D12-25 Appendix A

# 2011-2012

# Annual Financial Report to the Board of Governors

Vice-Principal Administration and Finance

McGill University

*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."*

## TABLE OF CONTENTS

# 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 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 twelve month fiscal period ended April 30, 2012 and includes the audited financial statements of the University as at April 30, 2012. The previous year's results reflect an 11 month period ending April 30, 2011, as a result of a mandated change in year-end for all Québec Universities. Accordingly, the prior year comparative amounts are for an 11-month period prepared in accordance with Generally Accepted Accounting Principles (GAAP). The introduction of GAAP in Fiscal 2010 resulted in the recognition of new liabilities, including vacation accrual, pension deficit liability, and post-employment benefit obligation. See section 2 of this Report, "Financial Highlights", for an analysis of these changes.

The activities which support McGill's mission are accounted for internally in four distinct funds: Operating, Restricted, Plant, and Endowment. The GAAP financials essentially reflect the University's operational results in terms of excess of revenue over expenses, net of Inter-Fund transfers in the Operating Fund, and include the net amortization expense associated with Capital Assets. The GAAP financials also present contributions for capital assets from operating or restricted revenues as Inter-Fund transfers, instead of expenses, and thus must be taken into account when determining the change in the "Operating Accumulated Deficit." The adoption of the GAAP deferral method in the Restricted Fund results in this fund no longer having an 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." Also, under GAAP financials, the Endowment Fund no longer contains any revenues or expenses as donations are reflected directly in the Statement of Net Assets and direct endowment expenses are reflected in the Restricted Fund.

McGill's overall balance sheet incorporates all assets, liabilities, and Net Asset balances as previously reflected and also includes the assets and liabilities held in trust (new GAAP requirement). In addition, GAAP changes have resulted in recognition of amounts due from MELS with respect to capital assets which were previously not recorded as a receivable. The overall liabilities also reflect deferred revenue contributions (as described above) which are 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 2012, McGill ranked 18th globally in the QS World University rankings, the 9th year in a row we have placed in the top 25.
- In 2011, McGill remained number one among Canadian medical-doctoral universities in the Maclean's University rankings for the 7th year in a row.
- In 2012, McGill's subsidized on-site daycare, summer days off, and phased-in retirement program were among the reasons the University has, for a fourth year running, been named one of Canada's Top 100 Employers, a list unveiled in the Globe and Mail.

### Operating highlights:

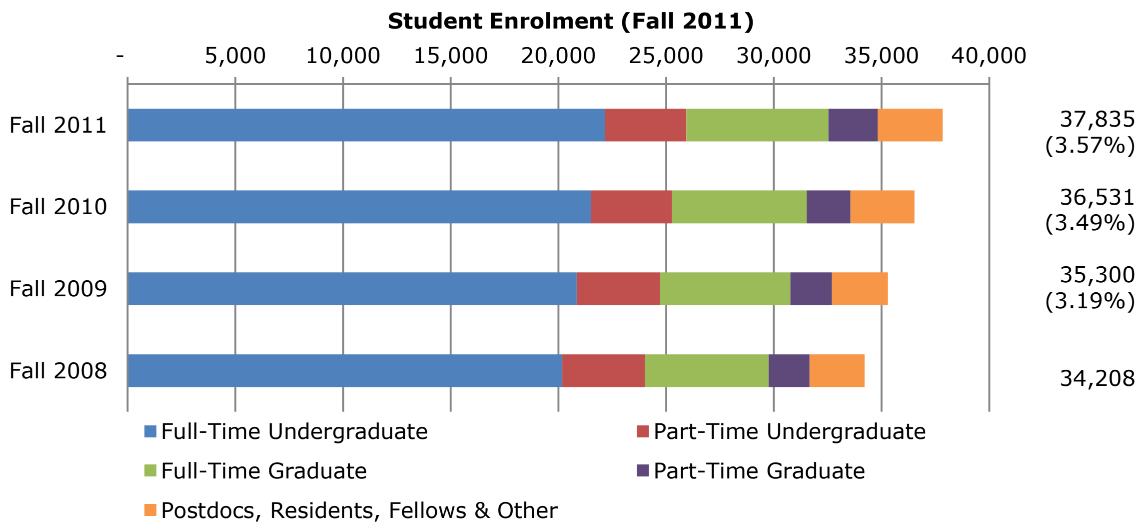
- Enrolment (Fall 2011) at 37,800 students; +3.57% over Fall 2010
- Fall 2010: +3.49% over Fall 2009
- Fall 2008 at 34,200 students; growth of approximately 3,600 over the last three years
- Tenure Track Academics total approximately 1,600; net change of + 300 from 2003 to 2012
- Approximately 1,000 hires over the period 2003 to 2012

## STUDENTS

Total student enrolment in the Fall of 2011 surpassed the 36,530 mark between its downtown and Macdonald campuses. The majority of the students (76%) are enrolled in full-time undergraduate and graduate programs, as highlighted in the chart below.

Part-time Undergraduate and Graduate students total 16%, while the remaining 8% population are students associated with post-doctoral, residents, fellows and other category of students. Graduate students (full and part-time) accounted for 23.4% of the total.

