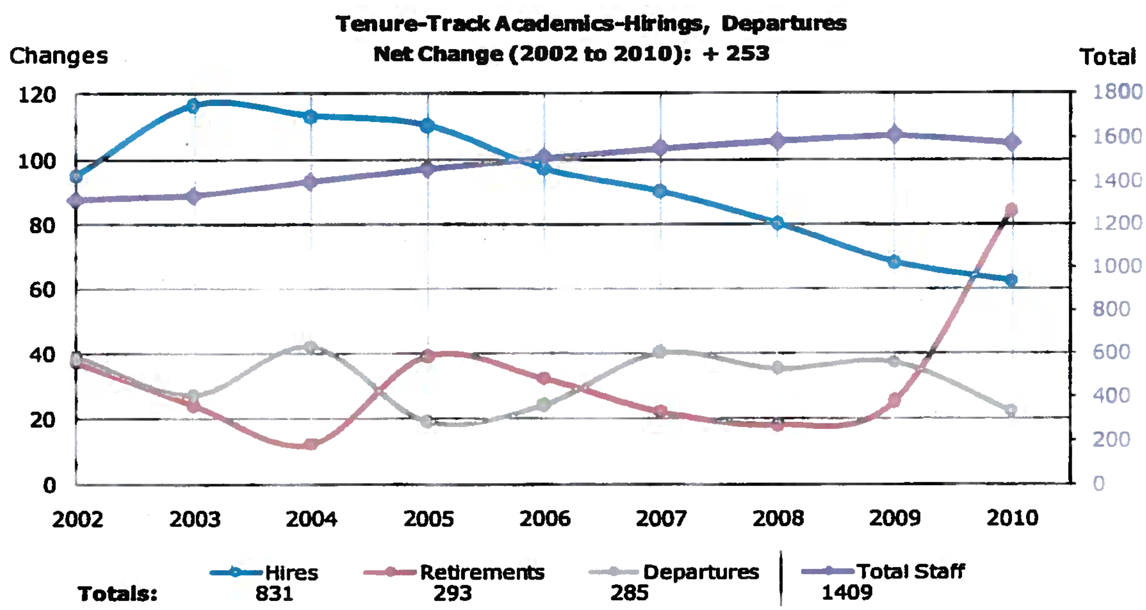
The student mobility and exchange programs, approved by Senate, include the following:

- Tel Aviv University Faculty of Management
- Ecole Centrale de Marseille
- MOU – Shantou University Law School, Shantou, Guangdong, China
- Escola de Administração de Empresas de São Paulo, Fundação Getulio Vargas, São Paulo, Brazil
- Université Paris Dauphine, Paris, France
- Trinity College Dublin, Dublin, Ireland
- St Petersburg State University, Graduate School of Management, St. Petersburg, Russia
- Visiting Student Agreement – University of the Sacred Heart, Tokyo, Japan
- Ecole des Hautes Etudes Commerciales de Paris, France

Source: McGill Academic Planning Office

TENURE-TRACK ACADEMIC STAFF

Our academic staff ranks have continued to grow to support the new programs and program offerings to students. The academic renewal program which started in the early 2000s has produced many new Faculty members, coming from all over the world in various fields of study. Currently, the total number of tenure-track academics is approximately 1,570, as compared to approximately 1,271 prior to the academic renewal program. Over the past three years, the progression of net new hires has continued, as depicted in the following graph.



Source: McGill Academic Personnel Office

During the fiscal 2010, a total of 62 new tenure-track academics were appointed, ranging from assistant to full professors across the various faculties. Nine tenure-track librarians were also appointed, as outlined in the following table.

New Tenure-Track by Faculty/Unit

Agricultural & Environmental Sciences	2
Arts	10
Dentistry	2
Engineering	5
Law	2
Desautels Faculty of Management	9
Medicine	11
Schulich School of Music	1
Science	20
Faculties	**62**
Librarians	9
	71

Source: McGill Academic Personnel Office

Other Staff (as at May 31st)

	2010		
	Full-Time	Part-Time	Total
Library Assistants	124	3	127
Research Associates	419	57	476
	543	60	603

Source: McGill Human Resources

ACCOMPLISHMENTS

Our academic staff continue to perform at exceptional levels and are awarded many honours. Fiscal 2010 was no exception, as a number of them were recognized for their distinctive work and accomplishments, as highlighted below:

Recipient	Award
Phil Gold (Medicine)	Canadian Medical Hall of Fame
Victoria Kaspi (Physics)	Killam Research Fellowship
Victoria Kaspi (Physics),	Prix Marie-Victorin
Vincent Giguère (Medicine)	Royal Society of Canada
Allan Sniderman (Medicine)	Royal Society of Canada
Bruce Reed (Computer Science)	Royal Society of Canada
Brian D. Alters, (Medicine)	McNeil Medal, Royal Society of Canada
Margaret Lock (Medicine)	Order of Canada
Nahum Sonenberg (Medicine)	Order of Canada
Nahum Sonenberg (Medicine)	Canada's Health Researcher of the Year in Biomedical and Clinical Research
Alice Chan Yip (Medicine)	Order of Canada
James C. MacDougall (Psychology)	Order of Canada
Claudio Cuello (Medicine)	Order of Canada
Ernesto Schiffrin (Medicine)	Order of Canada
Mostafa Elhilali, (Medicine)	Ordre national du Québec
Brenda Milner (Medicine)	Ordre national du Québec International Balzan Prize Goldman-Rakic Prize for Outstanding Achievement in Cognitive Neuroscience 2010 Norman A. Anderson Lifetime Achievement Award
Professor Heather Munroe-Blum	Ordre national du Québec
Guy Moore (Physics)	NSERC E.W.R. Steacie Memorial Fellowship
Richard King (Music)	Grammy Awards
Steven Epstein (Music)	Producer of the Year (Classical)
Matt Dobbs (Physics)	2010 Sloan Research Fellowship
Vassilios Papadopoulos (MUHC Reseach Institute)	American Association for the Advancement of Science Fellowship
Leon Glass (Physiology)	American Association for the Advancement of Science Fellowship
Sharon Bond (Social Work)	Prix Mérite, Conseil interprofessionnel du Québec
Bill Ryan (Social Work)	Martin Luther King Jr. Legacy Award
Mark Wainberg (Director of McGill AIDS Centre)	Canadian Medical Association Medal of Honor
Charles Scriver (Alva Professor Emeritus of Human Genetics)	Shared $200,000 Pollin Prize with American scientist Roscoe O. Brady
Lynne McVey (Nursing)	Prix Florence
Laurie Gottlieb (Nursing)	2009 Order of Merit
Kim Brooks (Tax law expert)	3M National Teaching Fellowships
Michael Meaney (Psychiatry)	Radio-Canada Scientist of the Year
Gustavo Turecki (Psychiatry)	Radio-Canada Scientist of the Year
Moshe Szyf (Pharmacology and Therapeutics)	Radio-Canada Scientist of the Year
Ronald Melzack (Psychology)	2010 University of Louisville Grawemeyer Award for Psychology

Source: Public Affairs Office, McGill Research and International Relations

ADMINISTRATIVE AND SUPPORT STAFF

The support network required to assist both students and professors is varied and comes from a variety of individuals working in different capacities around the University. A total of 3,447 individuals work to support the academic and research mission of the University, as highlighted below:

	2010		
	Full-Time	Part-Time	Total
Management	1457	59	1516
Clerical	931	47	978
Technical	458	44	502
Trades/Services	420	31	451
	3266	181	3447

Source: McGill Human Resources

Administrative Staff Awards

Each year, the Principal's Awards for Administrative and Support Staff program recognizes the outstanding contributions of administrative and support staff to McGill University. This annual program provides staff the opportunity to promote, acknowledge, and commend the exceptional efforts of their peers.

The advisory committee to the Principal considered many applications for recommendation. The five awards for the past year were presented to the following:

Veronica Amberg, Equity and Diversity Program Officer, Social Equity and Diversity Education Office

Eva Cucinelli, Senior Administrative Coordinator, Desautels Faculty of Management

Bruce Osler, Library Services Assistant, HSSL Collections

Shannon Lenhan, Events Attendant, University Services

Human Resources Shared Services – Service Centre, Human Resources

2. FINANCIAL HIGHLIGHTS

FINANCIAL POSITION – Balance Sheet per Generally Accepted Accounting Principles (GAAP)

Previously, McGill's Balance Sheet included four funds and total columns (current and prior years), which captured the total assets, liabilities, and fund balances. In adopting full GAAP, the four predecessor funds, which included the Operating (Unrestricted), Restricted, Plant, and Endowment Funds, have now been combined in one column to present the total assets, liabilities, and fund balances of the University. As a result of the change to GAAP, the comparative amounts included in the prior year financial statements have also been restated to reflect a retrospective application of GAAP. This has resulted in a significant change to the University's opening Net Assets (e.g. accumulated deficit) as outlined in the section below (see GAAP presentation – Restatement of prior year's Net Asset balances).

GAAP presentation changes

Below is a summary of the GAAP changes affecting both the Balance Sheet and Statement of Revenue and Expenses.

Balance Sheet:

1) Pledge receivables are no longer recorded; cash receipts are recorded as revenue.
2) Deferred contributions (e.g. mainly relating to research grants) are recorded to reflect the portion of the restricted contribution that has not been spent.
3) Deferred capital contributions are recorded and amortized into revenue annually, over the economic life of the asset.
4) Capital grants owing from MELS are now accounted for as a receivable, including annual capital grants, MELS long-term debt, unpaid matured bonds, and other special capital grants.
5) Compensation related liabilities, such as vacation accrual, pension and other retirement liabilities, and post-retirement benefit provisions are now recorded as liabilities.
6) MELS sinking fund is no longer recorded as a reduction of long-term debt. The sinking fund contribution is only recognized upon repayment of related long-term debt.
7) Long-term receivables are discounted to their present value using the borrowing rate in effect at May 31 (previously not discounted, per MELS guidelines directives).
8) Certain categories of capital assets have required a write-down on net book value to reflect a change in the annual amortization rates and periods dictated by MELS (see *Other mandated changes by MELS* below).
9) Trust assets and liabilities are now required to be presented as part of Balance Sheet assets and liabilities.

Statement of Revenues and Expenses:

1) Capital assets are no longer expensed and re-capitalized in Plant Fund. Standard GAAP capitalization and amortization (over economic life) rules apply.
2) Under former MELS rules, one-side interfund transfers were recorded as an addition to Fund Balances in the Plant Fund. These are not allowed under GAAP as a result of the change described in 1) above.
3) Unrealized fair market value gains (losses) are now presented as "investment income" rather than separately disclosed below "surplus (deficit) for the year".
4) Internal loan repayments (capital and interest) were previously included as part of "building occupancy costs" and "interest expense", respectively, and are now presented as part of interfund transfers.
5) Annual changes in the pension or post-retirement benefit liabilities are recorded as "benefits expense".
6) The previous contribution from the Endowment Fund to fund operations is no longer recognized as revenue on a GAAP basis.

Other mandated changes by MELS

Capital asset amortization rates and capitalization thresholds have also changed, as per directives issued by Quebec's Controller General. Some of the most significant changes include the creation of three new renovation classes, namely mechanical/electrical renovations, interior renovations, and structural renovations, which are amortized over 25, 30, and 40 years respectively. In addition, the amortization of library books has changed from 40 years to 10 years. This has led to a recalculation of the annual amortization expense, and has resulted in a retrospective write-down in the opening net book value of capital assets in fiscal 2009 totalling $272.2 million and an $8.1 million increase from the reported amortization expense. This change has resulted in a reduction in *Net Assets – Invested in Capital Assets*.

GAAP presentation – Restatement of prior year's Net Assets balance

The directives received from MELS required the adoption of full GAAP financial statements for the year ended May 31, 2010, including a restatement of prior year comparative amounts. In the past, certain GAAP choices were made, however, other GAAP requirements were not respected, such as the recognition of significant liabilities relating to vacation accrual and post-retirement obligations which negatively impact the University's (pre-GAAP) accumulated deficit. Although these GAAP departures were disclosed in Note 2 to the audited financial statements, the economic impact of these items were never recorded in the University's accounts. At the same time, other GAAP deviations, such as the double recording of assets, have been remedied and resulted in the elimination of the duplication of cost for the same asset (i.e. Capital expense and amortization). Other changes also imposed by MELS included the use of new amortization rates and thresholds relating to capital assets, as described above. As a result of a December 2009 actuarial evaluation, the pension plan liabilities associated with our annuity offerings to pensioners and the defined minimum benefits provision of the Plan exceeded the market value of the underlying assets. As a result, the pension plan deficit has been incorporated as an adjustment to the May 31, 2009, Net Assets balance.

