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Appendix A

McGill

# FINANCIAL REPORT TO THE BOARD OF GOVERNORS 2010-2011

DRAFT

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING | McGILL UNIVERSITY
2010-2011 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 eleven month fiscal period ended April 30, 2011 and includes the audited financial statements of the University as at April 30, 2011. The change in year end was mandated by the *Ministère de l'Education, du Loisir, et du Sport* (MELS) for all Quebec Universities. The prior year comparative amounts were for a 12-month period on the former year end date of May 31. The May 31, 2010 financial statements were prepared in accordance with new directives issued by the *Ministère de l'Education, du Loisir, et du Sport* (MELS), requiring McGill's financial statements to be presented in accordance with Generally Accepted Accounting Principles (GAAP). Prior to 2010, 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 deficit liability, and post-employment benefit obligation, resulted in a restatement of the fiscal 2009 fund balances, including the accumulated deficit. Section 2 of this Report, "Financial Highlights", provides an 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 in Fiscal 2010, the University's operational results are essentially reflected by the excess of revenue over expenses, net of inter-fund transfers, affecting Operating Net Assets, and including the net amortization expense associated with Capital Assets in the Plant Fund. The GAAP financials now results in the presentation of contributions for capital assets as inter-fund transfers, instead of expenses, and thus must be taken into account when determining the change in the "Operating Accumulated Deficit". In addition, the adoption of the GAAP deferral method in the Restricted fund results in this fund no longer having a significant impact on the results of operations for the year, since revenues not spent in the current year are deferred and are not included in the annual surplus or deficit from "research operations." Under GAAP financials, the Endowment fund no longer contains any revenues and expenses, as donations are reflected directly in the Statement of Net Assets, and expenses are reflected in the Restricted fund.

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 MELS with respect to capital assets which were previously not recorded as a receivable. The overall liabilities now reflect deferred revenue contributions (as described above) which will be amortized into income in the future, and new liabilities related to vacation, pension, and future employee benefits. The majority of the Long-Term Assets consists of buildings, equipment, and other long-term assets, and its net asset 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 below.

## 1. OPERATIONAL HIGHLIGHTS

### OVERALL PERFORMANCE

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

- In 2011, McGill ranked 17th globally in the QS World University rankings, the 8th year in a row we have placed in the top 25.

- In 2010, McGill remained number one among Canadian medical-doctoral universities in the Maclean's university rankings for the 6th year in a row.

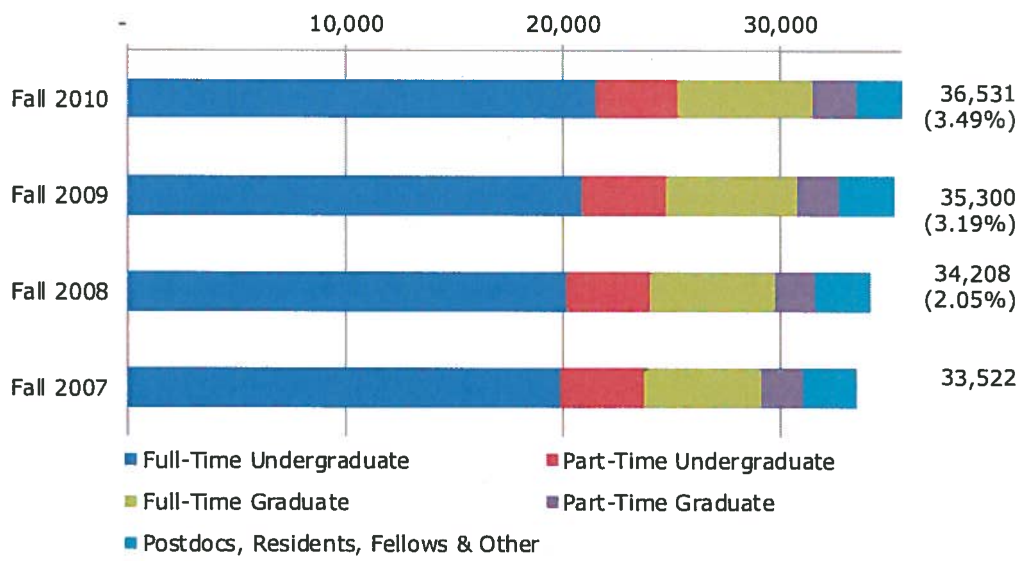
- In 2010, McGill's subsidized on-site daycare, summer days off, and phased-in retirement program were among the reasons the University has, for a second year running, been named one of Canada's Top 100 Employers, a list unveiled in the Globe and Mail.



### STUDENTS

Total student enrolment in the fall of 2010 surpassed the 36,500 mark between its downtown and Macdonald campuses. The majority of the students (58.9%) enrolled in full-time undergraduate and graduate programs, as highlighted in the chart below. Graduate students (full and part-time) accounted for 22.7% of the total. All residents, fellows, post-docs, and other students totalled 8.1%. Overall, enrolment grew by 3.5% (prior year: 3.2%).

**Student Enrolment**




Source: McGill Enrolment Services

The total student enrolment is distributed amongst our 11 Faculties and our School of Continuing Studies, as depicted in the table below which outlines fall 2010 enrolments.

Enrolment by Faculty (Full-time and Part-time) – Fall 2010

| | Students | Percentage of Student Population |
|---|---|---|
| Agricultural & Environmental Sciences | 1,792 | 4.9% |
| Arts | 7,936 | 21.7% |
| Arts & Science (B.A. & B.Sc.) | 581 | 1.6% |
| School of Continuing Studies | 4,523 | 12.4% |
| Dentistry | 224 | 0.6% |
| Education | 2,680 | 7.3% |
| Engineering | 4,000 | 10.9% |
| Law | 812 | 2.2% |
| Medicine(i) | 4,865 | 13.3% |
| Desautels Faculty of Management | 2,800 | 7.7% |
| Schulich School of Music | 827 | 2.3% |
| Religious Studies | 93 | 0.3% |
| Science | 5,398 | 14.8% |
| | **36,531** | **100.0%** |

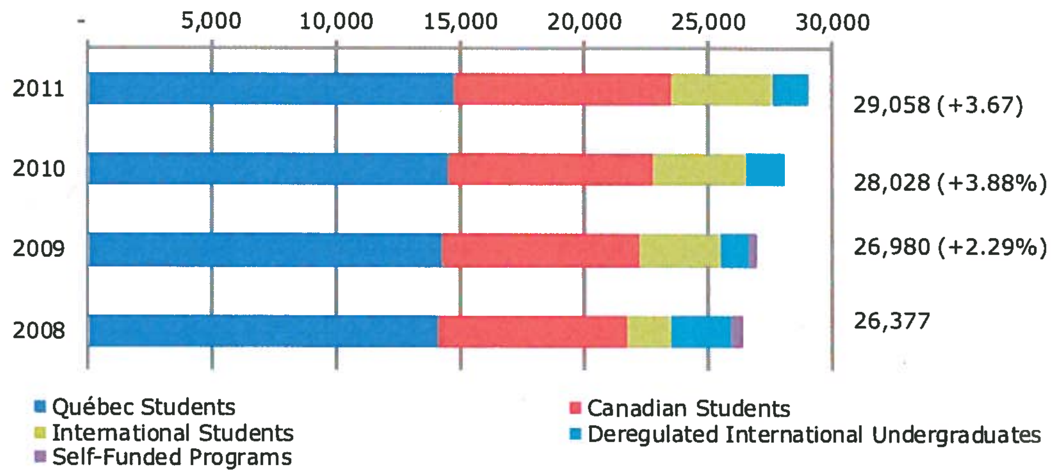
Source: McGill Enrolment Services

(i) Total enrolment in Medicine includes 777 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 704 students, those in the graduate program total 1,794 students, post-docs total 347 students, and residents and fellows make up the remaining 1,243 students.

This mix of student enrolments effectively translates into full-time equivalent units (FTEs) which are the root of government funding (grants), tuition and fees. The following chart highlights the billed (tuition) 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 $5,190. On the other hand, an undergraduate student in Dentistry (classified as *Médicine dentaire* by MELS) is currently funded at $29,720 per year.

**Billed (tuition) FTEs**




Source: McGill Financial Services

Overall, the total numbers of full-time equivalent (FTE) students was above budget by approximately 2%. The overall number of international FTEs (excluding those exempt from the supplement) increased by 1.8% to 4,357 (compared to a budget of 4,305), from 4,282 in the prior year as the majority of this increase occurred in the non-deregulated international student population.