Overall, enrolment grew by 3.5% (prior year: 3.2%), as highlighted below:




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 2011

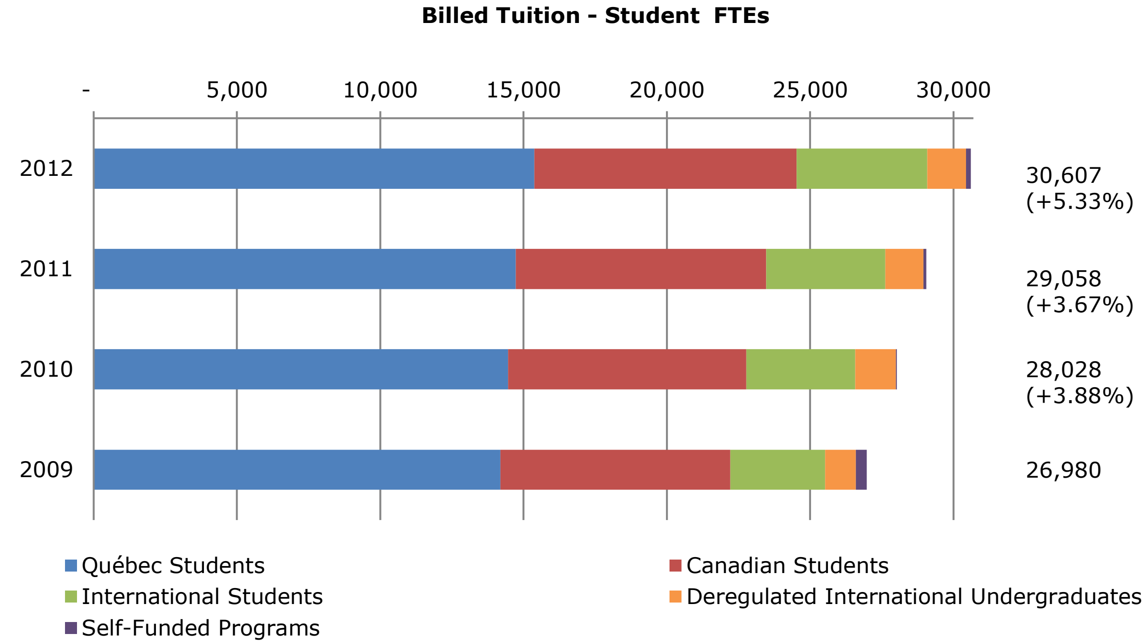
| | # of Students | Percentage of Student Population |
|---|---|---|
| Agricultural & Environmental Sciences | 1,880 | 5.0% |
| Arts | 8,222 | 21.7% |
| Arts & Science (B.A. & B.Sc.) | 594 | 1.6% |
| School of Continuing Studies | 4,682 | 12.4% |
| Dentistry | 230 | 0.6% |
| Education | 2,744 | 7.3% |
| Engineering | 4,172 | 11.0% |
| Law | 834 | 2.2% |
| Medicine(i) | 5,076 | 13.4% |
| Desautels Faculty of Management | 2,811 | 7.4% |
| Schulich School of Music | 854 | 2.3% |
| Religious Studies | 95 | 0.3% |
| Science | 5,641 | 14.9% |
| | **37,835** | **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 an 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.




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 Québec student in 2011-12 was $2,168 ($72.26 per credit), as compared to $2,068 in fiscal 2011. Fiscal 2012 was the last year of the 5-year regime which resulted in annual tuition increases of $100. The tuition for a full-time out-of-province Canadian student was $5,858.10 ($195.92 per credit including supplements) up from $5,667.60 ($188.92 per credit including supplements) in fiscal 2011. The Canadian average is approximately $6,000 per year. The tuition for an International student in 2011-12 ranged from $14,452 ($485.39 per credit including supplements) to $32,500 ($1,083.33 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 Québec Liberal government had originally proposed to increase tuition by $325 per year over the next 5 years commencing in Fiscal 2012, however it had confirmed annual increases of $254 per year over 7 years. These tuition amounts include amounts (35%) required to be contributed to the Provinces financial aid regime.  In addition, McGill's current practice will continue to set aside 30% of net tuition increases to the internal financial aid program. Notwithstanding these known amounts, the Premier elect has made statements which may result in all increases previously announced to be at risk.

All tuition fee 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 amounted to $75.5 million (11 months in 2011: $66.2 million). Currently, no exemption exists for International students, but some tuition waivers do exist for a certain number of them. As well, students from "francophonie" countries are exempt from paying the supplements, further to bilateral agreements between Québec 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 Québec (regulated) basic tuition fee ($2,068) are effectively remitted in their entirety to the Québec government via a "claw-back" supplement in the annual operating grants.

The deregulation of the afore-mentioned programs generated revenues of $32.1 million in fiscal 2012 (2011: $28.2 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 annual increase for McGill is limited to $15, unless specific agreements are acknowledged by both McGill and the affected student groups/representatives.

The total "FIO's" revenue amounted to $28.6 million (2011: $27.3 million). In addition to FIOs, other student fees charged for non-credit courses, student services, Athletics, and other activities totaled $20.1 million (2011: $19.4 million). These fees, combined with tuition, totaled $217.1 million (2011: $203.8 million) and represent 30.5% (2011: 32.3%) of operating revenues.