Note 2 to the audited financial statements highlights the impacts related to all the GAAP changes. Of note, certain of these changes directly impact the opening Net Assets balance for year ended May 31, 2009, which we would have considered to be the "operating accumulated deficit" of the University. As these changes have been retrospectively restated, the following table outlines the impact to the "operating accumulated deficit" as if they were recorded prior to fiscal 2009.

Pre-GAAP, May 31, 2009 (as previously reported):		$ 71.5 M
GAAP adjustments:	Vacation accrual	$ 22.1 M
	Pension and related liabilities	$ 44.7 M
	Post-employment liability	$ 103.2 M
Prior period adjustment – MELS grant (2008)		$ 6.6 M
GAAP, May 31, 2009 (restated):		$ 248.1 M

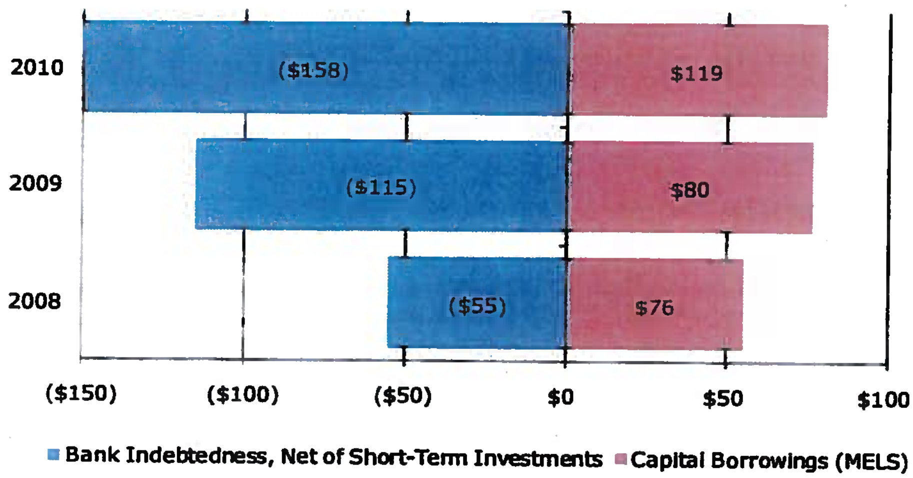
Going forward, the GAAP liabilities will be evaluated annually, with the resulting changes recorded in the benefits expense included in the statement of revenue and expenses. The prior period adjustment – MELS grant (2008), relates to the overpayment in fiscal 2008 of the prior year enrolment grant that have been adjusted by MELS in fiscal 2010.

Balance Sheet Assets and Liabilities

1. Net cash position

The Board of Governors has authorized a maximum of $250 million in bank borrowing out of a possible $370 million through credit facilities (see Note 8 in the *Audited Financial Statements*). As at May 31, 2010, McGill had a bank indebtedness of $175.8 million, as compared to $165.1 million one year earlier. Bank indebtedness, net of short-term investments ($13.4 million) and marketable securities ($4.8 million) held for operations, was $157.6 million (2009: $114.8 million). This increase in net bank indebtedness ($42.8 million) is primarily due to increased temporary borrowings to support the various construction projects in process (most of which are funded by MELS). The following chart outlines the progression of the net cash position over the last three years, as compared to the level of temporary capital borrowing on behalf of MELS. The timing of the issuance of long-term debt to reimburse the temporary borrowings is dictated by the *Ministère des Finances* and the *Ministère de l'Education, du Loisir, et du Sport*.

Net Bank Indebtedness at May 31st
($ millions)



Source: McGill Financial Services

2. **Total receivables**

a) **Short-term receivables (Financial Statements Note 4)**

Short-term receivables total \$245.5 million (2009: \$226 million), including \$151.8 million (2009: \$152.3 million) relating to research grants and contracts (see Section 2 b). The grants and contracts related to research represent amounts awarded to the University which will be received within the next year. The total amount is represented as follows:

Receivables consist of the following:

($ in millions)	2010	2009
Operating	29.9	23.7
Student Loans	2.9	3.4
Investment Income	2.5	2.8
Government Grant	58.4	43.8
Grants & Contracts Related to Research	151.8	152.3
Total:	**245.5**	**226.0**

The government grant receivable of \$58.4 million relates to the operating grant (excluding the \$6.6 million long-term portion – see below),

b) **Long-term receivables (Financial Statements Note 5 and 6)**

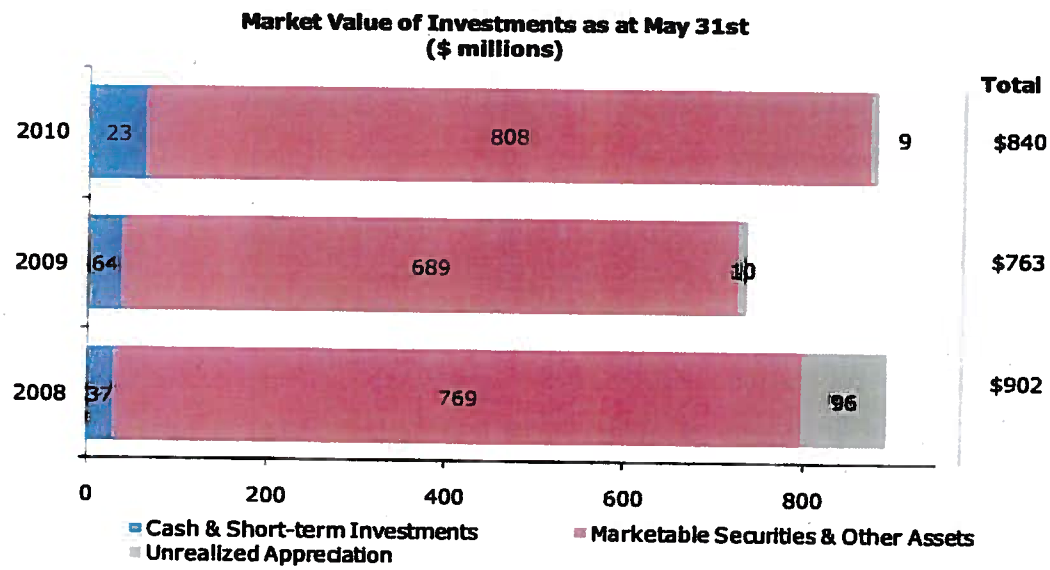
In addition to the \$6.6 million in the government grant (per above), there exists \$59.7 million in the grants and contracts receivables. In adopting new GAAP, we have also recorded a receivable relating to current and prior years' capital grants amounting to \$634.9 (2009: \$548.3 million). This amount effectively includes \$509.9 million associated with the long-term debt issued on behalf of MELS (i.e. total debt, excluding \$150 million McGill Debentures and bond discounts), and \$119.1 million in temporary borrowings due from MELS. (see Section 4 below).

Other loan receivables total \$3.1 million (2009: \$4.3 million).

3. Marketable securities at market value (Financial Statements Note 16)

Total marketable securities amount to $855.8 million (2009: $745.8 million), including $4.8 million relating to operations (see Section 1 above), and includes $814.9 million (2009: $694.4 million) relating to endowment investments. In addition, $34.9 million (2009: $31.8 million) relates to an investment purchased from proceeds of the 2002 McGill Bond issue. This investment is expected to accumulate to $150 million in 2042 in order to extinguish the related debt at that time. The remaining $1.2 million (2009: $19.6 million) relates to other operating funds invested temporarily in marketable securities.

The total investments managed as part of the McGill Investment Pool amount to $840.2 million (2009: $763.4 million), including the $814.9 million in marketable securities mentioned above (see Section Endowment Gifts). The following chart outlines the significant assets included in the $840 million.



Source: McGill Audited Financial Statements

The "Other Assets" portion of the endowment investments include staff mortgages receivable totalling $0.7 million (2009: $1 million).

4. Capital assets (Financial Statements Note 7)

Total capital assets amount to $1.004 billion (2009: $0.906 billion) and include various asset categories as outlined in Note 7 of the *Audited Financial Statements.*

Net capital assets additions (including those under development) during the year totalled $98.1 million (2009: $77.3 million), of which $81.8 million (2009: $47.2 million) was related to buildings and renovations including assets under development.

Of the total gross capital cost additions to buildings and renovations, the largest increase experienced was for the Molson Stadium ($21.4 million), the new residence at 410 Sherbrooke ($10.1 million), McBIR CFI project expansion at the MNI ($7 million), Otto Maass Chemistry Building ($6.3 million), Royal Victoria College Residence ($5.6 million), and many others under $5 million each.

The table below outlines the significant net asset additions during the year, by asset category:

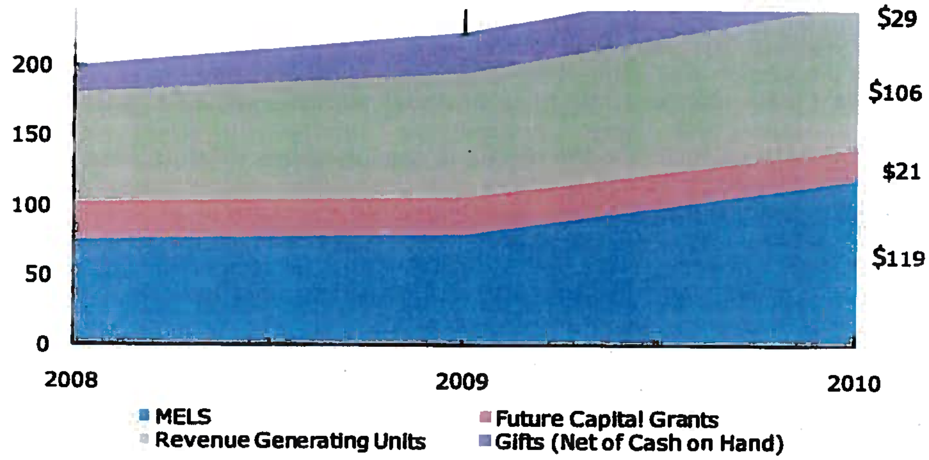
($ millions)	$	
Land and Land Improvements	15.5	15.8%
Buildings and Renovations	81.8	83.4%
Leasehold Improvements	0.7	0.8%
Library Books	(1.3)	-1.4%
Equipment (Including Intangibles)	1.6	1.7%
Non-Depreciable Assets	0.1	0.1%
Other Assets-Bond Discounts	(0.3)	-0.3%
Total:	**98.1**	**100.0%**

The majority of the funding for these capital projects is expected to come from the Quebec Government and to a lesser extent from the *Canadian Foundation for Innovation* (CFI). Other expected sources of funding include future gifts and capital grants to be applied to existing building costs. These amounts are temporarily financed by short-term bank borrowings.

As at May 31, 2010, temporary capital asset borrowings on behalf of MELS amounted to $119.1 million (2009: $80.1 million) and related to approved outstanding capital and other specific capital grants. In addition, borrowings of $20.7 million (2009: $25.6 million) remain for deferred maintenance and campus renewal projects, which will be repaid from future capital grants and other sources. A total of $28.7 million (2009: $28.8 million), is expected from future donations on buildings such as the Life Sciences Complex, the New Music Building, 740 Dr. Penfield Avenue, the Bronfman Building, the Barton Library, the Chancellor Day Hall, and the Gelber Law Library.

In addition to the above, revenue-generating projects (such as residences, parking, etc.) are expected to generate annual capital repayments (and related interest costs) for its share of the of the $150 million bond debenture proceeds used. As at May 31, 2010, a total of $105.5 million (2009: $101 million) are expected to be recovered from revenue-generating units, including the three former hotel acquisitions since 2002 (to be used as student residences).

The following bar chart outlines the five years of outstanding sources of funding, which when received, will reduce short-term borrowings.



Source: McGill Financial Services

5. Current liabilities

Excluding bank indebtedness, total current liabilities amount to $207.5 million (2009: $195.4 million) and include accounts payable and accruals totalling $130.2 million (2009: $118.2 million). These payables have increased primarily due to the special early retirement accrual and additional construction activity. The amounts also include vacation accruals which have been accrued under GAAP presentation requirements.