Tuition and Fees

The tuition (regulated by MELS) for a full-time Quebec student in 2010-11 was $2,068 ($68.93 per credit), as compared to $1,968 in fiscal 2010. The tuition for a full-time out-of-province Canadian student was $5,667.60 ($188.92 per credit including supplements) up from $5,500.80 ($183.36 per credit including supplements) in fiscal 2010. The tuition for an International student in 2010-11 ranged from $14,462 ($482.06 per credit including supplements) to $26,667 ($888.89 per credit including supplements) depending on the program. Currently, MELS regulations require all Canadian Masters students to pay the out-of-province supplement, while Canadian Ph.D. students are exempt. The Canadian average is approximately $6,000 per year. The Quebec government has agreed to annual increases in tuition of $325 per year over the next 5 years commencing in fiscal 2012.

All supplements paid to McGill University by Canadian and International students, are deducted from the University's operating grant. The total supplements deducted from our operating grants (11 months) amounted to $66.2 million (2010: $66.3 million). Currently, 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).

In fiscal 2008, the government permitted the deregulation of international tuition relating to specific undergraduate disciplines, including Management, Science, Engineering, Law, Mathematics and Computer Science. All other international tuition fees in excess of the Quebec (regulated) basic tuition fee ($2,068) are effectively remitted in their entirety to the Quebec government via a "claw-back" supplement in the annual operating grants.

The deregulation of the aforementioned programs generated revenues of $28.2 million in fiscal 2011 (2010: $26.7 million). 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 teaching grant 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.

In fiscal 2010, 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.

The total "FIO's" revenue amounted to $20 million (2010: $25.3 million). In addition to FIO's, other student fees charged for non-credit courses, student services, Athletics, and other activities totaled $26.6 million (2010: $18.7 million). These fees, combined with tuition, totaled $203.8 million (2010: $186.9 million) and represents 32.3% (2010: 29.5%) of operating revenues.

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.) | Graduate Certificate in Bioinformatics (15 cr.)<br>B.Sc (Nutr. Sc.) Major in Nutrition; Health and Disease (90 cr.) |
| Arts | B.A. | Joint Honours - Environment Component (36 cr.) |
| School of Continuing Studies | | Graduate Certificate in Professional Communication; Spanish (18 cr.) |
| Dentistry | | Oral Surgery Internship Certificate (52 cr.)<br>Certificate in Oral and Maxillofacial Surgery (144 cr.) |
| Education | B.Ed. | Kindergarten and Elementary *Pédagogie de l'immersion française* (120 cr.) |
| Engineering | B. Eng | Major in Bioengineering (135-15 cr.) |
| Medicine | M.Sc. | Graduate Certificate in Chronic Pain Management (15 cr.)<br>M.Sc. in Human Genetics - Bioethics Specialization (45 cr.) |
| Music | B. Mus. | Minor in Composition (18 cr.)<br>Minor in Theory (18 cr.)<br>Minor in Music Education (18 cr.) |
| Science | B.Sc. | B.Sc. Biology; Quantitative Biology (68-72 cr.) |

Source: Deputy Provost (Student Life and Learning)

## 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 for the three terms of the following academic years.

| | 2009-2010 | 2008-2009 |
|---|---|---|
| Undergraduate | 4,837 | 4,819 |
| Masters | 1,382 | 1,421 |
| Doctoral | 411 | 455 |
| Certificates & Diplomas (UG, Grad) | 819 | 750 |
| CE Non-credit Certificates | 148 | 205 |
| | 7,597 | 7,650 |

Source: McGill Enrolment Services

| Degrees Awarded, by Faculty | 2009-2010 | 2008-2009 |
|---|---|---|
| Agricultural & Environmental Sciences | 360 | 359 |
| Arts | 1,632 | 1,743 |
| Arts & Science (B.A. & Sc.) | 101 | 107 |
| School of Continuing Studies | 792 | 773 |
| Dentistry | 36 | 46 |
| Education | 653 | 668 |
| Engineering | 786 | 731 |
| Law | 229 | 222 |
| Medicine | 771 | 775 |
| Desautels Faculty of Management | 912 | 962 |
| Schulich School of Music | 220 | 212 |
| Religious Studies | 22 | 22 |
| Science | 1,083 | 1,030 |
| | 7,597 | 7,650 |

Source: McGill Enrolment Services

International Students

We now welcome almost 7,300 International students, of whom 80% are from the 20 countries listed below.

International Students - Full-time and Part-time

| Top 20 Countries | Fall 2010 |
|---|---|
| 1. USA | 2,366 |
| 2. France | 814 |
| 3. China | 450 |
| 4. India | 324 |
| 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 | 1,450 |
| Number of students from all foreign countries | 7,294 |

Source: McGill Enrolment Services

Student Mobility and Student Exchange Programs

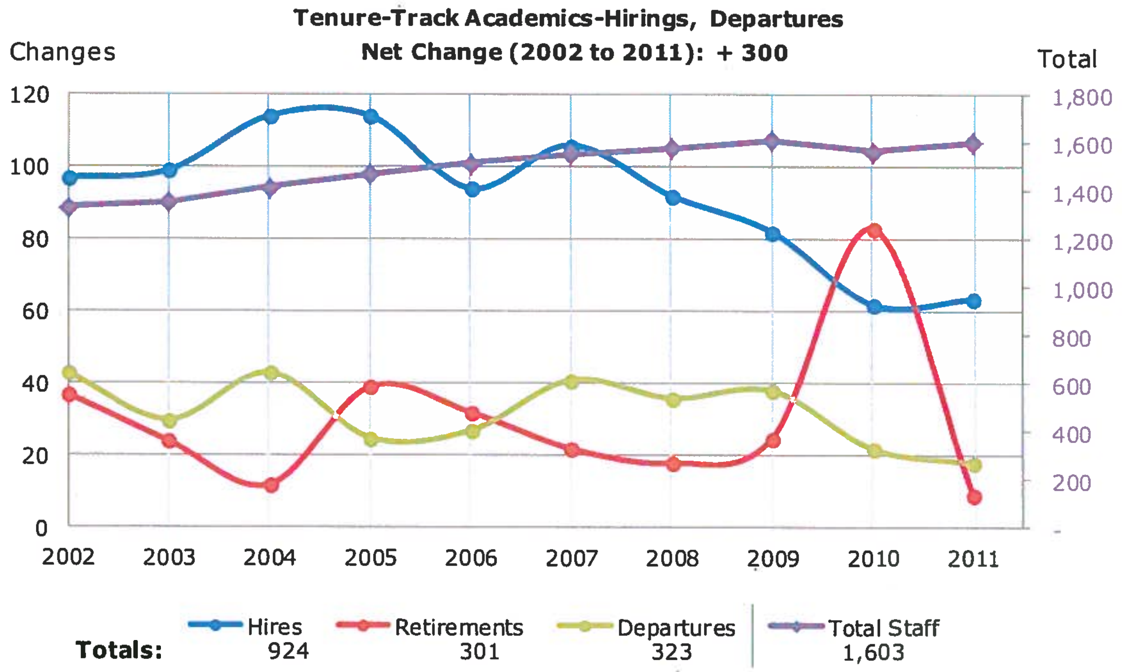
The student mobility and exchange programs, approved by Senate, include the following:

- Freie Universität Berlin
- Università degli studi di Salerno, Italy
- University of Warsaw
- NSERC – Collaborative Research Training and Experience Program (CREATE) for
  - project Auditory Cognitive Neuroscience
  - project Healthcare Operations and Information Management
  - project Integrated Sensor Systems
- University of Leipzig
- Instituto de Empresa (IE) Business School and McGill Desautels Faculty of Management
- Canada-EU Programme for Cooperation in Higher Education, Training and Youth Transatlantic Business Process Management Education Network (BPM EduNet)
- University of the West Indies and McGill - student exchange partnership
- The McGill University - Hebrew University of Jerusalem International Summer Program in Human Rights, to be offered by McGill's Centre for Human Rights and Legal Pluralism and the Minerva Center for Human Rights of the Hebrew University of Jerusalem
- Chulalongkorn University, Faculty of Commerce and Accountancy, Thailand, Desautels Faculty of Management
- Singapore Management University Lee Kong Chian School of Business and McGill University Desautels Faculty of Management – student exchange partnership
- Pontificia Universidad Catolica de Chile (PUC) Faculty of Economics and Management Sciences Desautels Faculty of Management – student exchange partnership
- Washington Center Internship Program – Desautels Faculty of Management
- University of Connecticut
- University of Otago, New Zealand