Academic Program Developments

During the year, a number of teaching program developments were reviewed and approved by the University (this list does not include programs requiring approval by MELS):

| | | |
|---|---|---|
| Agricultural and Environmental Sciences | M.Sc.<br>B.Sc | Food Science and Agricultural Chemistry; Non-Thesis- Food Safety (45 cr.)<br>Minor in Applied Ecology (24 cr.) |
| Arts | B.A. | Liberal Arts; Major Concentration (36 cr.)<br>Liberal Arts; Honours (60 cr.)<br>Liberal Arts; Joint Honours (36 cr.) |
| Faculty of Arts and Faculty of Science | B.A & Sc. | Sustainability, Science and Society; Honours (60 cr.) |
| School of Continuing Studies | Graduate Certificate in Financial Planning (15 cr.) | |
| Music | B. Mus. | Early Music Performance; Minor (18 cr.) |

Source: Office of the 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.

| | 2010-2011 | 2009-2010 |
|---|---|---|
| Undergraduate | 4,563 | 4,837 |
| Masters | 994 | 1,382 |
| Doctoral | 352 | 411 |
| Certificates & Diplomas (UG, Grad) | 388 | 819 |
| CE Non-credit Certificates | 123 | 148 |
| | 6,420 | 7,597 |

Degrees Awarded, by Faculty

| | 2010-2011 | 2009-2010 |
|---|---|---|
| Agricultural & Environmental Sciences | 337 | 360 |
| Arts | 1,495 | 1,632 |
| Arts & Science (B.A. & Sc.) | 88 | 101 |
| School of Continuing Studies | 764 | 792 |
| Dentistry | 41 | 36 |
| Education | 562 | 653 |
| Engineering | 639 | 786 |
| Law | 165 | 229 |
| Medicine | 649 | 771 |
| Desautels Faculty of Management | 592 | 912 |
| Schulich School of Music | 163 | 220 |
| Religious Studies | 17 | 22 |
| Science | 908 | 1,083 |
| | 6,420 | 7,597 |

Source: McGill Enrolment Services

International Students

We now welcome over 7,700 International students, of whom 82% are from the 20 countries listed below.

| International Students - Full-time and Part-time<br>Top 20 Countries | Fall 2011 |
|---|---|
| 1. USA | 2,271 |
| 2. France | 999 |
| 3. China | 564 |
| 4. India | 357 |
| 5. Saudi Arabia | 287 |
| 6. Iran | 264 |
| 7. Pakistan | 261 |
| 8. South Korea | 232 |
| 9. United Kingdom | 145 |
| 10. Mexico | 131 |
| 11. Germany | 120 |
| 12. Japan | 108 |
| 13. Bangladesh | 105 |
| 14. Turkey | 91 |
| 15. Australia | 80 |
| 16. Italy | 71 |
| 17. Malaysia | 58 |
| 18. Brazil | 56 |
| 19. Lebanon | 49 |
| 20. Egypt | 47 |
| 21. Other | 1,419 |
| Number of students from all foreign countries | 7,715 |

Source: McGill Enrolment Services

Student Mobility and Student Exchange Programs

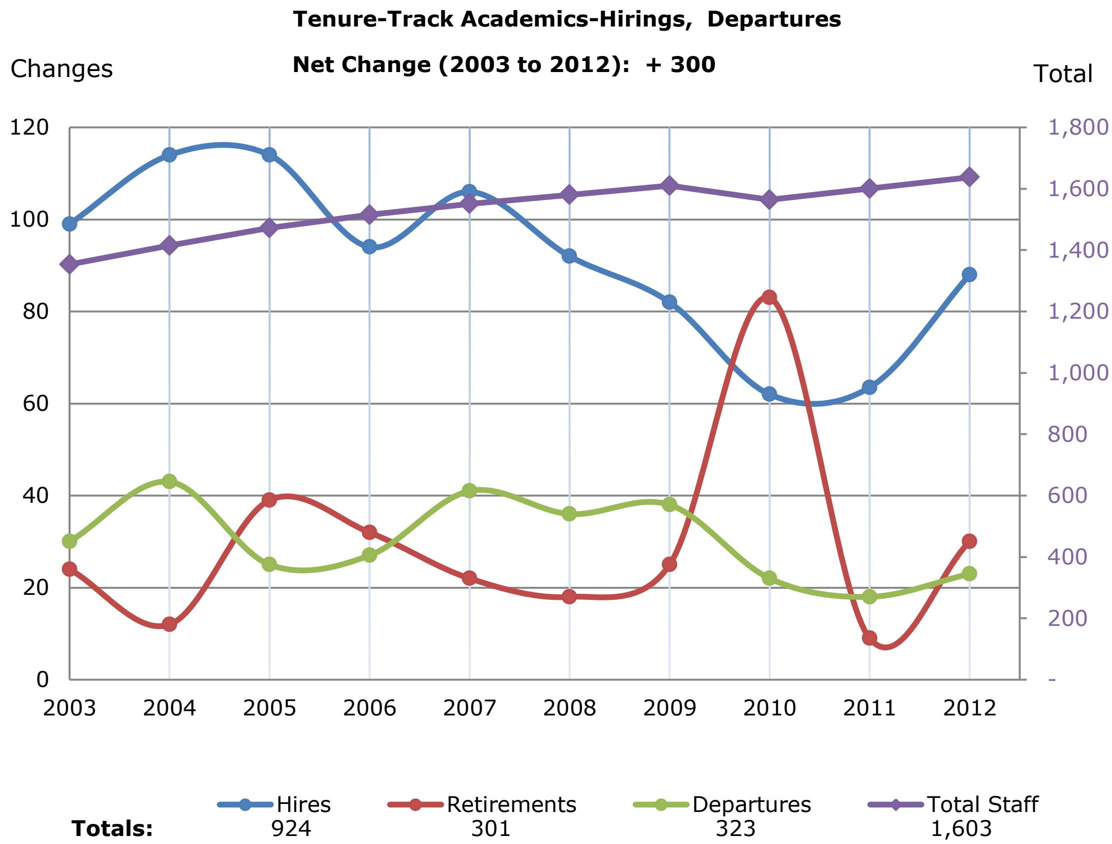
The student mobility and exchange programs, approved by Senate, include the following:

- University of Connecticut
- University of Otago, New Zealand
- Killam Fellowship Program Agreement
- Desautels Faculty of Management Student Exchange Partnerships with:
    - Erasmus University, Rotterdam School of Management
    - Indian Institute of Management, Bangalore
    - Indian Institute of Management, Ahmedabad
    - Norwegian School of Economics
    - University of St. Gallen
    - University of Cologne, WiSo-Faculty
    - Instituto de Estudios Superiores de Administraciôn (IESA)
    - Stockholm School of Economics
- Université de Strasbourg
- Desautels Faculty of Management Student Exchange Partnerships with:
    - New York University, Stern School of Business
    - Université Libre de Bruxelles, Solvay Brussels School
    - University of Witwaterstrand, Wits Business School
- Consortium Agreement- Transatlantic Partnership for Excellence in Engineering (TEE) involving the following universities:
    - Universitat Politècnica de València (Spain)
    - University of Cambridge (UK)
    - Università degli Studi di Roma "La sapienza" (Italy)
    - Technische Universität Berlin (Germany)
    - Ghent University (Belgium)
    - Universite de Paris-Sud 11 (France)
    - North Carolina State University – College of Engineering and Applied Science (USA)
    - University of Pennsylvania – School of Engineering and Applied Science (USA)
    - University of California-Davis (USA)
    - University of British Columbia (Canada)
- Undergraduate Research Trainee Agreements with:
    - Universidade Estadual Paulista "Julio de Mesquita Filho", Brazil
    - Tecnologico de Monterrey (Mexico)
    - German Academic Exchange Service (DAAD)
    - Federal University of Minas Gerais, Brazil
- Desautels Faculty of Management MBA Student Exchange Partnerships with:
    - University of Texas Austin- McCombs Business School
    - Asian Institute of Management, in the Philippines
    - ESSEC (École Supérieure des Sciences Économiques et Commerciales) Business School
- University of Zürich (Universität Zürich) – limited to undergraduate students

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 approximately 1640, 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 fiscal 2012, a total of 87 new tenure-track academics were appointed, ranging from assistant to full professors across the various faculties. Four tenure-track librarians were also appointed, as outlined in the following table.

| New Tenure-Track by Faculty/Unit | FY2012 | FY2011 |
|---|---|---|
| Agricultural & Environmental Sciences | 1.0 | 2.5 |
| Arts | 16.2 | 9.5 |
| Dentistry | 3.0 | - |
| Education | 5.0 | 8.5 |
| Engineering | 11.0 | 6.0 |
| Law | 1.5 | - |
| Desautels Faculty of Management | 5.0 | 6.0 |
| Medicine | 20.8 | 17.5 |
| Schulich School of Music | 4.0 | 2.0 |
| Religious Studies | 1.0 | - |
| Science | 18.5 | 11.0 |
| Faculties | **87.0** | **63.0** |
| Librarians | 4.0 | 6.0 |
| | **91.0** | **69.0** |

Source: McGill Academic Personnel Office

| Other Academic Staff (as at May 1st) | 2012 | | |
|---|---|---|---|
| | Full-Time | Part-Time | Total |
| Library Assistants | 123 | 1 | 124 |
| Research Associates & Assistants | 396 | 84 | 480 |
| | 519 | 85 | 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 2012 was no exception, as a number of them were recognized for their distinctive work and accomplishments as highlighted below:

| **Recipient** | **Award** |
|---|---|
| Allan Greer (History) | Royal Society of Canada |
| Gershon Hundert (Jewish Studies) | Royal Society of Canada |
| Céline Le Bourdais (Sociology) | Royal Society of Canada |
| Desmond Manderson (Law) | Royal Society of Canada |
| Frederick Andermann (Neurology, Neurosurgery and MNI) | Royal Society of Canada |
| Eduardo L. Franco (Oncology) | Royal Society of Canada |
| Michael S. Kramer (Pediatrics and Epidemiology) | Royal Society of Canada |
| William J. Muller, (Biochemistry and Rosalind and Morris Goodman Cancer Research Centre) | Royal Society of Canada |
| Michael Petrides, (Neurology, Neurosurgery, Psychology and MNI) | Royal Society of Canada |
| Anthony E. Williams-Jones (Earth and Planetary Sciences) | Royal Society of Canada, Willet G. Miller Medal |
| Margaret Becklake (Medicine and Epidemiology, Biostatistics and Occupational Health/Medicine) (Grande officière) | Ordre national du Québec |
| Gilles Julien (Pediatrics/Medicine) (Officier) | Ordre national du Québec |
| Bartha Maria Knoppers (Human Genetics and Director, Centre of Genomics and Policy) | Prix Acfas Jacques-Rousseau |
| Roussos Dimitrakopoulos (Mining and Materials Engineering) | NSERC Synergy Award for Innovation, Leo Derikx category |
| Chao-Jun Li (Chemistry) | Award of Merit, Federation of Chinese Canadian Professionals |
| Colin Chapman (Anthropology and McGill School of Environment) | Killam Research Fellowships |
| Dr. Mark Wainberg (McGill AIDS Centre) | Killam Prize |
| Robert Seiringer (Mathematics and Statistics) | E.W.R. Steacie Memorial Fellowship |
| Michael Meaney (Psychiatry, Neurology and Neurosurgery) | Order of Canada |
| Michael Petrides, Professor (Montreal Neurological Institute) | Royal Society (UK) |
| Laurette Dubé (Desautels Faculty of Management) | YWCA Women of Distinction Award |
| Angela Genge (Montreal Neurological Institute) | YWCA Women of Distinction Award |
| Andrew Piper (German Studies) | Andrew W. Mellon Foundation New Directions Fellowships |

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 3,545 individuals work to support the academic and research mission of the University, as at May 1, 2012 highlighted below:

| | 2012 | | |
|---|---|---|---|
| | Full-Time | Part-Time | Total |
| Management | 1,623 | 27 | 1,650 |
| Clerical | 908 | 48 | 956 |
| Technical | 431 | 39 | 470 |
| Trades/Services | 423 | 46 | 469 |
| | 3,385 | 160 | 3,545 |

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

**REPORTING PERIOD- 12 MONTH YEAR-ENDED APRIL 30, 2012**

The reported revenue and expenditures represent twelve months of operations ended April 30, 2012. The comparative amounts are based on an 11 month year-ended April 30, 2011. The 11 month year was as a result of a mandated year-end change from the previous May 31 reporting period.