Unearned revenue of $26.4 million (2009: $18.4 million) also forms part of this category and includes fees paid for the summer 2010 semester.

In addition to the above, current liabilities include the short-term portion of long-term debt, as described in Section 7 below, totalling $50.8 million (2009: $ 58.8 million).

6. Deferred contributions (Financial Statements Notes 9 and 10)

With the adoption of the GAAP deferral method, revenues are deferred until the matching expense is incurred. In the case of restricted contributions received for non-capital expenses, the total deferred revenue as at May 31, 2010 amounted to $143.7 million (2009: $126.1 million). These revenues will be recognized in the future when the associated non-capital expenditure is incurred.

With respect to deferred capital contributions, the May 31, 2010 total was $612.2 million (2009: $584.9 million). These revenues will be recognized in the future as the underlying assets are amortized annually.

The increase in both these deferred contributions totalling $44.9 million, together with deferred contributions recognized as revenue of $43.6 million (2009: $26.7 million), represents an increase in overall awards to the University.

7. Long-term debt (Financial Statements Note 11)

Total issued debt increased by a $36.5 million (net) as a result of new *Financement Quebec Promissory Notes* (Notes) issued by MELS totalling $95 million (2009: $82 million). This was in part used to repay matured bonds and repayment of previously issued notes totalling $58 million (2009: $74 million). The remainder of the proceeds were used to repay our temporary bank borrowings (see Section 4 a). Other bank debt repayments amounted to $0.5 million (2009: $0.2 million) on debt previously issued by other provincial ministries and other parties.

The remaining variation relates to the change in bond discounts which totalled $5.6 million at May 31, 2010, as compared to $6 million in the prior year. These bond discount costs are associated with the 2002 Issue of the $150 million McGill Debentures and are being amortized over the life of the 40 year bond. The GAAP presentation now requires bond discounts to be shown as a reduction of long-term debt, rather than a capital asset. The related annual amortization totalled $0.3 million (2009: 0.4 million) and is included in interest and bank charges.

8. Long-term liabilities (Financial Statements Note 12)

With the introduction of full GAAP financials, new compensation related liabilities have been recorded. These include pension obligations totalling $64.6 million (2009: $55.6 million), and post-employment benefits of $108.3 million (2009: $103.2 million).

Both of these liabilities were confirmed by independent actuarial valuations, which incorporate appropriate assumptions relating to each of the valuation exercises. In the case of the pension obligation, the total liability is summarized below by two main components, which have changed over the last 3 years.

a) Pension obligations

The first component relates to a $40 million deficit (2009: $37 million) arising from the difference between the projected liabilities associated with annuities, which the University has underwritten in the past, and the market value of assets available to extinguish this liability. Since the last valuation of December 2006, the market values of the underlying assets have significantly decreased (- $42 million) due to the deterioration in capital markets. In addition, the related liability has increased by $15 million, resulting in a shift from the previously confirmed $17 million surplus to the $40 million deficit position.

The second component of liability, totalling $9 million (2009: $8 million), results from increasing liabilities (+ $22 million) over the past 3 years, which have been triggered by the minimum defined benefit provisions of the Pension Plan. There exists $15 million of assets in the Supplemental Fund portion of the Pension Plan to offset future payments associated with the current $24 million liability.

The return on pension assets as at December 31, 2009, as reflected by Balance Fund, was 14.2% (2009: 15.7% loss).

b) Post-employment benefits

With respect to the post-retirement obligation, the liability projected by the actuaries is a reflection of the future payments required to contribute to the medical, dental, and life insurance benefit coverage for current staff and retirees. During the year, changes were made to these benefits which effectively reduced the overall liability, however, the current value of these future benefits remains significant.

9. Net Assets (Financial Statements Note 13 and 14)

Net assets in a non-profit environment represents capital which is invested in assets and/or surpluses (deficits) pertaining to core missions. The GAAP classifies net assets in various categories according to any restrictions imposed on future spending, including *Invested in Capital Assets, Externally Restricted, Internally Restricted, and Unrestricted*. The Invested in Capital assets represents the accumulated amounts contributed to the University for the purpose of acquiring long-term capital assets. Externally and Internally restricted balances are amounts available for future purposes and are affected by the nature of the restriction imposed. Unrestricted Net Assets balances represent the total amount of accumulated surpluses (deficits), assuming all internally restricted balances are spent in the future.

At May 31, 2010, McGill had a balance of $426.7 million in Invested in Capital Assets, $807.6 million associated with Externally Restricted balances associated with Endowments, $31.5 million of Internally Restricted balances, and a negative $313.4 million of Unrestricted Net Assets balances. Together, Unrestricted and Internally Restricted net assets total ($201.9 million).

The new Statement of Changes in Net Assets includes investment income earned from Endowment investments totalling $34.4 million (2009: loss of $158.8 million), which effectively represent restricted earnings in excess of amounts distributed for restricted endowed spending.

Endowment contributions totalled $39 million (2009: $46.9 million) and are now reflected as an increase in Net Assets as part of this statement, as compared to being included in the overall revenue in the past.

A summary of total Endowment asset growth is included below in section "Endowment Gifts".

10. Trust assets and liabilities

GAAP requires that assets held in trust by the University on behalf of various parties be presented as part of the overall balance sheet asset and liabilities. Included in the total assets are $13.8 million (2009: $13.4 million) in marketable securities and $2.8 million in cash/reduction in bank indebtedness (2009: $1.1 million). A corresponding total amount is included in accounts payable and accrued liabilities.

OVERALL SOURCES OF REVENUES AND EXPENSES

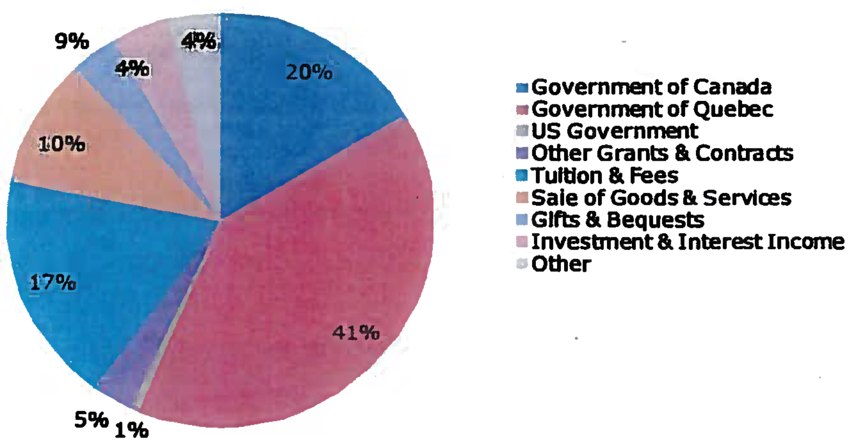
As a result of the newly adopted GAAP changes, the overall surplus (deficit) position of McGill University has changed from previously reported amounts. In particular, the new presentation clearly outlines the change in revenues and expenses for any particular year in the line item *Excess (deficiency) of revenue over expenses,* as there are no other items to consider in arriving at the change in Net Assets balance for each year, except the following. As discussed above, the presentation of endowed gifts now requires it to be disclosed as an increase in Net Assets balance and not to be considered as part of the revenues available to support expenses. Accordingly, on a GAAP basis, total fiscal 2010 revenues were $5.7 million (2009: loss of $13.5 million) in excess of expenses. As explained earlier, these amounts include endowment investment income generated to support the spending distributions to endowment unit holders. The net restricted amount realized over the distributions is shown as an increase in Net Assets.

The current year's total revenue on a GAAP basis was $1.04 billion (2009: $990.0 million) representing a 5.4% increase. The individual revenue sources are consistent with those of the prior years, restated for any GAAP adjustments described previously in this document. With the adoption of the deferral method of accounting for restricted contributions, the Statement of Revenue and Expenses now depicts one total annual column for both revenues and expenses. The past presentation included a total column, in addition to the four columns, which included activities of the distinct funds (i.e. Operating, Restricted, Plant, and Endowment) used internally to manage McGill's operations.

One of the significant GAAP changes affecting revenues relates to the deferral of restricted contributions (e.g. research revenues). Revenues associated with future expenses (e.g. research or capital) are deferred on the Balance Sheet until such expenses are incurred. The previous GAAP choice resulted in the recognition of revenues in the year earned/awarded, regardless of when the expense was incurred. Also, past presentation of revenue items included *Gifts and bequests* for all intended purposes. New GAAP presentation rules require that *Gifts and bequests* for endowed purposes, totalling $39 million (2009: $46.9 million), be shown as part of the change in Net Assets (externally restricted for endowed purposes) and not as revenue.

The chart below summarizes the various sources of revenues, excluding endowment gifts totalling $39 million (2009: $46.9 million).

Total Combined Sources of Funding
$1.04 billion



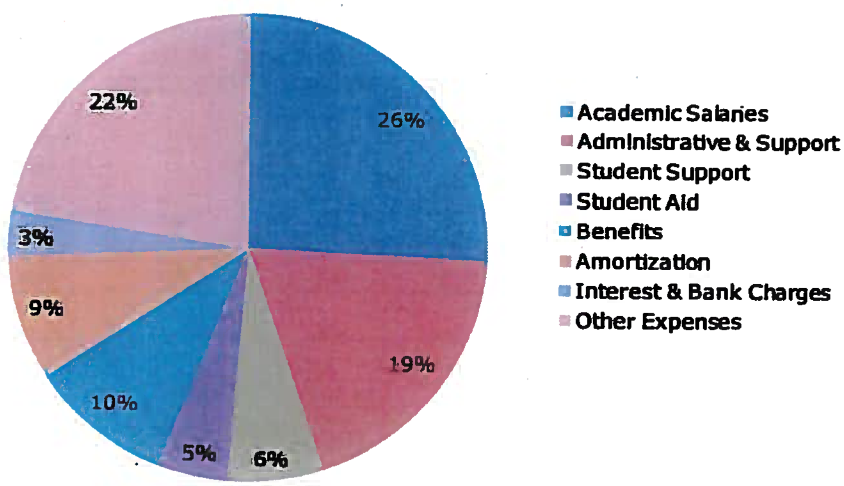
Source: McGill Audited Financial Statements

Total combined expenses incurred to support McGill's activities were $1.038 billion in 2010 (2009: $1.004 billion) presented on the new GAAP changes. As part of the GAAP changes, capital assets, which were previously recorded as an expense, and later capitalized and amortized, are no longer expensed. GAAP requires that the asset be capitalized and amortized over their useful lives. This has resulted in a reduction of expenses as compared to previous years' presentation. Changes have also been dictated by the provincial government with respect to asset amortization rates, periods and capitalization thresholds, which has affected the net book value of previously reported assets and the annual amortization expense. Another significant increase in expenses results from the recognition of annual non-cash expenses relating to newly disclosed pension obligations and post-retirement benefits. These liabilities have been described above in Section 8.

In prior years, MELS required that the annual expenses to both of these items include only amounts paid. GAAP requires the annual expense to reflect the total annual costs related to these benefits, regardless of whether paid or not during the year. Other presentation changes between various expense line items have been made, to either conform to GAAP, or better reflect the economic activities of the year (including a restatement of prior years). Another significant expense accrual during fiscal 2010 relates to a special early retirement program, which totals $12.4 million (including cash and accruals). A timing effect will be experienced as certain payments will be made in future fiscal years, yet the full costs are recorded in the current year even though funding for this was budgeted for in fiscal 2011.

The following pie chart illustrates the breakdown of the total expenses.

Total Combined Expenditures
$1.04 billion



Source: McGill Audited Financial Statements

SOURCES OF REVENUES

1. Grants and Other revenue

Grants and other related revenue used to support the teaching and research mission of the University totalled $660 million in 2010 (2009: $650 million), which represents 57.1% (2009: 74.8 %) of total revenues. This total includes $43.6 million (2009: $26.7 million) of deferred revenue recognized as "other revenues" in the financial statements which relate to prior year grant sources. Per GAAP, research revenue is recorded to the extent that research operating and amortization expenses are incurred. Previous years' deferred amounts, which are recognized in the current year, are represented as other revenue in the table below and are included in the total grant amounts for illustration purposes.