Source: Deputy Provost (Student Life and Learning)

## 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 slightly over 1600, as compared to approximately 1,271 (fiscal 2000) 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 2011, a total of 62 new tenure-track academics were appointed, ranging from assistant to full professors across the various faculties. Six tenure-track librarians were also appointed, as outlined in the following table.

| New Tenure-Track by Faculty/Unit | FY2011 | FY2010 |
|---|---|---|
| Agricultural & Environmental Sciences | 2.5 | 2.0 |
| Arts | 9.5 | 10.0 |
| Dentistry | - | 2.0 |
| Education | 8.0 | - |
| Engineering | 6.0 | 5.0 |
| Law | - | 2.0 |
| Desautels Faculty of Management | 6.0 | 9.0 |
| Medicine | 17.0 | 11.0 |
| Schulich School of Music | 2.0 | 1.0 |
| Science | 11.0 | 20.0 |
| Faculties | **62.0** | **62.0** |
| Librarians | 6 | **9** |
| | **68.0** | **71.0** |

Source: McGill Academic Personnel Office

Other Academic Staff (as at April 1st)

| | 2011 | | |
|---|---|---|---|
| | Full-Time | Part-Time | Total |
| Library Assistants | 124 | 2 | 126 |
| Research Associates & Assistants | 405 | 73 | 478 |
| | 529 | 75 | 604 |

Source: McGill Human Resources

Teaching Awards

The Principal's Prize for Excellence in Teaching, established to recognize excellence in teaching and its importance to the academic experience of students at McGill University, is traditionally awarded at Fall Convocation at the Faculty Lecturer, Assistant Professor, Associate Professor and Full Professor ranks.

## ACCOMPLISHMENTS

Our academic staff continue to perform at exceptional levels and are awarded many honours. Fiscal 2011 was no exception, as a number of them were recognized for their distinctive work and accomplishments, as highlighted below:

| **Recipient** | **Award** |
|---|---|
| Barbara E. Jones (Medicine) | Royal Society of Canada |
| Rima Rozen (Medicine) | Royal Society of Canada |
| Michel Loreau (Biology) | Royal Society of Canada |
| Siegfried Hekimi (Biology) | Royal Society of Canada |
| Mark Sutton (Physics) | Royal Society of Canada |
| Alain Pinsonneault (Management) | Royal Society of Canada |
| Tho Le-Ngoc (Engineering) | Royal Society of Canada |
| Colin Chapman (Anthropology) | Royal Society of Canada |
| Lydia White (Linguistics) | Royal Society of Canada |
| Christine Ross (Art History and Communication Studies) | Royal Society of Canada |
| Russell Davidson (Economics) | Royal Society of Canada |
| Robin Yates (East Asian Studies) | Royal Society of Canada |
| Diane Desrosiers-Bonin (French Language and Literature) | Royal Society of Canada |
| Nancy Adler (Management) | Prix Léon Gérin, Prix du Québec |
| Mark Wainberg (Medicine) | Prix Wilder Penfield, Prix du Québec |
| Sylvia Cruess (Medicine) | Order of Canada |
| Maurice McGregor (Medicine) | Order of Canada |
| Gilles Julien (Medicine) | Order of Canada |
| Albert Aguayo (Medicine) | Canadian Medical Hall of Fame |
| Gregory Dudek (Computer Science) | Prix Acfas J.-Armand-Bombardier |
| Roderick I. L. Guthrie (Engineering) | NSERC Synergy Award for Innovation, Leo Derikx category |
| William Caplin (Music) | Killam Research Fellowships |
| Victoria Kaspi (Physics) | NSERC John C. Polanyi Award |
| Brian Chen (Medicine) | Alfred P. Sloan Research Fellowship |
| Lorenz Luthi (History) | Guggenheim Fellowship |
| Grace Fong (East Asian Studies) | Guggenheim Fellowship |

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 3,579 individuals work to support the academic and research mission of the University, as at May 1, 2011 highlighted below:

| | 2011 | | |
|---|---|---|---|
| | Full-Time | Part-Time | Total |
| Management | 1,574 | 72 | 1,646 |
| Clerical | 930 | 47 | 977 |
| Technical | 447 | 45 | 492 |
| Trades/Services | 422 | 42 | 464 |
| | 3,373 | 206 | 3,579 |

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.

## 2. FINANCIAL HIGHLIGHTS

### CHANGE IN FISCAL YEAR END

- In 2010-2011, the fiscal year-end of the University changed to April 30 from May 31, as mandated by the Ministère de l'éducation, Loisirs et du Sport for all Quebec Universities.

- The reported revenue and expenditures represent eleven months of operations ended April 30th 2011, versus twelve months ended May 31, 2010.

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

Prior to fiscal 2010, McGill's Balance Sheet presented four funds and total columns (current and prior years), which captured the total assets, liabilities, and fund balances. In adopting GAAP in fiscal 2010, 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 for fiscal 2009 were restated to reflect a retrospective application of GAAP. This has resulted in a significant change to the University's Net Assets (e.g. accumulated deficit) as previously presented, since the "operating accumulated deficit" did not include any-future liabilities/obligations relating to employee benefits. With the adoption of GAAP, these liabilities have been recorded resulting in a significant increase in fiscal 2010 to the reported "operating accumulated deficit." MELS, however, continues to assess the University's performance on both a GAAP and non-GAAP basis.

See Appendix 1 for a summary of the GAAP changes introduced in fiscal 2010.

## Impact of GAAP on the University's accumulated deficit ($ million)

| | | |
|---|---|---|
| Net Assets - Unrestricted and Internally restricted at May 31, 2010 | $280.0 | |
| Change in Net Assets (GAAP accumulated deficit) | $ (4.7) | |
| Net Assets - Unrestricted and Internally restricted at April 30, 2011 (i) | $275.3 | |

Represented by:

| | | |
|---|---|---|
| GAAP liabilities (ii): | | |
| Vacation accrual | $ 24.7 | |
| Pension and related liabilities | $ 50.6 | |
| Post-employment liability | $ 112.9 | |
| | | $ 188.2 |
| Pre GAAP Accumulated Deficit | | $ 87.1 |
| Net Assets as at April 30, 2011 | | $ 275.3 |



(i): Represented on the Balance Sheet as the sum of "Internally Restricted and Unrestricted" Net Assets.

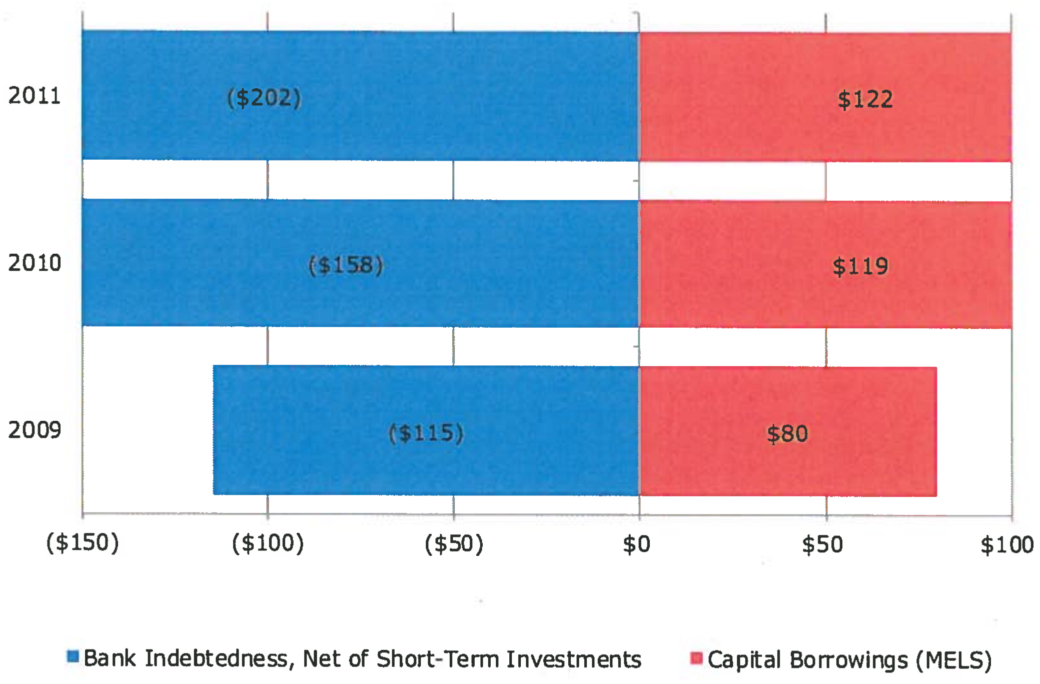
(ii): See Balance Sheet Liabilities. The GAAP liabilities are evaluated annually, with the resulting changes recorded in the benefits expense included in the Statement of Revenue and Expenses.