### Background –Financial Reporting

| | |
|---|---|
| Fiscal 2010 | Conversion to GAAP (from MELS oriented financials)<br>Introduction of new GAAP liabilities (approximately $190 million) increasing accumulated deficit |
| Fiscal 2011 | Change in year end to April 30 (from May 31) mandated by MELS<br>11 month year - Resulted in slight surplus |
| Fiscal 2012 | Full fiscal (12 month) year; comparative amounts on 11 month basis<br>Break even position, including effects of strike on spending |

### 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.

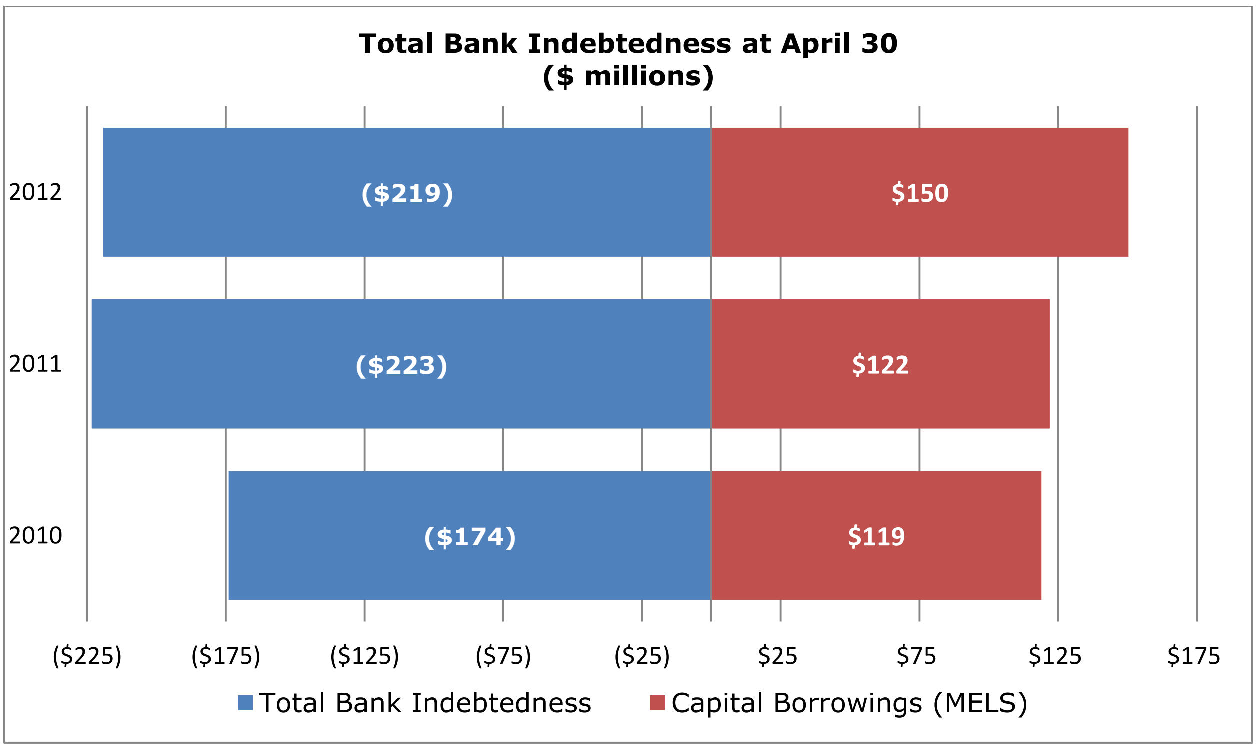
### New Accounting Framework (Note 3 to Audited Financial Statements)

The CICA has approved a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and Canadian accounting standards for not-for-profit organizations, whichever suits them best. McGill University currently plans to adopt the new Canadian accounting standards for not-for-profit organization. The impact of this transition has not yet been determined.

## Balance Sheet Assets and Liabilities

1. Net cash position

The Board of Governors has authorized a maximum of $300 million in bank borrowing from available credit facilities totaling $330 million (see Note 8 in the *Audited Financial Statements*). As at April 30, 2012, McGill had a bank indebtedness of $219.2 million, as compared to $223.4 million one year earlier. Operating Bank indebtedness, net operating of cash and short-term investments excluding endowment investments of $68.4 million held for operations, was $140.1 million (2011: $201.7 million). This bank indebtedness continues to be primarily required to support capital grants and the various construction projects in progress funded by the *Ministère des Finances* and the *Ministère de l'Education, du Loisir, et du Sport* (MELS). As at April 30, 2012, the total capital borrowings outstanding from MELS amounted to $150.4 million (2011: $122 million). These amounts include annual capital and deferred maintenance grants, as well as other specific capital grants and prior year financings which the University has temporarily refinanced on behalf of MELS (See Section 3 for further details). The following chart outlines the progression of the Bank Indebtedness 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 MELS.