GRANTS (including Deferred Revenue) ($ millions)

Purpose	Quebec	Canada	US	Other Sources	Other Revenues	2010
Operating	315					315
Capital	69	14				83
Indirect Costs		24				24
Research	19	118	6	20	44	207
Other Restricted	12	17		2		31
Total:	**415**	**173**	**6**	**22**	**44**	**660**
	63%	26%	1%	3%	7%	100%

Purpose	Quebec	Canada	US	Other Sources	Other Revenues	2009
Operating	300					300
Capital	67	16				83
Indirect Costs		25				25
Research	18	141	7	24	27	217
Other Restricted	9	16				25
Total:	**394**	**198**	**7**	**24**	**27**	**650**
	61%	30%	1%	4%	4%	100%

a) Operating grants

Include amounts received from MELS to operate the University and are based on a valuation of the total student population reported during the year. Other annual operating grants include amounts for graduation premiums, indirect cost support, and specific initiatives. As part of the calculation of the operating grant, MELS reduces the grants for any recoveries or "supplements" charged (and collected) by the universities from Canadian or International students. Certain students are exempt from being charged supplements due to international treaty agreements or other regulations in force. The supplements "returned" to the province in fiscal 2010 total $24 million (2009: $24.9 million) and $42.4 million (2009: $38.2) for Canadian and International students, respectively. MELS has agreed to eliminate the recovery of international supplements associated with 6 specific disciplines over the next 5 years, as both the return of supplement and the annual grant support to these students will be discontinued. Discussions will recommence in order to extend this practice to all International students. In the meantime, universities can charge what they deem appropriate to students in the 6 disciplines, which are Management, Science, Engineering, Law, Math and, Computer Science.

b) Capital grants

Consist of annual or specific capital grants received by the University. Annually, McGill University receives approximately $15 million and $25 million for capital and deferred maintenance grants, respectively. The latter is part of a 15 year commitment announced in fiscal 2008.

In the past, these grants were recognized as paid/funded during the year. GAAP now defers grants in order to match future capital/amortization expenses and includes the portion of prior year awards, and which are recognized in the year to match amortization expenses.

c) Federal Indirect Cost of Research Grant

In 2001-02, the federal government created a new funding source for Canadian universities in an effort to address the growing indirect costs associated with research. McGill's share of this total in fiscal 2010 was $17.8 million (net of $6.5 million allocated to its affiliated hospitals). This amount is slightly above 20% of the total direct cost of research but inferior to the minimum required 40%; MELS is funding (included in operating grants) Quebec-sponsored research at levels ranging from 50 to 65% (e.g., social science to medical research).

The net amount retained by McGill to cover indirect costs will vary depending on where the research activity is actually carried out.

	2010	2009
Federal Grant	24,331	25,315
Amount Due to Hospitals	(6,499)	(8,239)
Total:	17,832	17,076

Source: McGill Audited Financial Statements

d) Research

McGill is considered one of Canada's top research intensive universities. Annually, the University attracts research grants and contracts from various governments, foundations, corporations, and other sources. The overall research activity is generally summarized in two main streams: direct research grants and contracts, and infrastructure grants. The direct research grants and contracts are primarily characterized by annual grant awards from the federal tri-council, provincial granting councils, or other grant sponsors, from Canada or other countries. Since the early 2000s, both the provincial and federal levels of government have also created new pools of resources to fund research infrastructure: Canada via the *Canadian Foundation for Innovation* (CFI), and Québec through various matching programs. Overall, the breakdown of activities, including contracts of $11.1 million (2009: $16.5 million), is as follows:

Total Research Grants and Contracts

	2010	2009
Represented by:		
Direct Funded Research	188,700	207,234
Infrastructure Grants	29,384	26,659
	218,084	233,893

Source: McGill Financial Services

In addition to the above, the CFI announced in fiscal 2009 a $100 million award to the Research Institute of the MUHC and McGill. The award represents the largest infrastructure investment CFI has made, and will be used to equip a new, state-of-the-art, medical research center as part of the MUHC's new facilities on the Glen Campus.

e) Other restricted

In order to support research activities, both the federal and provincial governments have awarded McGill students with scholarships and other support. Specifically, the federal government awarded a total of $17 million (2008: $16 million) while the provincial government awarded $3 million (2009: $3 million) for similar purposes. In addition, the provincial government funded other activities and programs, including $5 million (2009: $5 million) for teaching costs in the affiliated hospitals, and $4 million (2009: $1 million) for student placement, bursaries for abroad and other restricted activities.

2. Tuition and fees

The second largest source of revenue for the University is tuition and fees totaling $187 million (2009: $169.8 million), which accounts for 17.9% (2009: 17.2%) of total revenues, excluding investment income. Tuition is derived from both credit courses (i.e. students are funded by the province) and non-credit courses, which are considered to be self-financing and the University is free to charge what the market will bear. In addition to tuition, the University charges fees for various services and activities, and is included in the chart below.

Tuition and Fees ($ millions)	**2010**	**2009**
Quebec	29.1	27.1
Canadian	43.1	40.4
International	69.8	60.6
Other tuition	2.2	1.3
Non-Credit courses	4.0	3.7
Administrative fees	25.6	24.5
Student Service fees	13.2	12.2
Total:	**187.0**	**169.8**

3. Sale of goods and services

The University generates these revenues by operating units from various activities across its two campuses. Included in the total $104 million (2009: $100.5 million) in revenues, are those generated (from third parties) primarily by ancillary type services, including residences, food services, the Bookstore, and others, totaling $56.6 million (2009: $52.6 million). Other academic and support units generated the remainder of revenues from the sale to third parties of various good and services.

4. Investment and interest income

The investment and interest income recorded on a GAAP basis totals $44.7 million (2009: $29.4 million) and includes, in large part, non-distributed income derived from endowment investments and any unspent income associated with restricted purposes, which are deferred to future periods to match the expenditures. These restricted amounts are shown as an increase in Net Assets. During the year, a total of $79.2 million (2009: loss of $126.7 million) was generated, including other interest income of $2.1 million (2009: $4.8 million). As per our policy, unit holders can only spend 4.25% of the average three year market value, which amounted to $40 million (2009: $47.3 million). The reduction in spendable amounts reflects a decision in 2009 to reduce the distribution rate from 5% to the current rate. The annual total above the spendable income (net of $2.4 million in related investment expenses – 40 basis points) is shown as increase in Net Assets.

Overall, total investment earning of the Endowment resulted in a 14.2% (2009: 15.7% loss) return on investments.

Also, as at May 31, 2010, the accumulated unspent investment income amounted to $82.8 million (2009: $55.2 million) and represents 2.1 years (2009: 1.4 years) of current annual distributions.

5. Other sources of revenue

The remaining sources of revenue include research contracts $11.1 million (2009: $16.6 million) and gifts and bequests $36.7 million (2009: $23.4 million), excluding endowment gifts (see Statement of Net Assets). The "other" revenue totalling $43.6 million (2009: $26.7 million) relates to the change in deferred contributions, as described in Section 1.

EXPENSES REQUIRED TO FULFILL THE MISSION

Total Compensation and student aid amounted to $681.0 million (2009: $633.2 million). This represents 65.6% of total expenditures (2009: 63.1%). The shift in percentages is influenced by continued compensation and salary requirements, including early retirement program (+ $12.6 million), additional support to students (+ $12.2 million) via student aid and student salaries, and new GAAP expenses re: pension and post-retirement. These pressures, combined with our continued efforts to reduce non-salary expenditures (net $13.5 million), resulted in a shift of our total funding towards compensation items during fiscal 2010.

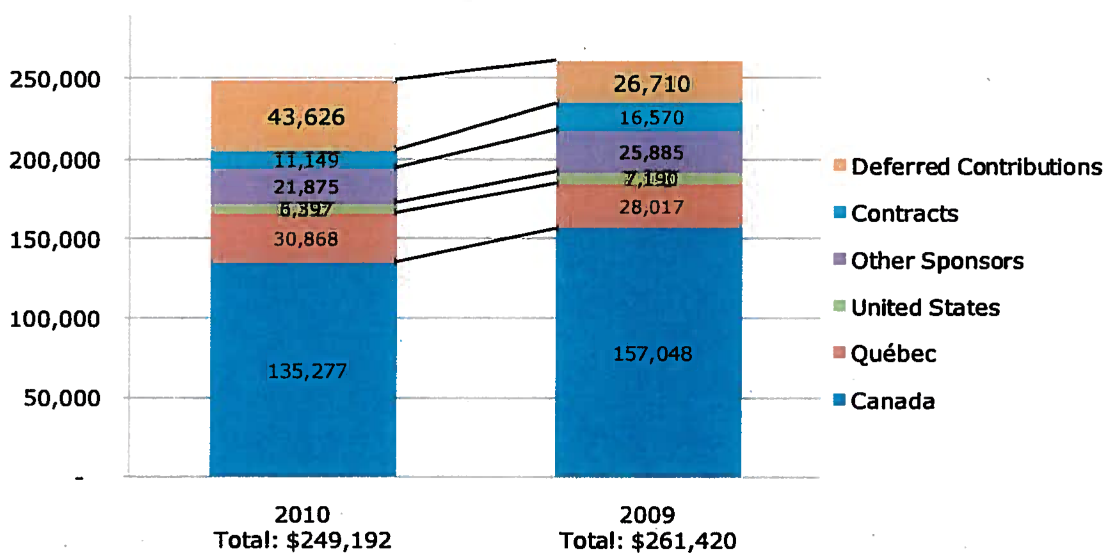
Other non-salary expenses totalled $356.8 million (2009: $370.3 million), comprising of many various expense types, including *Materials, supplies and publications* $38.7 million (2009: $39 million), *Building and Energy costs* totalling $40.4 million (2009: $43.4 million), *Amortization costs* of $90 million (2009: $84.8 million), *Interest and bank charges* of $32.8 million (2009: $36.5 million), and other expenditures. See *Statement of revenue and expenses* for further details.

RESEARCH ACTIVITIES

Direct funded research, as per Section 1 d above, totalled $188.7 million (2009: $207.2 million). A further $21.9 million (2009: $24.2 million) was generated in research contracts. Of the total direct funded research, 14% was awarded for research infrastructure grants ($29.4 million).

The largest sponsors of restricted grants and contracts (including those relating to research) to McGill continue to be the federal and provincial governments. Together they account for $166.2 million (2009: $185.1 million) of the total in grants and contracts. The following chart outlines the total restricted research grants and contracts generated for either research or other restricted purposes (i.e. aid) over the last two years:

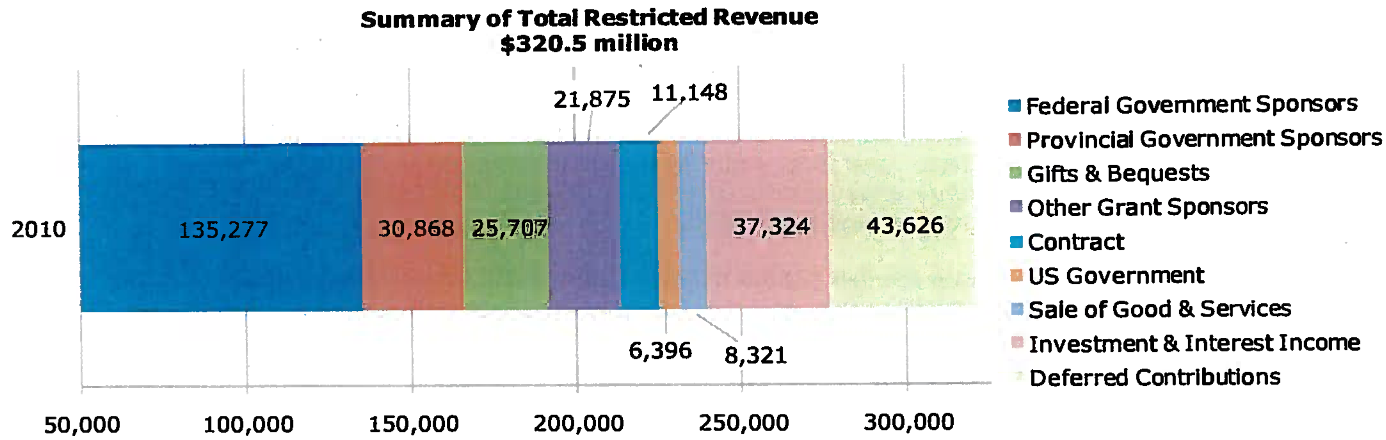
Summary of Restricted Grants & Contracts
($ thousands)



Source: McGill Financial Services

In addition to research grants and contracts included in the above totals, total research funding is supplemented by other sources of revenues, including investment income of $6.4 million, gifts of $3.9 million, and other sources totalling $3.2 million. Total revenues available for research purposes amounted to $231.6 million (2009: $244.2 million).