## 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 $330 million through credit facilities (see Note 8 in the *Audited Financial Statements*). A temporary increase of $50 million has been approved until January 31, 2012. As at April 30, 2011, McGill had a bank indebtedness of $217.2 million, as compared to $175.8 million one year earlier. Bank indebtedness, net of cash and short-term investments ($15.5 million) held for operations, was $201.7 million (2010: $157.6 million). This increase in net bank indebtedness ($44.1 million) is primarily due to increased temporary borrowings required to support the various construction projects in progress (most of which are funded by MELS) including Knowledge Infrastructure Program (KIP) projects which had a short project timeline. 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 (MELS)*.

**Net Bank Indebtedness at April 30**
**($ millions)**




Source: McGill Financial Services

2. Total receivables

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

Short-term receivables total $293.3 million (2010: $245.5 million), including $190.4 million (2010: $151.8 million) relating to research grants and contracts (see Section 2b below). 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:

| ($ in millions) | 2011 | 2010 |
|---|---|---|
| Operating | 43.4 | 26.9 |
| Staff Mortgages | 4.4 | 3.0 |
| Student Loans | 2.9 | 2.9 |
| Investment Income | 2.1 | 2.5 |
| Government Grant | 50.1 | 58.4 |
| Grants & Contracts Related to Research | 190.4 | 151.8 |
| **Total:** | **293.3** | **245.5** |

The MELS grant receivable of $50.1 million relates to the operating grant (excluding the $1.4 million long-term portion – see item (b) below).

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

In addition to the $1.4 million in the MELS grant (per above), there exists $78.3 million in the grants and contracts receivables. In conforming with GAAP, we have also recorded a receivable relating to current and prior year capital grants amounting to $763.2 million (2010: $634.9 million). This amount effectively includes $454.4 million associated with the long-term debt issued on behalf of MELS (i.e. total debt, excluding $150 million McGill Debentures, and $121.5 million in temporary borrowings due from MELS year's.

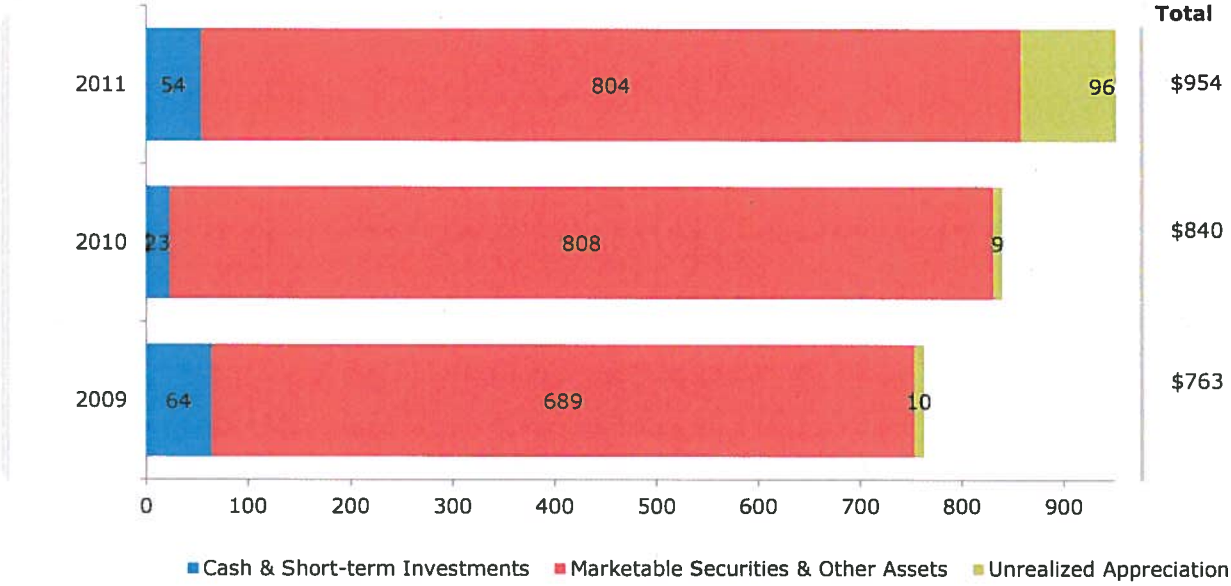
Other loan receivables total $2.0 million (2010: $3.1 million).

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

Total marketable securities amount to $950.7 million (2010: $855.8 million) and includes $907.4 million (2010: $814.9 million) relating to endowment investments. In addition, $36.8 million (2010: $34.9 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 $6.5 million (2010: $6.0 million) relates to other operating funds invested temporarily in marketable securities.

The total endowment net assets managed as part of the McGill Investment Pool amount to $953.9 million (2010: $840.2 million), including the $907.4 million in marketable securities mentioned above (see Section Endowment Gifts page 31). The following chart outlines the significant assets included in the $953.9 million.

**Market Value of Investments as at April 30**
**($ millions)**




Source: McGill Audited Financial Statements

The "Other Assets" portion of the endowment investments include staff mortgages receivable totalling $0.2 million (2010: $0.7 million).

4. Capital assets (Financial Statements, Note 7)

Total capital assets amount to $1.133 billion (2010: $1.004 billion) and include various asset categories as outlined in Note 6 of the *Audited Financial Statements*.

Net capital assets additions (including those under development) during the year totalled $128.1 million (2010: $98.1 million), of which $112.1 million (2010: $83.6 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 three KIP projects, namely McIntyre Medical Building ($26.0 million), the Otto Maass Chemistry Building ($22.8 million), Macdonald Engineering Building ($20.5 million), and the McBIR CFI project expansion at the MNI ($14.8 million), Molson Stadium ($4.1 million), and many others under $4 million each.

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

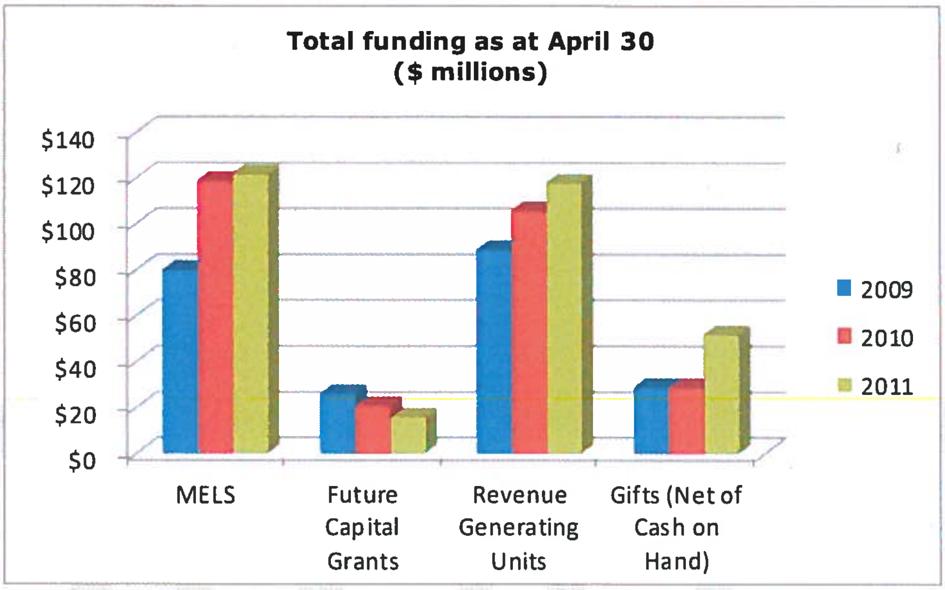
| ($ millions) | **2011** | **2010** |
|---|---|---|
| Land and Land Improvements | 1.2 | 15.5 |
| Buildings and Renovations | 112.1 | 83.6 |
| Leasehold Improvements | 3.8 | 0.7 |
| Library Books | 0.6 | (1.3) |
| Equipment (Including Intangibles) | 10.1 | (0.5) |
| Non-Depreciable Assets | 0.3 | 0.1 |
| **Total:** | **128.1** | **98.1** |

The majority of the funding for these capital projects is expected to come from the Quebec Government, the Federal Government (KIP projects) 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 April 30, 2011, temporary capital asset borrowings on behalf of MELS amounted to $121.5 million (2010: $119.1 million) and related to approved outstanding capital and other specific capital grants. In addition, borrowings of $15.8 million (2010: $20.7 million) remain for prior years deferred maintenance and campus renewal projects, which will be repaid from future capital grants and other sources. A total of $52.4 million (2010: $28.7 million), is expected from future donations on buildings such as the Life Sciences Complex, the New Music Building, 740 Dr. Penfield, 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 April 30, 2011, a total of $117.7 million (2010: $105.5 million) are expected to be recovered from revenue-generating units, including the three former hotel acquisitions since 2002 which are to be used as student residences.