Source: McGill Financial Services

2. Total receivables

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

Short-term receivables total $255.8 million (2011: $293.3 million), including $178.7 million (2011: $190.4 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) | 2012 | 2011 |
|---|---|---|
| Operating | 36.2 | 47.8 |
| Student Loans | 2.9 | 2.9 |
| Investment Income | 1.7 | 2.1 |
| Government Grant | 36.5 | 50.1 |
| Grants & Contracts Related to Research | 178.7 | 190.4 |
| **Total:** | **256.0** | **293.3** |

The Government (MELS) grant receivable of $36.5 million relates to the operating grant (excluding $1.4 million included in long-term receivables – see item (b) below).

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

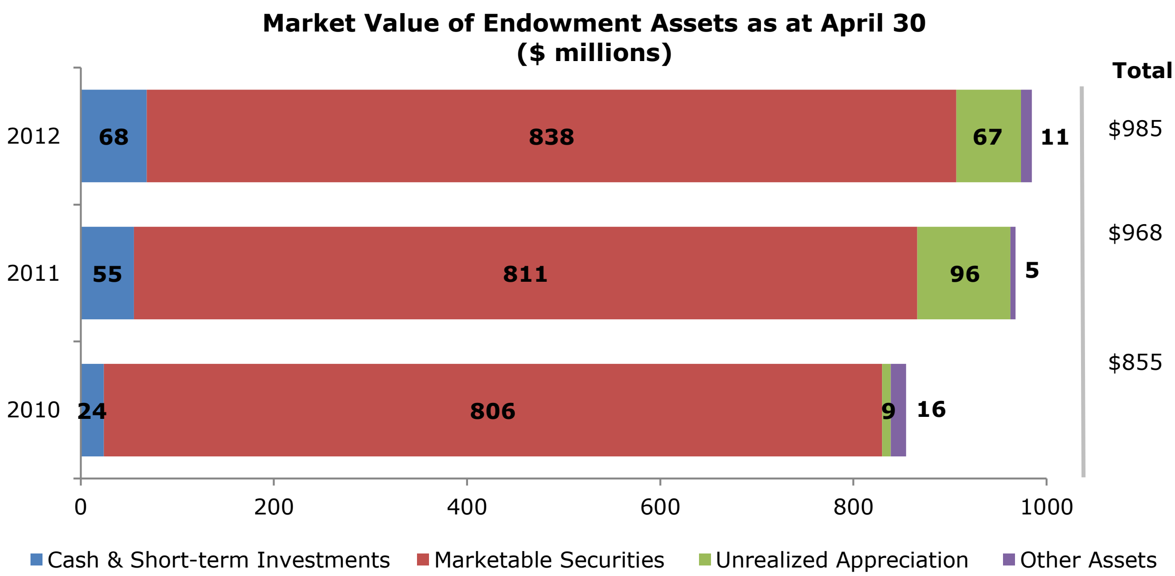
A total of $69.2 million (2011: $78.3 million) in research grants and contracts receivables exists at the end of the year. In conforming to GAAP, a receivable was recorded relating to current and prior year capital grants (MELS) amounting to $785.8 million (2011: $763.2 million). This amount effectively includes $421.2 million associated with the long-term debt issued on behalf of MELS (i.e. total debt, excluding $150 million in McGill Debentures, and $150.4 million in temporary borrowings due from MELS).

Other loan receivables total $6.3 million (2011: $2.0 million) and include amounts owed by third parties relating to construction projects.

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

Total marketable securities amount to $953.0 million (2011: $950.7 million) and includes $905.2 million (2011: $907.4 million) relating to endowment investments. In addition, $47.0 million (2011: $36.8 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 $0.8 million (2011: $6.5 million) relates to other operating funds invested temporarily in marketable securities.

The total endowment assets managed as part of the McGill Investment Pool amount to $984.7 million (2011: $968.0 million), including the $905.2 million in marketable securities mentioned above (see Section Endowment Gifts, page 33). The following chart outlines the significant assets included in the $984.7 million.




Source: McGill Audited Financial Statements

Other assets, totaling $11.1 million (2011: $5.4 million) include accrued income, staff mortgages, and other receivables.

4. Capital assets (Financial Statements, Note 7)

Total capital assets amount to $1.221 billion (2011: $1.133 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 totaled $88.9 million (2011: $128.1 million), of which $85.3 million (2011: $112.1 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 La Citadelle (410 Sherbrooke) residence ($22.4 million) and additional costs relating to the three KIP projects commenced in fiscal 2011, namely McIntyre Medical Building ($8.7 million), the Otto Maass Chemistry Building ($14.7 million), Macdonald Engineering Building ($7.5 million), the Carrefour Sherbrooke residence ($6.1 million), and others under $6 million each.

The table below outlines the significant net asset additions (net of amortization) during the year, by asset category:

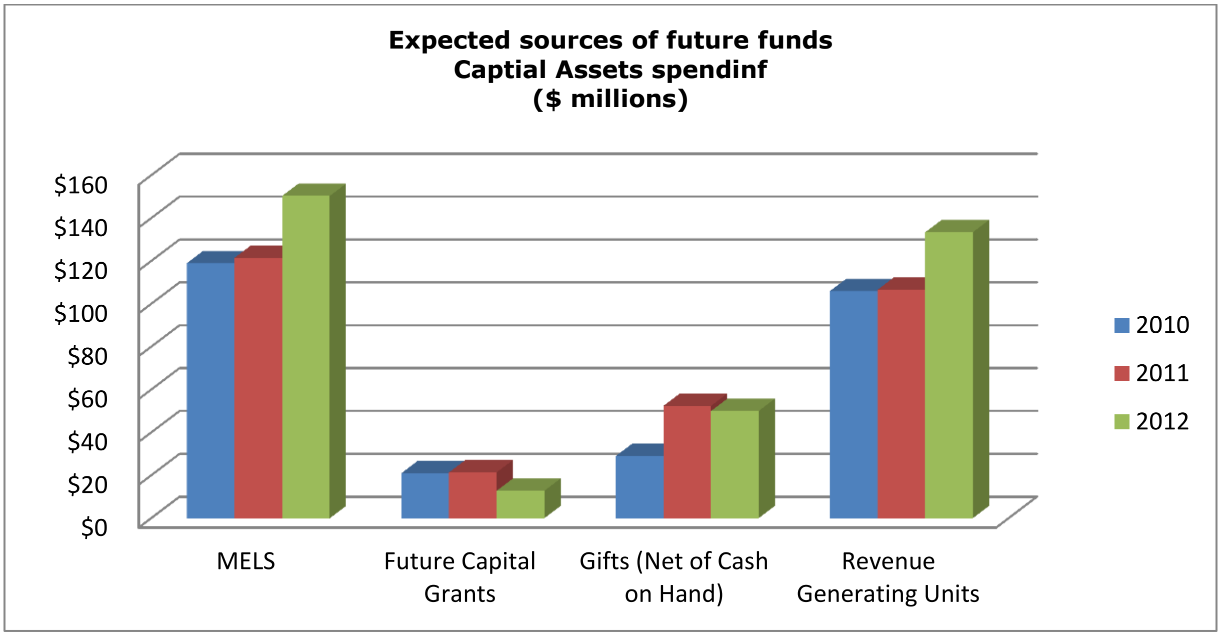
| ($ millions) | **2012** | **2011** | |
|---|---|---|---|
| Land and Land Improvements | 0.6 | 1.2 | 0.7% |
| Buildings and Renovations | 85.3 | 112.1 | 96.0% |
| Leasehold Improvements | (1.1) | 3.8 | -1.2% |
| Library Books | (0.3) | 0.6 | -0.3% |
| Equipment (Including Intangibles) | 2.4 | 10.1 | 2.7% |
| Non-Depreciable Assets | 1.9 | 0.3 | 2.2% |
| **Total:** | **88.9** | **128.1** | **1.44%** |

The majority of the funding for these capital projects is expected to come from the Québec 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, 2012, temporary capital asset borrowings on behalf of MELS amounted to $150.4 million (2011: $121.5 million) and related to approved outstanding capital and other specific capital grants. In addition, borrowings of $7.2 million (2011: $15.8 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 $50.0 million (2011: $52.4 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 $150 million bond debenture proceeds used. As at April 30, 2012, a total of $115.1 million (2011: $91.6 million) is 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 $328.0 million (2011: $288.8 million), including accounts payable/accruals totaling $173.1 million (2011: $160.9 million). The increase in accruals includes an estimate relating to a potential future pay equity requirement which has yet to be completed with respect to the years 2001 to 2012. As a result of pay equity legislation, the University is required to calculate any adjustments and submit them to the Commission for approval. In 2001, McGill conducted and completed a pay equity exercise and on November 21, 2001, posted a pay equity plan in accordance with the Pay Equity Act. All salary adjustments calculated under the plan were paid in five installments during the period spanning 2001 to 2005. In 2002, several McGill employees represented by MUNACA deposited complaints regarding the plan with the Pay Equity Commission. Despite the fact that these complaints were filed outside of the applicable delay, in 2004, the Pay Equity Commission notified the University of its decision to investigate the Plan on its own initiative. Subsequently, McGill and MUNACA entered into a conciliation process with the Pay Equity Commission in order to arrive at an agreement concerning the implementation of the plan on November 21, 2001, specifically with respect to the method of analysis used at the time of implementation and maintenance of pay equity. The conciliation process is still ongoing. Due to the complexity of the dossier and the fact that negotiations have not yet concluded, it is impossible to predict with certainty what the full costs will be.

Unearned revenue of $22.5 million (2011: $19.9 million) also forms part of this category and includes fees paid for the Summer 2011 semester.

The short-term portion of the long-term debt, as described in Section 7 below, totals $132.4 million (2011: $ 108.0 million) and is expected to be re-financed by MELS in fiscal 2013. However, confirmation of these amounts from MELS still remains outstanding at this time.

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

With the adoption of the GAAP deferral method, restricted contributions/revenues are deferred until the matching expense is incurred. In the case of restricted contributions received for non-capital expenses, the total deferred contribution as at April 30, 2012 amounted to $437.7 million (2011: $429.2 million). These revenues will be recognized in the future when the associated non-capital expenditure is incurred and reflects an overall decrease in research revenue inflows during the year.

With respect to deferred capital contributions, the April 30, 2012 total was $776.5 million (2011: $744.0 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 $10.3 million (net) (2011: $47.0 million) as a result of new *Financement Québec Promissory Notes* (Notes) issued by MELS totaling $118.0 million (2011: $97 million). This was in part used to repay matured bonds and repayment of previously issued notes totaling $107.7 million (2011: $50.0 million). The remainder of the proceeds were used to repay our temporary bank borrowings. Other bank debt repayments amounted to $1.3 million (2011: $0.9 million) on debt previously issued by other provincial ministries and other parties.

The remaining variation relates to the change in bond discounts which totaled $0.2 million at April 30, 2012, as compared to $0.3 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.

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

With the introduction of GAAP financials, new compensation related liabilities have been recorded. These include pension obligations that have been confirmed by actuaries to total $49.2 million (2011: $50.6 million), and post-employment benefits of $118.6 million (2011: $112.9 million).