Other sources of restricted income are generated by the University to support activities as directed by the sponsors. The following chart highlights all sources of restricted revenues whether for research and other restricted purposes totalling $320.5 million (2009: $326.6 million).



Source: McGill Audited Financial Statements

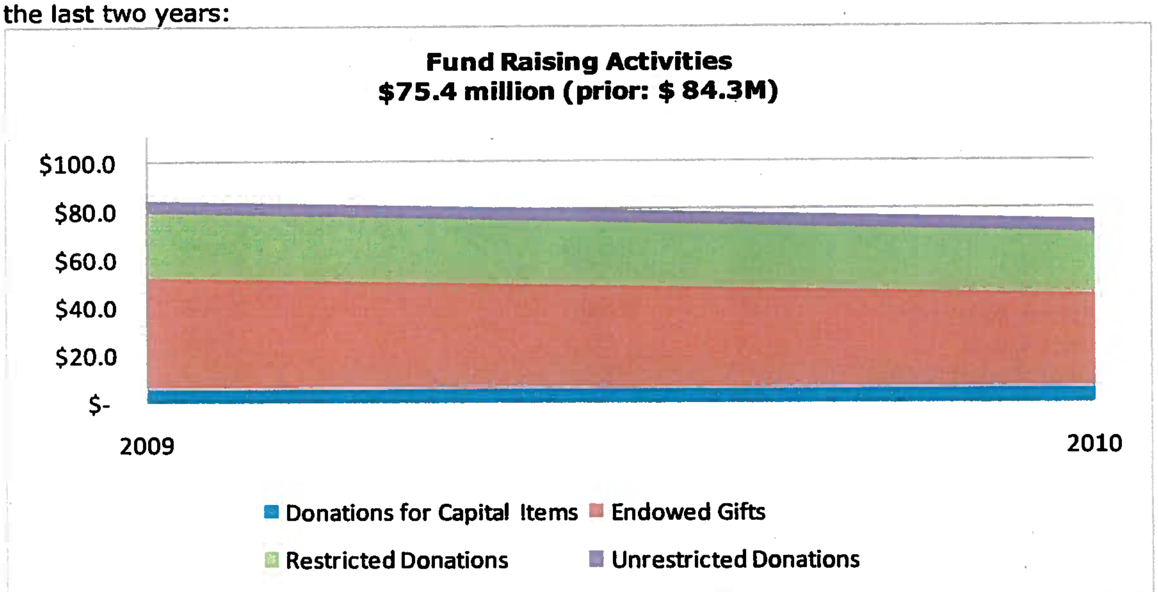
The Restricted expenses incurred include those with terms that are dictated by granting agencies (in the case of research grants or contracts) or the sponsoring party (e.g. donor gifts for student aid). These expenditures are considered and managed internally as "restricted" due to the nature of the restrictions, imposed on the spending of these funds by individual sponsors.

On a GAAP basis, overall restricted expenses have increased slightly to $302.8 million from a level of $300.6 million in the prior year. The majority of the increase ($10.8 million) was in student salaries and aid ($8.1 million), and other compensation ($2.7 million). This was offset by a reduction in non-salary expenses ($8.6 million).

Under GAAP, capital assets are no longer expensed as restricted expenditures, but rather capitalized and amortized over the economic lives of the associated assets. Instead, the associated grant revenue is deferred as *Deferred capital contributions* and recorded as income annually over the life of the asset in order to match the annual amortization expense.

FUNDRAISING ACTIVITIES

As a result of the continued economic slowdown, the annual target of $100 million per year was not met. The following chart illustrates all gifts and bequests revenue (including endowment related) over the last two years:



Source: Financial Services

The Annual Report on Private Giving provides comprehensive details of the total gifts and bequests. Campaign McGill is expected to generate a total of $750 million. Once the campaign has ended, the steady state annual inflow of gifts and bequests is expected to exceed $100 million.

Specific gifts have been received for the purposes of acquiring specific assets and may also include contributions to finance specific buildings and other assets. During the year, several gifts were received to upgrade the facilities in the Desautels Faculty of Management, Molson Stadium and other athletics facilities, Environmental and Mechanical Engineering labs, the Ludmer Research and Training Building, and other projects. In the prior year, several large donations were also received for buildings and other renovation projects.

ENDOWMENT GIFTS

All donations received for endowed purposes are invested by the Endowment Fund and included specific spending restrictions, as per the wishes of the donors. McGill's policy is to distribute 4.25% (based on the rolling three-year average) of investment earnings to the beneficiaries of the endowments. In fiscal 2010, $40 million (2009: $ 47.3 million) was distributed, based on a MIP unit rate of $14.60. The distribution rate for fiscal 2010 was reduced to 4.25% from 5%, further to a Board resolution.

Overall, the endowment investment returns improved from 2009 levels due to better market conditions. The table below outlines the overall growth in McGill's Endowment assets.

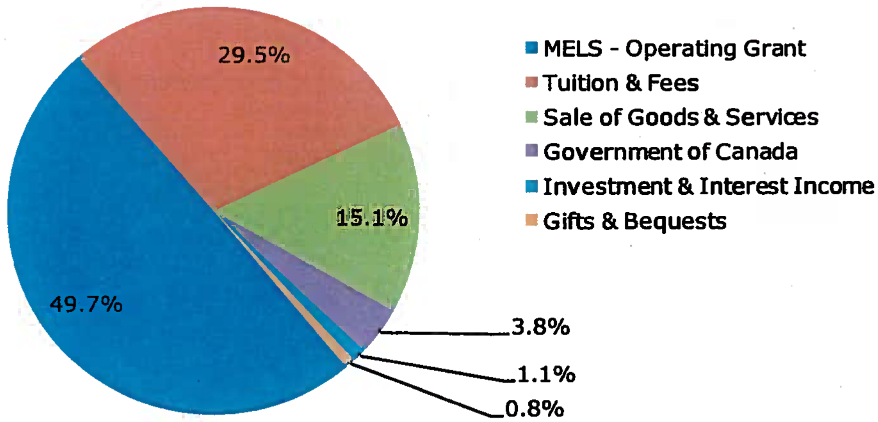
($ in millions)	2010		2009	
Opening Book Value June 1st	753.3		805.6	
Unrealized Market Value	10.1		96.5	
Opening Market Value	763.4		902.1	
New Gifts Received	38.7	5.1%	46.5	5.2%
Net Income (Loss) Realized	67.0	8.8%	(57.8)	-6.4%
Income Distributed (Net)	(32.3)	-4.2%	(39.1)	-4.3%
Transfers to (from) Other Funds	4.3	0.6%	(1.9)	-0.2%
Realized Increase (Decrease) in Assets	77.7	10.2%	(52.3)	-5.8%
Change in Unrealized Market Values	(0.9)	-0.1%	(86.4)	-9.6%
Total Increase (Decrease) in Fund Value	76.8	10.1%	(138.7)	-15.4%
Closing Book value at May 31st	831.0		753.3	
Unrealized Market value	9.2		10.1	
Closing Market Value	840.2		763.4	

Source: Financial Services

OPERATING HIGHLIGHTS

The following chart highlights the various sources of Operating (Unrestricted) Fund revenue on a GAAP basis for the year ended May 31, 2010.

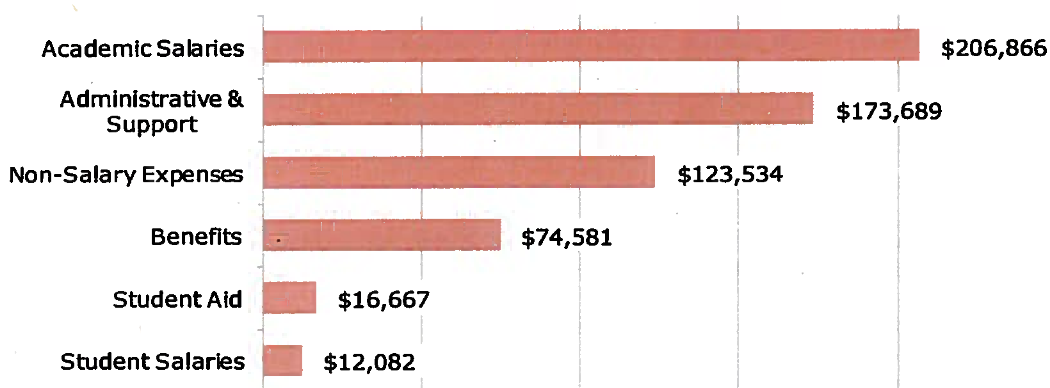
Sources of Operating (Unrestricted) Revenues
$634 million



Source: McGill Financial Services

The University's spending is varied and consists of many different types of expenditures. Total operating type of expenditures amounted to $607.4 million on a GAAP basis. Below is a summary of the types of expenses incurred, including salaries & benefits which total $483.9 million (80% of total). The total academic salaries include approximately $12 million of special early retirement costs, which were either paid or accrued at May 31, 2010. In addition, the benefits expense includes $9.7 million in GAAP adjustments related to the increase in pension and post-retirement benefit liabilities.

Sources of Unrestricted (Operating) Expenses - By Type
($ millions)

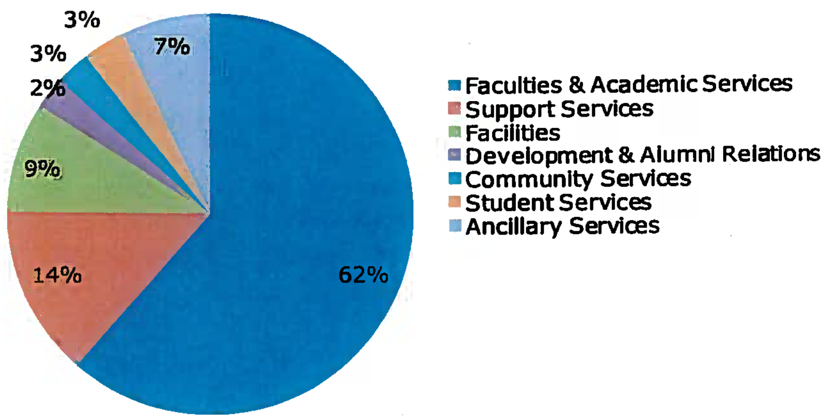


Source: McGill Financial Services

The total activities of the University are undertaken by various units and functions, including faculties, academic services (primarily libraries and information technology), and support units which account for 87% of total spending. The remaining units are considered self-financing, of which, ancillary operations (e.g. the Bookstore, residences, parking, etc.) represent 13% of total expenses, as highlighted in the following chart.

The following chart highlights the various areas of expenditures (prior to interfund transfers), including the self-financing areas/units, of which, community service activities are based primarily in faculties.

Sources of Unrestricted (Operating) Expenses-By Group
$607.4 million



Source: McGill Financial Services

Overall, some operating revenues also differed from the 2010 Budget Report, including the following significant items below:

- Tuition and fees were above budgeted amounts due to increased enrolments.
- Overall, the University generated more sales of goods and services, net of related costs.
- Despite the downturn in the economy, unrestricted gifts and bequests were more than what was planned for.
- The investment markets did impact endowment investment income (for the portion budgeted in operations and overall).

The 2010 operating expenses are affected by the two expense components (salary and non-salary). The items below represent individual expense amounts incurred over amounts budgeted.

1. Salaries and benefits were greater than budgeted due to the following significant items:
   - Academic salaries were above target due to the early retirement program mentioned above.
   - Administrative salaries were below budget, however, student salaries exceeded budget.
   - Significant additional student aid was spent, as compared to plan.
   - Overall benefits expense was affected by the GAAP adjustment described above.

2. Overall, non-salary expenses were lower than budgeted, and absorbed some of the overages experienced above. The budgets at the local unit levels are primarily managed on a global basis, and as a result, unallocated budgets are held in *other non-salary expenses*.

The overall operating deficit on a pre-GAAP basis of $7.4 million (2009: $11.4 million) was slightly greater than our $4.7 million fiscal 2010 budget deficit included in the fiscal 2011 Budget Report approved by the Board last May. However, when taking into account the early retirement program, the cost compressions and additional initiatives taken to increase revenue, a favourable budget position is observed.

On a pre-GAAP basis, our "accumulated operating deficit" now stands at $85.5 million, including the prior period adjustment mentioned on page 14. Once all GAAP changes are taken into account, the "Operating" Net Assets stands at $297.2 million (restated) at May 31, 2010.