The following bar chart outlines the three 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 $288.8 million (2010: $207.4 million), including accounts payable/accruals totalling $160.9 million (2010: $130.2 million) and short-term portion of long-term debt of $108 million (2010: $50.8 million).

Unearned revenue of $19.9 million (2010: $26.4 million) also forms part of this category and includes fees paid for the summer 2011 semester.

A significant portion of the short-term long-term debt, as described in Section 7 below, totalling $108.0 million (2010: $ 50.8 million) will be re-financed by MELS in fiscal 2012.

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 April 30, 2011 amounted to $130.6 million (2010: $143.7 million). These revenues will be recognized in the future when the associated non-capital expenditure is incurred and reflects on overall decrease in research revenue inflows during the year.

With respect to deferred capital contributions, the April 30, 2011 total was $744.0 million (2010: $612.2 million) and reflects increased funding for Capital assets. These revenues will be recognized in the future as the underlying assets are amortized annually.

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

Total MELS issued debt increased by a $47.0 million (net) (2010: $37.0 million) as a result of new *Financement Quebec Promissory Notes* (Notes) issued by MELS totalling $97 million (2010: $95 million). This was in part used to repay matured bonds and repayment of previously issued notes totalling $50.0 million (2010: $58 million). The remainder of the proceeds were used to repay our temporary bank borrowings. Other bank debt repayments amounted to $0.9 million (2010: $0.2 million) on debt previously issued by other provincial ministries and other parties. In addition, new debt totalling $6.1 million was issued relating to Molson Stadium project.

The remaining variation relates to the change in bond discounts which totalled $5.6 million at April 30, 2011, as compared to $5.4 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 (2010: 0.3 million) and is included in interest and bank charges.

8. Long-term liabilities – Employee future benefits (Financial Statements, Note 12)

With the introduction of full GAAP financials, new compensation related liabilities have been recorded. These include pension obligations totalling $50.6 million (2010: $49.3 million), and post-employment benefits of $112.9 million (2010: $108.3 million).

Both of these liabilities were confirmed by independent actuarial valuations, which incorporate appropriate assumptions relating to each of the valuation exercises.

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 by external or internal parties. Unrestricted Net Assets balances represent the total amount of accumulated surpluses (deficits), assuming all internally restricted balances are spent in the future.

At April 30, 2011, McGill had a balance of $505.6 million (2010: $426.7 million) in Invested in Capital Assets, $920.8 million (2010: $807.6 million) associated with Externally Restricted balances associated with Endowments, $22.9 million (2010: $51.5 million) of Internally Restricted balances, and a negative $299.2 million (2010: $333.4) of Unrestricted Net Assets balances. Together, Unrestricted and Internally Restricted net assets total $275.3 million (2010: $280.0 million) and represents the "operating accumulated deficit" of the University.

The Statement of Changes in Net Assets includes investment income earned from Endowment investments totalling $78.7 million (2010: $34.4 million), which effectively represent unrealized gains on investments offset by amounts distributed in excess of earnings for restricted endowed spending.

Endowment contributions totalled $34.6 million (2010: $39.0 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", page 31 of this report.

## OVERALL SOURCES OF REVENUES AND EXPENSES (11 months ending April 30, 2011)

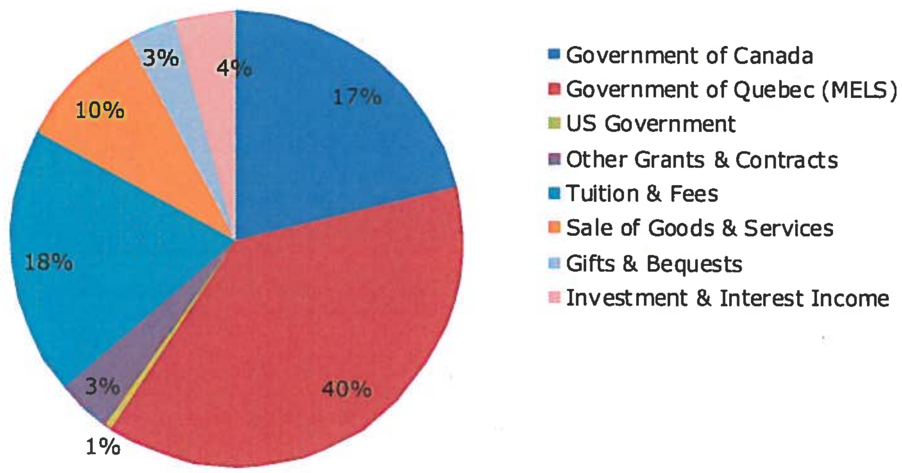
As a result of the newly adopted GAAP changes, the new presentation outlines the change in revenues and expenses for any particular year in the line item *Excess (deficiency) of revenue over expenses, before inter-fund transfer items which are required* to be considered in arriving at the change in Net Assets balance for each year. Prior to GAAP, contributions to capital assets were presented as part of the expenses rather than as an inter-fund. This and other transfers, including endowment income not available for spending, must be considered when evaluating the change in "operating accumulated deficit" – see statement of net assets. 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.

The current year's total revenue on a GAAP basis was $1.07 billion (2010: $1.04 billion) representing a 2.9% increase over the 11 months. 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 (see deferred contributions/deferred capital, page 35) 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, the past presentation of revenues included *Gifts and bequests* for all intended purposes, including endowments. New GAAP presentation rules require that *Gifts and bequests* for endowed purposes, totalling $34.6 million (2010: $39.0 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 $34.6 million (2010: $39.0 million).

**Total Combined Sources of Funding**
**$1.07 billion**

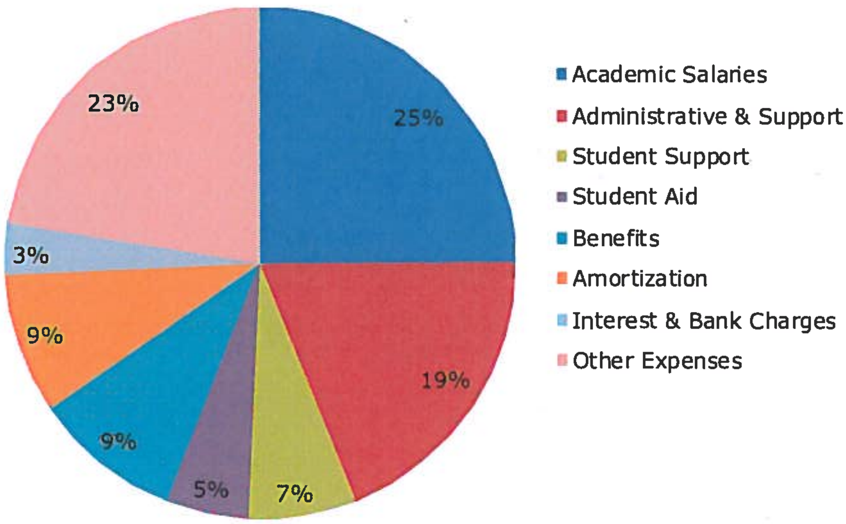



Source: McGill Audited Financial Statements

Total combined expenses incurred to support McGill's activities were $0.988 billion in 2011 (2010: $1.038 billion) presented excluding inter-fund transfers. 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 related funding contribution for these assets be shown as inter-fund transfers, and the asset be capitalized and amortized over their useful lives. Changes had also been dictated by MELS in fiscal 2010 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-employment benefit obligations. These liabilities have been described above in Section 8.

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

**Total Combined Expenditures**
**$988 million**




Source: McGill Audited Financial Statements

SOURCES OF REVENUES (11 months in Fiscal 2011)

1. Grant revenue

Grant revenue used to support the teaching and research mission of the University totalled $683 million in 2011 (2010: $675 million), which represents 63.7% (2010: 64.5 %) of total (11 months) revenues. Per GAAP, research revenue is recorded to the extent that research operating and amortization expenses are incurred. The following table outlines grant revenues from the various sources.

| | 2011 | | | | |
|---|---|---|---|---|---|
| **Purpose** | Quebec | Canada | US | Other Sources | 2011 |
| Operating | 295 | | | | 295 |
| Capital | 70 | 14 | | | 84 |
| Indirect Costs | | 24 | | | 24 |
| Research Grants & Contracts | 31 | 174 | 6 | 42 | 253 |
| Restricted Grants | 12 | 15 | | | 27 |
| **Total:** | **408** | **227** | **6** | **42** | **683** |

| | 2010 | | | | |
|---|---|---|---|---|---|
| **Purpose** | Quebec | Canada | US | Other Sources | 2010 |
| Operating | 315 | | | | 315 |
| Capital | 69 | 14 | | | 83 |
| Indirect Costs | | 24 | | | 24 |
| Research Grants & Contracts | 39 | 153 | 7 | 28 | 227 |
| Restricted Grants | 8 | 16 | | 2 | 26 |
| **Total:** | **431** | **207** | **7** | **30** | **675** |

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 and International students. Certain students are exempt from being charged supplements due to international treaty agreements or other regulations in force. The supplements "returned" to MELS in fiscal 2011 total $24.1 million (2010: $24 million) and $42.1 million (2010: $42.4) 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, Mathematics 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. Accordingly, the level of Capital grants recorded is in excess of amounts received in order to match the annual amortization expense.

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 2011 was $17.8 million (net of $6.6 million allocated to its affiliated hospitals). This amount is below 20% of the total direct cost of research and 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.

| | 2011 | 2010 |
|---|---|---|
| Federal Grant | 24,414 | 24,331 |
| Amount Due to Hospitals | (6,649) | (6,499) |
| Total: | 17,765 | 17,832 |

Source: McGill Audited Financial Statements

d) Research revenues

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, excluding Federal aid of $15.2 million (2010: $16.4 million) classified as "Restricted Grants" (see section "e" below).

Total Research Grants and Contracts

| | 2011 | 2010 |
|---|---|---|
| Represented by: | | |
| Direct Funded Research | 182,673 | 197,748 |
| Infrastructure Grants | 61,663 | 28,936 |
| | 244,336 | 226,684 |

Source: McGill Financial Services

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 approximately $15 million (2010: $16 million) while the provincial government awarded $3.2 million (2010: $1.1 million) for similar purposes. In addition, the provincial government funded other activities and programs, including $5.1 million (2010: $5.3 million) for teaching costs in the affiliated hospitals, and $3.7 million (2010: $1.4 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 $203.8 million (2010: $186.9 million), which accounts for 19.0% (2010: 17.9%) 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) | **2011** | **2010** |
|---|---|---|
| Quebec | 31.2 | 29.1 |
| Canadian | 46.8 | 43.1 |
| International | 79.2 | 70.7 |
| Non-Credit courses | 4.3 | 4.2 |
| Administrative fees | 28.6 | 26.6 |
| Student Services & Athletics | 13.7 | 13.2 |
| **Total:** | **203.8** | **186.9** |

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 $99.6 million (2010: $104.0 million) in revenues, are those generated (from third parties) primarily by ancillary type services, including residences, food services, the Bookstore, and others, totaling $55.9 million (2010: $56.6 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 $48.8 million (2010: $43.7 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 and totalled $78.7 million (2010: $34.4 million). As per our policy, unit holders can only spend 4.25% of the average three year market value, which amounted to $38.9 million (2010: $41.1 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, the total change in the Endowment resulted in a 13.5% (2010: 10.1%) growth in the fund. Of the total, 4% (2010: 5.1%) was generated from new endowment gifts received in the year.

Also, as at April 30, 2011, the accumulated unspent investment income amounted to $71.9 million (2010: $81.9 million) and represents 1.8 years (2010: 2.0 years) of current annual distributions.

5. Other sources of revenue

The remaining sources of revenue include research contracts $10.5 million (2010: $13.6 million) and gifts and bequests $37.3 million (2010: $33.4 million), excluding endowment gifts (see Statement of Net Assets).

## EXPENSES REQUIRED TO FULFILL THE UNIVERSITY'S MISSION (11 months in Fiscal 2011)

Total Compensation and student aid amounted to $644.9 million (2010: $681.0 million). This represents 65.3% of total expenditures, and excluding inter-fund transfers (2010: 65.6%).

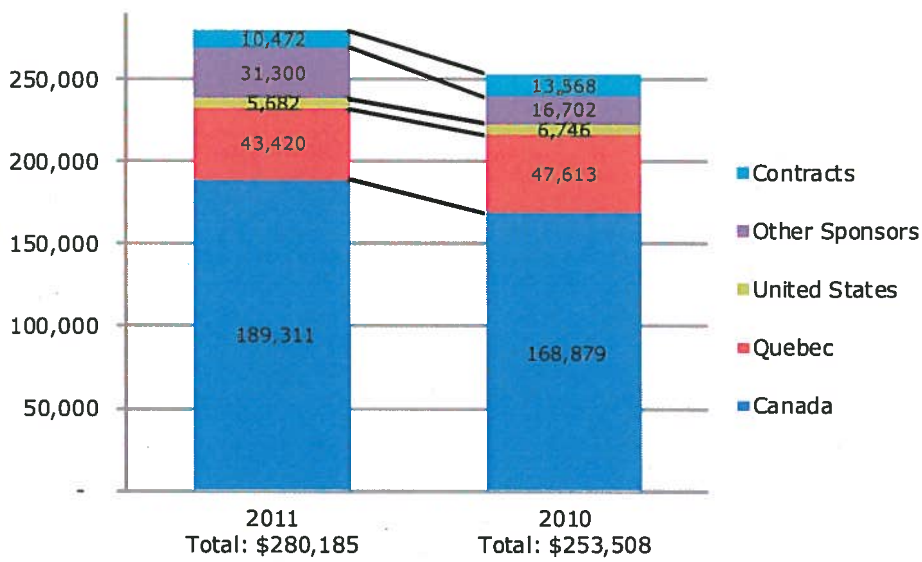
Other non-salary expenses, excluding inter-fund transfers totalled $343.1 million (2010: $356.8 million), comprising of many various expense types, including *Materials, supplies, and publications* $36.9 million (2010: $38.7 million), *Building and Energy costs* totalling $35.0 million (2010: $40.4 million), *Amortization costs* of $87.6 million (2010: $89.9 million), *Interest and bank charges* of $31.7 million (2010: $32.8 million), and other expenditures. See *Statement of revenue and expenses* for further details.

## RESEARCH ACTIVITIES (11 months in Fiscal 2011)

Direct funded research totalled $180.9 million (2010: $197.7 million). A further $63.4 million (2010: $28.9 million) was generated in infrastructure grants.