3. DEFERRED MAINTENANCE – CAMPUS RENEWAL

In a 2007 study of deferred maintenance conducted under the auspices of *Conférence des recteurs et des principaux des universités du Québec* (CREPUQ), the accumulated value of deferred maintenance associated with McGill's academic buildings and supporting infrastructure (i.e. those funded by MELS) was estimated to be $650 million. The needed work was classified in four priority categories as follows:

Priority	Descriptor	Timeframe	Total
1	Urgent	1 yr	$139 M
2	Essential	1-2 yr	$212 M
3	Desirable	5 yrs	$230 M
4	Planned	after 5 yrs	$69 M
			$650 M

Source: McGill Campus and Space Planning

According to these figures, McGill's global *Facility Condition Index* (FCI), which is the ratio of the value of the deferred maintenance to the building replacement value, for these academic facilities was at 31%, indicating a "critical" situation. A maximum acceptable FCI is typically considered to be 10%, while 5% is frequently judged to be a reasonable target value.

A further study of deferred maintenance was completed in 2009 for non-academic and self-financing buildings at McGill. The total value of deferred maintenance for these properties is estimated to be $185 million, as summarized below, with $42 million and $143 million for facilities located on the Macdonald and downtown campuses, respectively. Since these facilities are not covered under the MELS deferred maintenance programs described below, funding to address these needs must derive from other sources.

Priority	Descriptor	Timeframe	Total
1	Urgent	1 yr	$46 M
2	Essential	1-2 yr	$50 M
3	Desirable	5 yrs	$53 M
4	Planned	after 5 yrs	$36 M
			$185 M

In the fall of 2007, the Government of Québec announced a new $1 billion funding plan for the education sector over 15 years to help address the deferred maintenance problem common to all universities, CEGEPs, and public schools. This new money results in an anticipated $25.8 million of annual funding for McGill for deferred maintenance over 15 years, which represents an increase of $15.8 million per year over the $10 million that McGill received under a previous deferred maintenance program that had a matching component (for which the matching component is now discontinued).

Under these sources of funding, University Services is carrying out an estimated $150 million in deferred maintenance projects over the period of 2008 to 2011. Projects were prioritized based on three key considerations: (1) health and safety; (2) technical urgency with respect to maintaining functionality of infrastructure; and (3) impact on and support of academic priorities. As of September 2010, approximately $59 million of these projects are at or near completion, $62 million are currently under active construction, and the balance are in the design or tender phases. Other work is being planned over a 3 to 4 year period with initiation of design to begin in 2011. Work is being advanced at an accelerated pace beyond the annual amount of $25.8 million in recognition of the importance of slowing or halting the degradation of existing deferred maintenance.

Additional capital funding was recently secured from the Federal Government's two-year $2 billion Knowledge Infrastructure Program (KIP), an economic and job stimulus program announced in March 2009, designed to support infrastructure renewal and enhancement at post-secondary institutions across Canada. Through this program, McGill received approvals to proceed with four projects in conjunction with MELS and the *Ministère du Développement économique de l'Innovation et de* *l'Exportation* (MDEIE). Of the projects approved, one was a $19.7 million "new build" project at the Douglas Hospital. The other three are valued at approximately $81 million and are designed to address priority deferred maintenance and upgrade needs in three buildings on the downtown McGill campus, as follows: McIntyre Building project valued at $28.7 million, Otto Maass/Pulp & Paper Buildings project valued at $27.6 million, and the Macdonald Engineering Building project valued at $24.7 million. As part of the latter project, MELS required that McGill contribute $9 million, which is to be funded from the University's allocation of deferred maintenance funds from MELS. In total, this infrastructure program brings an additional $72 million to McGill to address deferred maintenance and facility upgrade needs.

These projects are making an important difference in the quality of the teaching and research environment at McGill. However, with the passage of time, "essential" items of deferred maintenance identified above will gradually become "urgent" issues of increased cost. Furthermore, additional deferred maintenance is being created over time and new items are constantly being discovered. Therefore, it is evident that more financial resources, either acquired or internally generated, will be required to deal with the deferred maintenance problem. Furthermore, due to the difference between available capital funding and what is needed to maintain our facilities, additional deferred maintenance items will continue to be added to our inventory over time. Overall, based on the 2007 study, it was estimated that McGill would need to invest an average of $66 million per year in the maintenance and renovation of our infrastructure in order to reduce our 2007 inventory of maintenance backlog to an acceptable level over a 15-year period. Given our current level of capital funding for renovations and deferred maintenance, we now estimate that McGill would conservatively need an additional $32 million in total capital funding over the remaining 12 years of the 15-year infrastructure program to achieve this. This funding gap is a conservative number because it does not account for the degradation in deferred maintenance that continues over time, and the additional deferred maintenance that continues to be identified since the 2007 study.

4. OUTLOOK

Strategic planning and multi-year resource allocation have become familiar terms to the McGill community.

McGill is engaged in a comprehensive, academically-driven planning process that will impact virtually every aspect of its operations, including finances, administrative services, physical resources, and University goals and activities with respect to philanthropy and government relations. It is a demanding, but crucial process, as we aim to build on our exceptional teaching and research strengths for the future. The competition for talent and resources has never been as fierce – and this competition is worldwide. If we are to sustain and build on our academic strengths, impact, and reputation, consistent with our mission, we must be selective and strategic in our activities, investments, resource generation, and expenditures. The purpose of this process is to identify the academic priorities and objectives of every faculty and McGill as a whole, implement plans to achieve them, and measure our progress with discipline.

The implementation of the Academic Plan, included in the White Paper (McGill's Strategic Plan), necessitated upfront investments and consequently placed McGill in an operating deficit position in its initial years, with the aim of re-establishing a balanced budget in the Plan's latter years. This approach has been adopted by many North American research-intensive universities. Indeed, many have used this planning approach for some time as a means of improving academic quality and distinctiveness.
The purpose of the new investment is to enable McGill to achieve its academic goals, provide increased leveraging of resources, advance student and administrative support, and provide accountable and enhanced investment in new and current programs, technologies, administrative infrastructure, and other priority initiatives. It will support McGill in sustaining and advancing its leadership position amongst Canadian and North American public university peers.

McGill's multi-year Resource Planning Model has been created to support the Academic Plan. The model assumes that we will fund our plans through reallocations and newly-generated revenue, and when required, through internal base budget reductions during the five-year planning horizon. Mechanisms have been built into the model to allow for the flexibility to introduce across-the-board and/or selective reductions in expense budgets, should they prove to be necessary.

The current multi-year plan calls for a balanced position for the 11 month in fiscal 2011, assuming expectations prevail, at which time the pre-GAAP accumulated operating deficit is likely to be approximately $79 million. From that point onwards, future budgets will need to address the accumulated deficit for purposes of repaying the GAAP accumulated deficit.

5. MCGILL BOND RATING

In 2010, Moody's Investors Services and Standard & Poor's Rating Service, reaffirmed McGill's long-term debt ratings affecting $150 million of unsecured debentures.

Moody's confirmed an Aa1 rating and a continued stable outlook. It considers McGill to be one of Canada's most prominent and internationally renowned institutions and cites the following factors for the rating:

- Exceptional student market position.
- Strong financial reserves.
- Debt level that is low compared to other universities in North America.

Standard & Poor's confirmed an AA- rating and a continued stable outlook in July 2010, citing that McGill has:

- Excellent student demand and research profile.
- Provincial support that is considered good and consistent. Grants from the Province of Quebec (a+/Stable/A-1+).
- McGill's low debt.
- Demonstrated momentum toward greater tuition flexibility.

6. RECENT DEVELOPMENTS

Over the past year, the government has introduced new legislation, which limits our operating flexibility going forward. "Loi 100" has resulted in the issuance of directives by MELS, which has the objective to reduce expenses, and affect salary costs. In particular, the universities are expected to reduce specific expenses such as travel and entertainment, by 10% over a four year period. At the same time, it will be limited to restricted salary increases to specific administrative and support employee groups. In addition, there is an expectation of reduced headcount, through attrition in the same manner as certain government departments have been asked to undertake in the past four years.

On the funding front, the outlook is expected to be stable at best, as spending for economic stimulus activities have awarded future funds. If the current low interest environment were ever to cease, this would add additional strain on the provinces limited resources, as well as impact current borrowing costs.

Finally, fiscal 2011 will consist of only 11 months, as MELS has dictated a change in year end from our current May 31st to April 30th.

Respectfully submitted,

Michael L. Richards
Interim Vice-Principal (Administration and Finance)

Albert Caponi
Assistant Vice-Principal (Financial Services)

September 2010

PART II

Audited Financial Statements

FOR DISCUSSION PURPOSES ONLY

Date: September 23, 2010

Financial statements of

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

(see Note 1)

May 31, 2010

FOR DISCUSSION PURPOSES ONLY

Date: September 23, 2010

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

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FOR DISCUSSION PURPOSES ONLY

Date: September 23, 2010

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Montreal QC H3B 4T9
Canada

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www.deloitte.ca

Auditors' 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 balance sheet of The Royal Institution for the Advancement of Learning / McGill University (the "University") as at May 31, 2010 and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of The Royal Institution for the Advancement of Learning / McGill University as at May 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

September •, 2010

[1] Chartered accountant auditor permit no 22220

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Date: September 23, 2010

Balance sheet

as at May 31, 2010
(in thousands of dollars)

	2010	2009
	$	$ (Restated - Note 2)
Assets		
Current assets		
Short-term investments (Note 16)	39,750	114,554
Receivables (Note 4)	245,472	225,987
Prepaid expenses and other assets	5,984	5,908
Inventory	2,422	2,171
	293,628	348,620
Marketable securities, at fair value (Note 16)	855,849	745,782
Grants receivable - operating	6,627	6,627
Grants and contracts related to research receivable	59,672	97,375
Capital grants receivable (Note 5)	634,885	548,259
Loans receivable (Note 6)	3,124	4,265
Capital assets (Note 7)	1,004,426	906,286
Total assets	2,858,211	2,657,214
Liabilities		
Current liabilities		
Bank indebtedness (Note 8)	175,768	165,088
Accounts payable and accrued liabilities	130,231	118,173
Unearned revenue	26,415	18,411
Current portion of long-term debt (Note 11)	50,796	58,780
	383,210	360,452
Deferred contributions (Note 9)	143,679	126,094
Deferred capital contributions (Note 10)	612,219	584,894
Long-term debt (Note 11)	609,110	564,599
Accrued pension liability (Note 12)	49,318	44,675
Post retirement benefit obligation (Note 12)	108,318	103,210
	1,905,854	1,783,924
Commitments and contingent liabilities (Notes 18 and 19)		
Net assets		
Invested in capital assets	426,729	396,899
Externally restricted for endowment purposes (Note 13)	807,551	732,910
Internally restricted (Note 14)	31,500	44,714
Unrestricted	(313,423)	(301,233)
	952,357	873,290
Total liabilities and net assets	2,858,211	2,657,214

Approved by the Board of Governors

.... Governor

.... Governor

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Date: September 23, 2010

Statement of revenue and expenses

year ended May 31, 2010
(in thousands of dollars)

	2010	2009
	$	$ (Restated - Note 2)
Revenue		
Grants		
Canada	173,369	197.849
Quebec	414,624	394.368
United States	6,396	7.190
Other sources	21,875	24,167
Contracts	11,148	16.570
Tuition and fees	186,966	169.815
Sale of goods and services	104,024	100.497
Gifts and bequests	36,707	23.434
Investment and interest income	44,748	29.365
Other	43,626	26,710
Total revenue	1,043,483	989,965
Expenses		
Salaries		
Academic	268,704	252.828
Administrative and support	197,749	186.825
Benefits	97,377	88.538
Student	67,872	63,087
Student aid	49,311	41,890
Total salaries	681,013	633.168
Non-salary		
Material. supplies and publications	38,733	39.032
Contributions to partner institutions	38,586	43.126
Contract services	13,949	16.673
Professional fees	16,474	17.849
Travel	21,887	23,943
Cost of goods sold and services rendered	21,478	16.339
Building occupancy costs	21,434	20.554
Energy	18,950	22.805
Other non-salary expenses	38,471	44.626
Hardware and software maintenance	4,139	4.482
Amortization of capital assets	89,961	84,428
Interest and bank charges	32,754	36.478
Total non-salary	356,816	370.335
Total expenses	1,037,829	1.003.503
Excess (deficiency) of revenue over expenses	5,654	(13.538)

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of changes in net assets

year ended May 31, 2010
(in thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total 2010	Total 2009
	$	$	$	$	$	$	$
Net Assets, as previously reported	(111,241)	58,422	484,815	475,135	732,910	1,640,041	1,775,374
Adjustment to prior period (Note 2)	(189,992)	(13,708)	(484,815)	(78,236)	-	(766,751)	(776,667)
Net Assets, beginning of year, as restated	(301,233)	44,714	-	396,899	732,910	873,290	998,707
Excess (deficiency) of revenue over expense	2,993	(9,745)	17,730	(5,324)	-	5,654	(13,538)
Endowment contributions	-	-	-	-	38,966	38,966	46,906
Investment income items reported as direct increase (decrease) in net assets	(2,348)	-	-	-	36,795	34,447	(158,785)
Net change in internally restricted net assets	15,447	(2,453)	-	(12,994)	-	-	-
Net change in investment in capital assets	(27,716)	-	(20,155)	47,871	-	-	-
Other Transfers	(566)	(1,016)	2,425	277	(1,120)	-	-
Net assets, end of year	(313,423)	31,500	-	426,729	807,551	952,357	873,290

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Date: September 23, 2010

Statement of cash flows

year ended May 31, 2010
(in thousands of dollars)

	2010	2009
	$	$ (Restated - Note 2)
Operating activities		
Excess (deficiency) of revenue over expenses	5,654	(13.538)
Adjustments for:		
Amortization of capital assets	89,961	84.428
Amortization of bond discount	329	381
Amortization of deferred capital contributions (Note 10)	(67,877)	(64.325)
(Gain) loss on sale of marketable securities	(15,429)	25.896
Unrealized (gain) loss on marketable securities	(2,181)	84.781
Net change in non-cash working capital items (Note 15)	14,354	30.846
Increase in government grant receivable	(101,234)	(11.021)
Decrease in grants and contracts related to research receivable	38,207	13.535
Deferred contributions	17,585	(21.560)
	(20,631)	129.423
Investing activities		
Change in short-term investments	74,804	(43,977)
Acquisition of capital assets	(188,101)	(162,149)
Change in marketable securities, net	(92,457)	29.049
Change in loans receivable	1,141	506
	(204,613)	(176,571)
Financing activities		
Change in bank indebtedness	10,680	85.771
Investment income reported as direct increase (decrease) in net assets	34,447	(158.786)
Endowment contributions	38,966	46.906
Increase in pension liability	4,643	-
Post retirement benefit obligation payments	(4,163)	(3,985)
Increase in post retirement benefit obligation	9,271	8,516
Issuance of long-term debt	95,000	82,509
Repayment of long-term debt	(58,802)	(74,804)
Deferred capital contributions	95,202	61.021
	225,244	47,148
Net change in cash	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	-	-

Supplementary information

Interest paid	12,202	12.539

(tabular amounts in thousands of dollars)

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 *Income Tax Act*.

2. Changes in accounting policies

Prior period adjustments for changes in accounting policies

As of June 1, 2009, in accordance with the prescribed guidelines set out by Ministère de l'Éducation, du Loisir et du Sport du Québec ("MELS"), the University has retrospectively adopted the standards set out in the Canadian Institute of Chartered Accountants ("CICA") Handbook and has prepared its financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") using the deferral method without funds. Previously, McGill followed the accounting policies and practices required by the *Cahier des définitions, des termes et des directives de présentation du rapport financier annuel pour les universités du Québec* (the "Cahier"), as required by MELS.

The figures for 2009 have been restated and prepared on the same basis.

The adoption of these policies had the following effects on the financial statements of the University:

	Net assets June 1,		Operations year ended
	2009	2008	May 31, 2009
	$	$	$
Revenue recognition (a)	(714,839)	(742,439)	27,600
Capital assets (b)	(280,298)	(272,198)	(8,100)
Grants receivable (c)	548,259	542,997	5,262
Pledges (d)	(107,906)	(93,319)	(14,587)
Long-term debt (e)	(28,400)	(33,541)	5,141
Employee future benefits (f)	(183,567)	(178,167)	(5,400)
	(766,751)	(776,667)	9,916
Capital expenditures (b)			72,240
Endowment contributions (a)			(46,469)
Endowment investment income (a)			158,529
			194,216

2. Changes in accounting policies (continued)

(a) Revenue recognition

The University changed from the restricted fund method to the deferral method of accounting for restricted contributions, which include donations and grants.

Excluding the impact on endowment funds, this change resulted in a decrease in revenues of \$9.2 million (increase of \$27.6 million in 2009) and an increase in deferred contributions on the balance sheet to \$755.9 million (\$711 million in 2009). The cumulative effect on the opening net assets in 2009 was a decrease of \$735.9 million. A corresponding grant receivable from MELS was also recorded as part of this change as described under *"Grants Receivable."*

The change also resulted in decreasing revenues in 2009 by \$46.5 million for endowment contributions, which are now recorded as direct increases in net assets. Similarly, as described in Note 13, endowment investment income which was previously recognized in the operating and restricted funds and returned to the endowment fund via interfund transfers is now recorded as a direct change in net assets, as described in Note 13, which increased the excess of expenses over revenues by \$158.8 million in 2009.

(b) Capital assets

As part of its financial reporting reform, MELS modified the capitalization thresholds, categorization, method, recording and amortization periods of capital assets. The combined impact of these changes was accounted for on a retrospective basis and resulted in an increase in amortization expense of \$7.3 million to \$90 million (increase of \$8.1 million to \$84.4 million in 2009). The cumulative change to the 2009 opening net book value of capital assets was a decrease of \$272.2 million with an offsetting charge against the net assets.

In addition, previously MELS required that capital assets be recognized as assets of the Plant Fund and as an expense of the fund from which the transaction originated with an offsetting inter fund transfer. These amounts are now only capitalized and no longer expensed. This change resulted in a decrease in expenses of \$69.5 million (\$84.3 million in 2009).

2. Changes in accounting policies (continued)

(c) Grants receivable

Previously, as part of MELS reporting guidelines, amounts receivable from MELS were recorded as a decrease to the net assets. Under GAAP, these amounts meet the criteria of an asset and have therefore been recorded as grants receivable. This change resulted in an increase in grants receivable of $630.9 million ($554.8 million in 2009). The cumulative effect on the opening net assets in 2009 was an increase of $543 million. An offsetting amount was also recorded relating to a corresponding deferred contribution. See *"revenue recognition"* for further details.

In addition, the long-term portion of grants receivable has been discounted to its present value using the lender's rate in effect at May 31, resulting in a discount of $3.1 million ($3.9 million in 2009) and an increase in the excess of revenues over expenses of $0.8 million ($2.2 million in 2009). Previously, grants receivable were not discounted to a present value as the assumption was that the market rate of interest for such receivables was 0%, dictated by MELS reporting guidelines.

(d) Pledges

Commencing in June 2009, pledges from fundraising and other donations are recorded in the period in which they are collected, with future pledges receivable being disclosed. Previously, pledges were recognized as revenue and a receivable when pledged. The result of this change was to decrease 2009 gifts and bequests revenue by $14.6 million and to decrease pledges receivable and opening 2009 net assets by $93.3 million.

(e) Long-term debt

Previously, as part of MELS reporting guidelines, long-term debt was recorded net of bond sinking fund contributions set aside by the Government of Quebec. Long-term debt is now presented at the full amount of all outstanding debt. The impact of this change resulted in an increase in long-term debt of $27.3 million (increase of $28.4 million in 2009). The cumulative impact on the 2009 opening net assets was a charge of $33.5 million.

(f) Employee future benefits

The University applied the CICA Handbook, section 3461, *Employee Future Benefits*, on a retrospective basis, to account for its employee future benefit plans and pension costs resulting in accruals for employee future benefits over the period that the services are rendered by the employee. Previously, these amounts were recorded on a cash basis. This also includes accruals for vacation pay, banked overtime, and all other employee benefits. This change resulted in an increase in expenses of $5.0 million ($5.4 million in 2009). In addition, this change resulted in an "accrued pension liability" of $49.3 million ($44.7 million in 2009) and a post retirement obligation of $108.3 million ($103.2 million in 2009). Accounts payable and accrued liabilities increased by $0.1 million (increase of $0.9 million in 2009). The cumulative effect on the 2009 opening net assets was a charge of $179 million.

2. Changes in accounting policies (continued)

New accounting standards

Effective June 1, 2009, the University adopted the following recommendations of CICA Handbook.

The University adopted the recommendations of CICA Handbook Section Section *1000, Financial Statement Concepts*, that clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the Balance Sheet. The adoption of this Section had no impact on the financial statements.

The University adopted the recommendations of CICA Handbook Section *1540, Cash Flow Statement*. This Section has been amended to include not-for-profit organizations within its scope. The adoption of this Section resulted in the reclassification of certain items on the statement of cash flows.

The University adopted the recommendations of CICA Handbook Section *4400, Financial Statement Presentation*. This Section has been amended in order to eliminate the requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit a not-for-profit organization to present such an amount as a category of internally restricted net assets when it chooses to do so. It also clarifies that revenues and expenses must be recognized and presented on a gross basis when a not-for-profit organization is acting as a principal in transactions. The application of this standard did not have a significant impact on this financial statement.

The University adopted the recommendations of CICA Handbook Section *4460, Financial Statement Disclosures of Related Party Transactions*. This Section establishes the disclosure standards for related party transactions. The adoption of this Section had no impact on the financial statements.

3. Significant accounting policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for not-for-profit organizations 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.

3. Significant accounting policies (continued)

Revenue recognition

The University follows the deferral method of accounting for restricted contributions, which include gifts and bequests and grants. Under the deferral method, amounts that are restricted are recorded as a deferred contribution and are recognized as revenue when the related expense is incurred. Where contributions relate to capital assets, the revenue is recognized on the same basis as the amortization of the asset acquired. Unrestricted contributions are recognized as revenue when received. Endowment contributions are recognized as direct increases in net assets in the year in which they are received.

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 market value are disclosed 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.

Other revenue includes the difference between the amounts received or earned during the year and the revenue recognizable under the deferred method.

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

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

Gifts-in-kind are recorded at their fair market value on receipt or at a nominal value when fair market value cannot be reasonably determined. The value of contributed volunteer hours are not recognized in these financial statements.

Financial instruments

The University has maintained its election to use the exemption provided by the CICA, permitting not-for-profit organizations not to apply the following Sections of the CICA Handbook: 3862 and 3863. The University applies the requirements of Section 3861 of the CICA Handbook.

Financial instruments are initially recorded at fair value and their subsequent measurement is dependent on their classification.

3. Significant accounting policies (continued)

Financial instruments (continued)

Marketable securities, short-term investments and bank indebtedness are classified as held for trading and are recorded at fair value. Fair value for publicly traded securities is based on quoted market values using bid prices. The fair value of infrequently traded securities, including private equity investments, is determined based on quoted market yields, or on prices of recent transactions in the applicable securities, as appropriate, including consideration of the credit risk of the issuer. Changes in fair value in the period are recorded in the statement of revenue and expenses under the caption Investment and interest income. Investment-related transactions are recognized at the date of the transaction.

Receivables, grants receivable, grants and contracts related to research receivables (which are mostly receivable within three years), capital grants receivable, and loans receivable are classified as loans and receivables and are carried at amortized cost using the effective interest method.

Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and are carried at amortized cost using the effective interest method.

Transaction costs are expensed as incurred.

Derivative financial instruments

Derivative financial instruments are used as a substitute for more traditional investments. Derivative financial instruments are recorded at their fair values and changes in the fair value are recorded in the statement of revenue and expenses in investment and interest income.

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.

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 $21.1 million ($20.5 million in 2009).

3. 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 on a straight-line basis over the estimated useful lives of various asset categories as follows:

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

Long-term debt

Recorded against long-term debt are bond discounts and issuance costs, which are amortized using the effective interest method.

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.

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 cost of providing pension benefits and post-employment and post-retirement 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.

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Employee future benefits (continued)

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, being 12 years (2009 - 12 years).

Past-service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendments. On June 1, 2009, the University adopted retrospectively the accounting standard on employee future benefits. The University is amortizing the transitional obligation on a straight-line basis over 10 years, which was the average remaining service period of employees expected to receive benefits under the benefit plans as of June 1, 2009.

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. Actual results may ultimately differ from these estimates. 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 and employee future benefits.