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 (2010: $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 (e.g. aid) over the last two years:

**Summary of Restricted Grants & Contracts ($ thousands)**

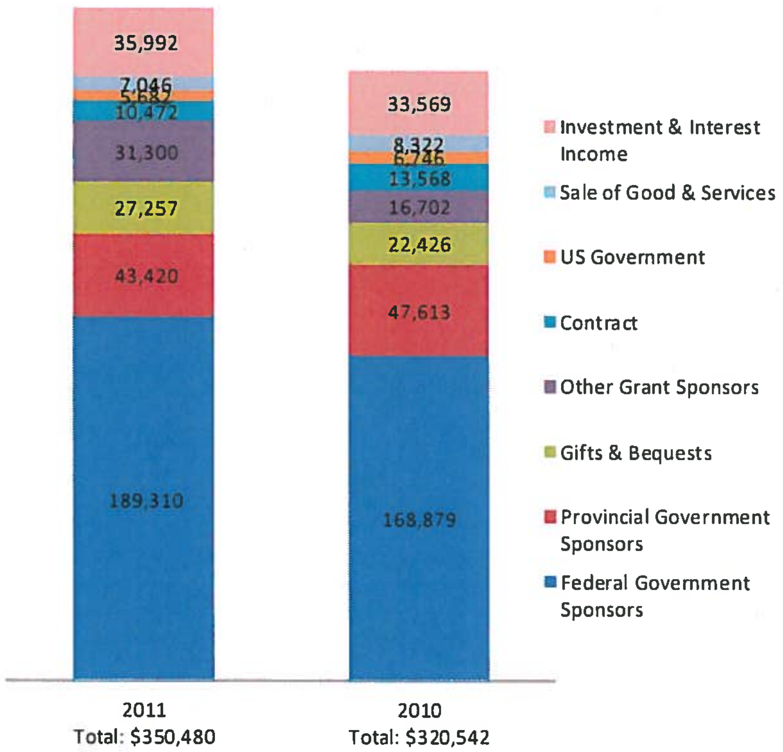



Source: McGill Financial Services

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 million, gifts of $4.1 million, and other sources totalling $3.0 million. Total revenues available for research purposes amounted to $244.3 million (2010: $226.7 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 $350.5 million (2010: $317.8 million).

**Summary of Total Restricted Revenue**
**$350.5 million**




Source: McGill Audited Financial Statements

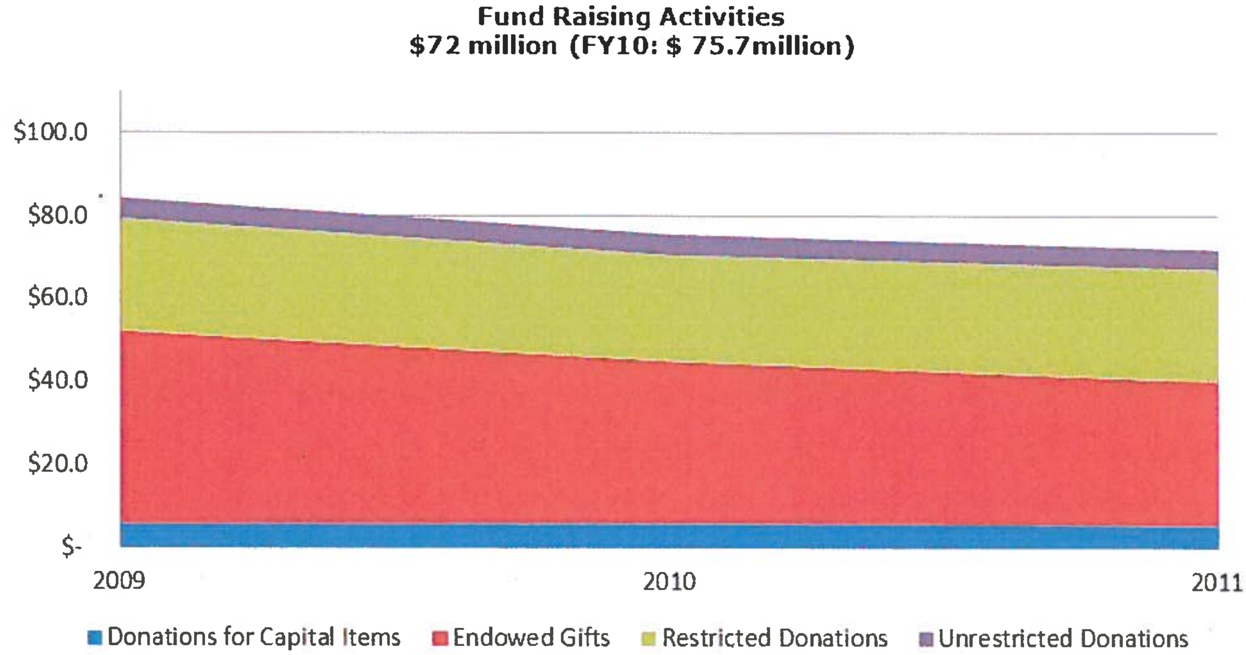
The Restricted expenses incurred include those with terms that are dictated by granting agencies (in the case of research grants or contracts) or the sponsoring party (e.g. donor gifts for student aid). These expenditures are considered and managed internally as "restricted" due to the nature of the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

On a GAAP basis, overall restricted expenses have increased to $293.8 million from a level of $302.8 million in the prior year, prior to inter-fund transfers of $52.9 million (2010: $17.3 million) to other funds, primarily related to the purchase of capital assets. The significant increase over the prior year relates to the acquisition of capital assets (reflected as part of "Interfund Transfers") totalling $59.9 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.

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 2011, $39.0 million (2010: $ 41.1 million) was distributed, based on a MIP unit rate of $14.60. The distribution rate for fiscal 2011 was reduced to 4.25% from 5%, further to a Board resolution.

Overall, the endowment investment returns improved from 2010 levels due to better market conditions. The table below outlines the overall growth in McGill's Endowment assets.



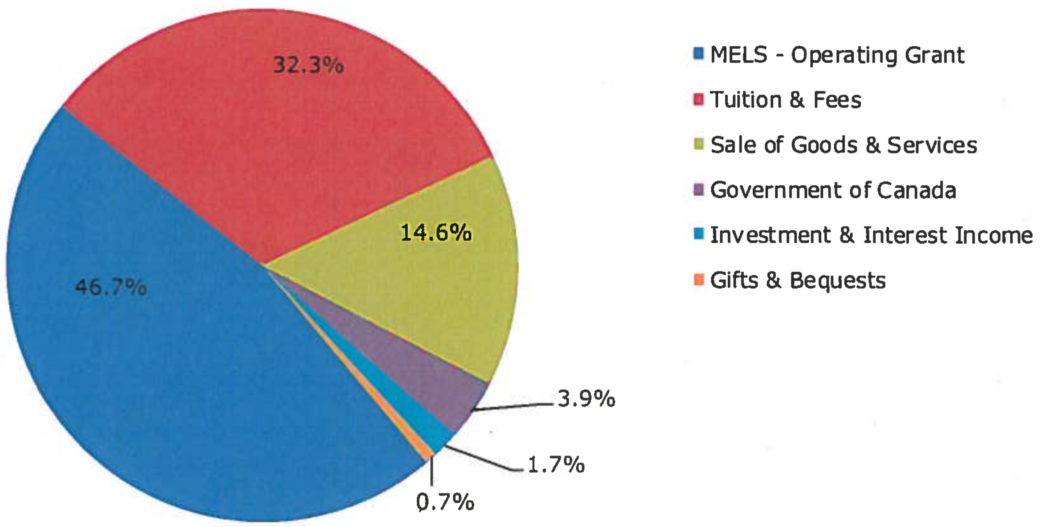
| ($ in millions) | **2011** | | **2010** | |
|---|---|---|---|---|
| Opening Book Value | 831.0 | | 753.3 | |
| Unrealized Market Value | 9.2 | | 10.1 | |
| Opening Market Value | 840.2 | | 763.4 | |
| New Gifts Received | 33.9 | 4.0% | 38.7 | 5.1% |
| Net Income (Loss) Realized | 28.8 | 3.4% | 67.8 | 8.9% |
| Net Income Distributed (Net of capitalizations) | (31.9) | -3.8% | (33.1) | -4.3% |
| Transfers to (from) Other Funds | (4.2) | -0.5% | 4.3 | 0.6% |
| Realized Increase (Decrease) in Assets | 26.6 | 3.5% | 77.7 | 10.2% |
| Change in Unrealized Market Values | 87.1 | 10.4% | (0.9) | -0.1% |
| Total Increase (Decrease) in Fund Value | 113.7 | 13.5% | 76.8 | 10.1% |
| Closing Book Value | 857.6 | 89.9% | 831.0 | 98.9% |
| Unrealized Market Value | 96.3 | 10.1% | 9.2 | 1.1% |
| Closing Market Value | 953.9 | | 840.2 | |

Source: Financial Services

OPERATING HIGHLIGHTS (11 months ENDED April 30, 2011)

The following chart highlights the various sources of Operating (Unrestricted) Fund revenue on a GAAP basis for the year ended April 30, 2011.

**Sources of Operating (Unrestricted) Revenues**
**$630.5 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 $619.4 million on a GAAP basis, including interfund transfers of $43.2 million relating to Capital Asset additions. Below is a summary of the types of expenses incurred, including salaries and benefits which total $457.7 million, and including inter-fund transfers.

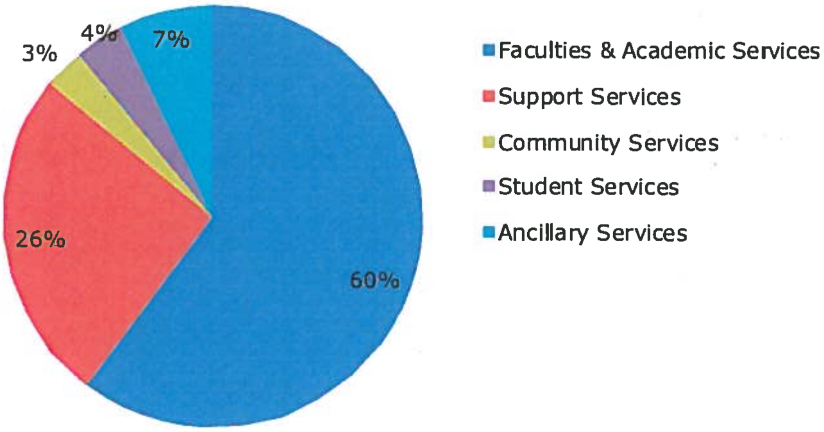
**Sources of Unrestricted (Operating) Expenses (Including Transfers)**
**By Type**
**($619.4 million)**


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 88% of total spending. The remaining units are considered self-financing, of which, ancillary operations (e.g. the Bookstore, residences, parking, etc.) represent 12% of total expenses, as highlighted in the following chart.

The following chart highlights the various areas of expenditures (excluding inter-fund transfers), including the self-financing areas/units, of which, community service activities are based primarily in Faculties.

**Sources of Unrestricted (Operating) Expenses (Excluding Transfers)**
**By Group**
**$576.2 million**




Source: McGill Financial Services

Overall, some operating revenues also differed from the 2011 Budget Report, including the following significant items below:

- Tuition and fees were $8.9 million above budgeted amounts due to increased enrolments.
- Overall, the University generated more sales of goods and services ($3.5 million), net of related costs.
- Despite the downturn in the economy, unrestricted gifts and bequests were $3.7 million more than what was planned for.

The 2011 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 close to target due.
   - Student salaries exceeded budget by $3 million.
   - Additional student aid was spent ($1.2 million), as compared to plan.
   - Overall benefits expense was affected by additional cash contributions to the pension plan and increased GAAP liabilities.

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 eleven months in Fiscal 2011 ended with an overall operating surplus of $4.7 million (2010: deficit $11.9 million). The surplus was greater than our budgeted deficit of $ 0.4 million for fiscal 2011, but consistent with the $5 million surplus forecasted for this year in the 2012 Budget Report approved by the Board last May. Overall, on a 12 month basis, we are tracking to a slight deficit.

Our "accumulated operating deficit" now stands at $275.3 million, including the GAAP adjustments mentioned earlier.

## 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 almost $650 million. According to this figure, 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% in 2007, 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, 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.

In the fall of 2007, the Government of Québec announced a 15-year $1 billion capital funding plan to help address the deferred maintenance problem common to all universities, CEGEPs, and public schools. This new money resulted in a $25.9 million allocation of capital grant funding from MELS to McGill in 2008-09 specifically for deferred maintenance. This represents an increase of approximately $15.8 million over the funding McGill received under a previous MELS deferred maintenance program. This level of funding has continued since that time with an allotment of $27.2 million in 2009-10, where the increase is mainly due to the recent agreement by MELS to include MNI space as part of McGill's academic space inventory. Even with this funding increase, due to the urgency of many priority deferred maintenance issues, work has been advanced at an accelerated pace beyond the annual MELS funding in recognition of the importance of slowing the on-going accumulation of deferred maintenance.

Additional capital funding was also secured in 2009 through the Federal Government's $2 billion Knowledge Infrastructure Program (KIP), designed to support research infrastructure renewal and enhancement at post-secondary institutions across Canada. Through this program, McGill received funding for 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 were valued at approximately $81 million and were designed to address priority deferred maintenance and upgrade needs in three buildings on the downtown McGill campus including the McIntyre Medical Sciences Building ($28.7 million), the Otto Maass/Pulp & Paper Buildings ($27.6 million), and the Macdonald Engineering Building ($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 brought an additional $72 million to McGill to primarily address deferred maintenance and facility upgrade needs.

Furthermore, over and above the amounts described above, important campus renewal in support of priority teaching and research activities is also being accomplished through sources of funding such as the annual capital grant from MELS (valued at approximately $19.7 million in 2009-10, over and above deferred maintenance funds), the Canada Foundation for Innovation, energy conservation funding, and other sources including departmental and faculty budgets and donations. Using these sources of funding, McGill has been experiencing an unprecedented level of construction activity. For example, in comparison to 10 years ago, McGill spent $17.5 million on 199 active projects, whereas in 2010-11, McGill invested $141 million in 430 active projects. The sources of funding for the 2010-11 capital investment include: $5 million from unrestricted funds, $13 million from restricted funds (i.e., $12 million from CFI and $1 million from other restricted funds), $58 million from KIP funds (includes both the federal and provincial portion), $13 million from donations (either received or receivable), and $52 million from the MELS capital grant (including regular grant and deferred maintenance funds).

From all sources of capital funding, between the spring of 2007 and 2011, McGill allocated $259 million in capital renewal and deferred maintenance to modernize academic buildings, where some of the latter projects are still at various stages of execution or design. Deferred maintenance 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. This investment has generated major upgrades to classrooms, teaching labs and research laboratories. It has allowed us to perform critical code compliance upgrades with respect to fire and life safety in no less than 13 major academic buildings. It has allowed us to renew the HVAC, electrical, mechanical and elevator infrastructure in many buildings, and it has allowed us to pursue significant upgrades to the campus energy distribution systems and service tunnels. During the same time period, self-financing units such as McGill Residences and Athletics & Recreation have invested no less than $19.5 million in renewal of their facilities.

The construction and renovation projects summarized above are making an important difference in the quality and safety of the teaching and research environment at McGill. Where possible, projects are also improving the campus environment by improving the infrastructure in a manner that is consistent with the Planning & Design Principles of the Master Plan and McGill's Sustainability Policy. However, despite this unprecedented capital investment with its important benefits, we cannot conclude that the deferred maintenance situation is well on its way to being resolved. Even while we are expending great efforts and funds to cope with the backlog of deferred maintenance, new issues continue to arise at a rapid rate and campus infrastructure continues to decay at an accelerating rate. This, coupled with the continuing shortfall in capital funding, means that we are, at best, standing still with respect to our goal of decreasing the inventory of deferred maintenance to an acceptable level. An enormous amount of work remains to be done and finances must be secured to continue to advance our deferred maintenance agenda.

As an on-going initiative to track deferred maintenance inventories and to make the case for further funding support, McGill will be participating in a CREPUQ initiative to develop a uniform inventory of accumulated deferred maintenance for all universities in Quebec. A specialist consultant has been chosen by CREPUQ to do this work and a pilot study will be performed at the Université de Sherbrooke by the end of 2011. MELS will provide half of the funding for this consultant. The expectation from this initiative is that the inventory of academic buildings at McGill will be completely surveyed. The result of this analysis will generate an apples-to-apples comparison of deferred maintenance issues across institutions – a comparison that should serve McGill very well in our efforts to have the unique nature of McGill's physical installations acknowledged and appropriately funded.

## 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 few years of slight deficits, assuming expectations prevail, with a return to a balanced budget in the latter years of the 5 year plan. MELS is still requesting balanced budgets from universities, as the prospect of new investments on their part is bleak in light of new tuition increases announced in early 2011. We are still under the obligation to ensure that future annual budgets address the GAAP accumulated deficit for purposes of repaying it over a reasonable timeframe.

## 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 has risen to the top of the priorities. 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.



Respectfully submitted,

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## Appendix 1: 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 inter-fund transfers.
5) Annual changes in the pension or post-retirement benefit liabilities are recorded as "benefits expense."

The contribution from the Endowment Fund to fund operations is no longer recognized as revenue on a GAAP basis, but rather as an inter-fund transfer (contribution) from the Endowment fund.

Other mandated changes by MELS in fiscal 2010

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 2010 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*.