4. Receivables

Receivables consist of the following:

	2010	2009
	$	$
Operating	**29,921**	23,735
Student loans	**2,877**	3,374
Investment income	**2,473**	2,781
Government grant	**58,426**	43,818
Grants and contracts related to research	**151,775**	152,279
	245,472	225,987

(tabular amounts in thousands of dollars)

5. Capital grants receivable

Capital grants receivable relate to capital grants approved by MELS but funded through long-term debt issued in McGill's name or not yet funded. These amounts are due immediately, however their collection is not expected within the next fiscal year and accordingly they are presented as long-term.

6. Loans receivable

Loans receivable bear interest at rates varying from 3.75% to 6.85%, with maturities up to ten years.

7. Capital assets

	2010			2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	$	$	$	$	$
Land	28,706	-	28,706	25.844	-	25.844
Land improvements	29,044	4,661	24,383	8.050	3.209	4.841
Buildings	1,035,417	412,974	622,443	970.682	389.984	580.698
Leasehold Improvements	1,821	843	978	627	390	237
Equipment	390,660	208,514	182,146	372.907	189.460	183.447
Library materials	133,300	71,610	61,690	129.239	66.209	63.030
Intangible assets	7,527	4,239	3,288	5,829	3,871	1,958
	1,626,475	702,841	923,634	1.513,178	653.123	860.055
Assets under development	80,792	-	80,792	46,231	-	46.231
	1,707,267	702,841	1,004,426	1,559,409	653,123	906,286

8. Bank indebtedness

McGill's Board of Governors has approved maximum borrowings of $250 million under short-term credit facilities, of which $176 million has been used at May 31, 2010. Unsecured and uncommitted lines of credit, totalling $370 million, are available to McGill and are normally drawn through bankers' acceptances for periods of up to one year. The lines of credit bear interest at the prime rate, which averaged 0.90% for the year. The rate in effect as at May 31, 2010 was 0.92%. Bankers' acceptances outstanding at year-end bear interest at rates ranging from 0.42% to 1.62%.

(tabular amounts 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.

	2010	2009
	$	$
Balance, beginning of year	126,094	147,654
Net increase (decrease) in deferred contributions	17,585	(21,560)
Balance, end of year	143,679	126,094

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 changes in the deferred capital contributions balance are as follows:

	2010	2009
	$	$
Balance, beginning of year	584,894	588,198
Amortization of deferred capital contributions	(67,877)	(64,325)
Deferred capital contributions received	95,202	61,021
Balance, end of year	612,219	584,894

(tabular amounts in thousands of dollars)

11. Long-term debt

	2010	2009
	$	$
a)		
1) Bonds (i)		
5.50% Series "1C" due June 4, 2009	-	2,100
6.65% Series "2C" due November 26, 2009	-	6,575
4.00% Series "14C" due March 8, 2010	-	10,000
	-	18,675
6.20% Series "4C" due June 14, 2011	13,981	13,981
4.00% Series "12C" due November 24, 2011	5,605	5,605
5.75% Series "6C" due February 14, 2012	3,858	3,858
5.70% Series "7C" due February 15, 2012	5,358	5,358
4.10% Series "13C" due February 24, 2012	8,837	8,837
5.75% Series "8C" due February 28, 2012	5,400	5,400
5.80% Series "8C" due February 28, 2012	3,872	3,872
4.05% Series "11C" due May 27, 2012	8,571	8,571
	55,482	55,482
5.40% Series "9C" due September 12, 2012	7,405	7,405
5.30% Series "10C" due February 27, 2013	10,451	10,451
	17,856	17,856
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
	11,653	11,653
Total Bonds:	89,694	108,369

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

	2010	2009
	$	$
a)		
2) Notes (ii)		
3.849% due December 1, 2009	-	21.260
4.059% due December 1, 2010	24,445	25.833
4.167% due December 1, 2010	4,200	4,400
3.794% due June 16, 2011 (iii)	260	426
4.288% due December 1, 2011	20,351	21.514
4.814% due April 25, 2012	16,800	17.600
2.257% due October 25, 2012	60,000	-
4.952% due November 1, 2012	31,883	34.505
4.355% due September 16, 2013	81,325	85.663
4.607% due September 16, 2013	32,200	33,600
3.240% due September 23, 2013	38,094	40.000
3.320% due June 1, 2014	14,000	14.000
3.690% due December 1, 2014	26,242	28.000
3.839% due December 1, 2014	37,560	40,000
4.267% due December 1, 2015 (iii)	976	1.116
3.601% due June 2, 2016	10,000	-
4.991% due June 1, 2034	25,000	-
Total Notes:	423,336	367,917
Total Government of Québec debt	513,030	476.286
b) McGill Senior Debentures (iv), 6.15% Series "A", due September 22, 2042	150,000	150,000
c) Royal Bank loans (v), 5.81% due March 19, 2014	1,998	2,432
d) Other	518	629
e) Bond discounts and issuance costs	(5,640)	(5,968)
Total long-term debt	659,906	623.379
Current portion of long-term debt	(50,796)	(58.780)
Long-term debt	609,110	564.599

(tabular amounts in thousands of dollars)

11. 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 Québec under Orders-in-Council.

(ii) These 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 lump sum payments due at maturity are as follows:

	Annual payment	Lump sum payment
	$	$
4.059% due December 1, 2010	1,389	24,444
4.167% due December 1, 2010	200	4,200
4.288% due December 1, 2011	1,162	19,190
4.814% due April 25, 2012	800	16,000
2.257% due October 25, 2012	2,995	54,620
4.952% due November 1, 2012	2,624	26,633
4.355% due September 16, 2013	4,337	68,315
4.607% due September 16, 2013	1,400	28,000
3.240% due September 23, 2013	1,906	32,375
3.320% due June 1, 2014	928	10,287
3.690% due December 1, 2014	1,758	19,208
3.839% due December 1, 2014	2,440	27,800
3.601% due June 2, 2016	808	6,065
4.991% due June 1, 2034	1,000	-

(iii) These notes are secured by a grant receivable from the Ministère du Développement économique de l'innovation et de l'Exportation ("MDEIE"). Semi-annual payments of capital and interest are paid by MDEIE, on McGill's behalf, to Financement Québec.

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

(v) The Royal Bank loans are secured by grants receivable from the Ministère des Affaires Municipales des Régions et de l'Occupation du Territoire ("MAMROT"). Semi-annual payments of capital and interest are paid by McGill and reimbursed by MAMROT.

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

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

	$
2011	50,796
2012	111,704
2013	113,866
2014	136,358
2015	64,008

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, including, if elected, an annuity provided by McGill. If an employee elects an annuity provided by McGill, the accumulated amount of the employee's holdings in the Accumulation Fund is transferred to the Plan's Pensioner Fund where it is available to fund annuity payments made by the Plan. Under certain circumstances, employees in the Accumulation Fund are also eligible for an enhancement to their accumulated amount.

Other plans and arrangements

McGill has a commitment to a specific group of employees who accepted early retirement settlements in 1996. These settlements entitled the employees to receive annual retirement allowance payments over their lifetime. The present value of these commitments as at May 31, 2010 is estimated at $2.3 million ($2.3 million in 2009). These amounts are recorded as accrued liabilities.

The University measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at May 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2009 and the next required valuation will be as of December 31, 2012.

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Other plans and arrangements (continued)

	2010 $	2009 $
Information about the University's benefit plans is as follows:		
Accrued benefit obligation	117,410	111.242
Fair value of plan assets	-	-
Funded status - (deficit) surplus	117,410	111.242
Balance of unamortized amounts	9,092	8.032
Accrued benefit asset	108,318	103.210
Valuation allowance	-	-
Accrued benefit asset, net of valuation allowance	108,318	103.210

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

	2010 %	2009 %
Accrued benefit obligation as of May 31		
Discount rate	5.5	5.75
Rate of compensation increase - Academics	4.5	4.5
- Non-Academics	3.5	3.5
Benefit costs for the years ended December 31		

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Other information about the University's defined benefit plans is as follows:

	2010	2009
	$	$
Benefit costs	9,271	8.516
Benefits paid by the plans	4,163	3.985

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:

	2010	2009
	$	$
Benefit costs	31,953	22,740
Cash payments recognized	23,653	22.740

(tabular amounts in thousands of dollars)

13. Externally restricted for endowment purposes

	2010	2009
	$	$
Faculty endowments	331,263	306,374
Student aid	263,433	238,689
Research endowments	80,130	78,311
Emerging priorities	21,300	27,434
Library endowments	20,588	20,269
Student services	5,746	4,233
Annuities	2,304	2,385
Accumulated income	82,787	55,215
	807,551	732,910

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% (5.0% in 2009) 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 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 investments income.

(tabular amounts in thousands of dollars)

14. Internally restricted net assets

	2010	2009
	$	$
Self-financing teaching and research	16,017	19,950
Professor start-up funds	7,534	6,054
Other	7,949	18,710
	31,500	44,714

15. Net change in non-cash working capital items

	2010	2009
	$	$
Increase in receivables	(5,381)	(223)
(Increase) decrease in prepaid expenses and other assets	(76)	1,734
(Increase) decrease in inventory	(251)	59
Increase in accounts payable and accrued liabilities	12,058	27,418
Increase in unearned revenue	8,004	1,858
	14,354	30,846

16. 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 May 31, 2010, McGill's foreign denominated marketable securities had a fair value of CAD$476 million, including US$272 million (CAD$285 million).

16. Financial instruments (continued)

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

McGill is exposed to credit risk from its debtors. A significant portion of McGill's receivables are 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 counter-parties and investments.

Fair value

At May 31, 2010, the carrying values of short-term investments, receivables, bank indebtedness and accounts payable and accrued liabilities approximate their fair values. Marketable securities are presented at fair value. The fair value of long-term grants receivable, capital grants receivable and grants and contracts related to research receivable cannot be determined due to the uncertain timing of collection.

Staff mortgages are issued at rates and terms comparable to commercial home mortgages. Their carrying value approximates fair value.

The fair value of long-term debt, based on rates currently available to McGill for debt with similar terms and maturities, is $694 million at May 31, 2010 ($663 million in 2009).

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding as at May 31, 2010 to sell US$285 million of assets held for endowment purposes, with an average forward rate of 1.013, maturing on July 23, 2010. At May 31, 2009, US$200 million of contracts existed with a forward rate of 1.214, maturing on July 24, 2009. As at May 31, 2010, the fair value of these contracts approximated an unrealized loss of $10.4 million ($23.8 million unrealized gain in 2009) and is included in marketable securities.

In October 2003, McGill entered into an agreement with RBC Dominion Securities ("RBCDS") whereby it invested in a US$13 million 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 Canadian dollars in 2029. The fair value of the bond and the swap agreement is $34.8 million and is included in marketable securities.

The US Dollar denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable, in exchange for a fixed amount of proceeds. As at May 31, 2010, the fair value of the swap is $17.4 million ($14.4 million in 2009).

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.

(tabular amounts in thousands of dollars)

16. Financial instruments (continued)

Fair value (continued)

As at May 31, 2010, McGill held securities classified as non-bank asset-backed commercial paper. These securities were carried as marketable securities and had a market value of $5.3 million, as estimated by management, based on the present value of future cash flows expected. As a result of changes to the market conditions for this type of security, the net realizable value of these securities may differ materially from their carrying value.

The marketable securities portfolio is comprised of the following types of investments:

	2010	2009
	%	%
Canadian Equity	20	19
US Equity	13	10
Non North American Equity	17	16
Canadian Fixed Income	16	25
US Fixed Income	1	1
Hedge Funds	19	18
Alternate strategies, including private equity and other	14	11
	100	100

Short-term investments consist of highly-liquid fixed income securities maturing within one year and bearing interest at rates ranging from 0.22% to 0.29%.

17. Pledges

Outstanding donation pledges at May 31, 2010 amounted to $111 million ($120 million in 2009). These have not been recognized in the financial statements.

18. Commitments

	$
2011	2,797
2012	2,140
2013	1,930
2014	1,747
2015	1,093
Thereafter	2,730
	12,437

The amounts represent future minimum lease payments under existing operating leases.

18. Commitments (continued)

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $71.7 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 $45.1 million within the next four years in accordance with its arrangements with these funds.

19. 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 at May 31, 2010, 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.

20. Comparative figures

Certain comparative figures for the year ended May 31, 2009 have been reclassified in order to conform to the presentation adopted in the current year.