Both of these liabilities were confirmed by independent external actuaries and 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, 2012, McGill had a balance of $212.9 million (2011: $174.5 million) in Invested in Capital Assets, $937.2 million (2011: $920.8 million) associated with Externally Restricted balances associated with Endowments, $55.7 million (2011: $55.2 million) of Internally Restricted balances, of which $33.6 million (2011: $33.1 million) related to Endowments. Finally, a negative $301.9 million (2011: $299.2) in Unrestricted Net Assets balances existed at April 30, 2012. Together, Unrestricted and Internally Restricted Net Assets (excluding Endowments) total $274.4 million (2011: $277.1 million) and represent the "accumulated deficit" of the University.

Impact of GAAP on the University's Net Assets as at April 30, 2012 ($ million)

| | |
|---|---|
| Unrestricted Net Assets | $(301.9) |
| Internally Restricted Net Assets | $ 27.5 |
| Net Assets (deficiency) -as at April 30, 2012 (i) | $(274.4) |

(i) Represented on the Balance Sheet as the sum of "Internally Restricted and Unrestricted" Net Assets relating to the Operating Fund.

The Statement of Changes in Net Assets includes investment income (loss) earned from Endowment investments resulting in a loss of $24.4 million (2011: $78.7 million), which effectively represents unrealized losses on investments including amounts distributed in excess of earnings for restricted endowed spending.

Endowment contributions totaled $42.4 million (2011: $34.6 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 in the section "Endowment Gifts," page 33 of this report.

10. Statement of Changes in Net Assets

The Statement of Changes in Net Assets is presented in order to highlight the changes in each of the Net Asset balances, including "excess of revenue over expenses" as included in the Statement of Revenues and Expenses. It also reflects direct contributions (cash or in kind) to the Endowments ($42.5 million). Also, investment income earned in excess of net amounts spent (or vice versa) is shown as a direct charge in this Statement. In fiscal 2012, $24.4 million (2011: $78.7 million excess earnings) was spent in excess of endowment earnings (including unrealized gains or losses).

Finally, the Statement also highlights transfers between the versions net asset categories, as they relate to Internally Restricted Fund balances, or contributions made for investments in capital assets. Note 2 also includes an explanation for the change in comparative amounts.

## OVERALL SOURCES OF REVENUES AND EXPENSES (12 months ending April 30, 2012)

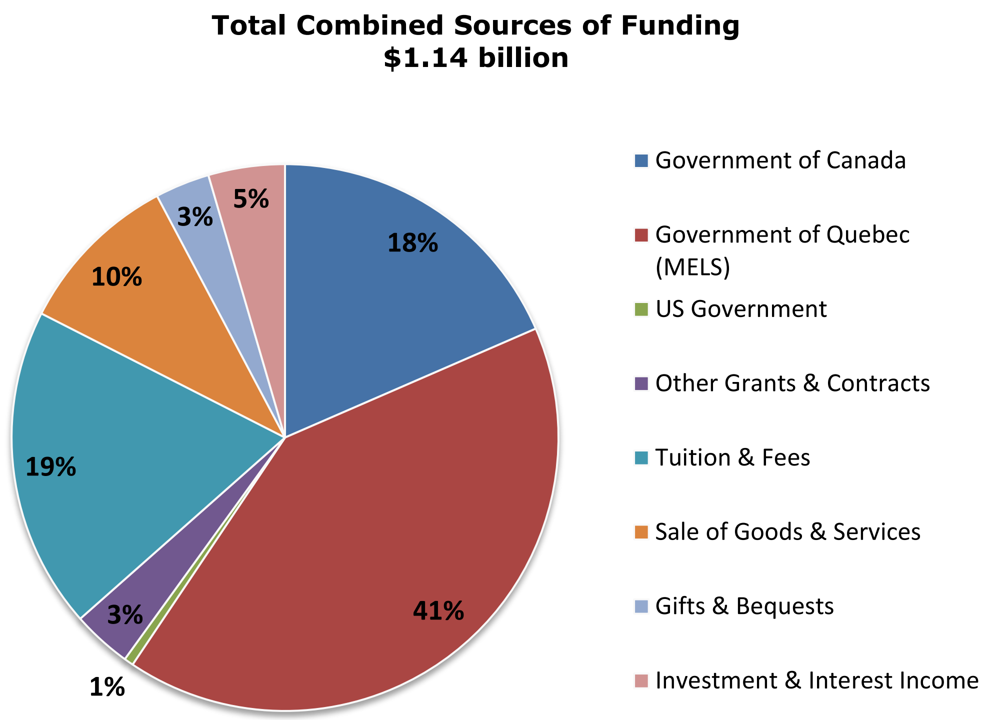
As a result of the newly adopted GAAP changes, the new presentation outlines the change in revenues and expenses for any particular year in the line item *Excess (deficiency) of revenue over expenses, before Inter-Fund transfer items* which are required to be considered in arriving at the change in Net 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.

In addition, the comparative amounts for the period ended April 30, 2011 reflect an 11 month year as compared to the 12 month year in fiscal 2012.

The current year's total revenue on a GAAP basis was $1.14 billion (2011: $1.03 billion); total revenues for the 12 month year-ended May 31, 2010 amounted to $1.04 billion. With the adoption of the deferral method of accounting for restricted contributions, the Statement of Revenue and Expenses now depicts one annual column for both total revenues and total 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. This presentation allowed for every fund to be evaluated on its own merits, and in the case of the Restricted Fund, allowed for the presentation of accrued revenues and actual expenses. The resulting excess revenues over expenses of restricted funds in the prior years was not an indication of "surplus," but rather a reflection of awarded/accrued revenues recognized in the fiscal year, compared to expenses incurred for the same period.

As discussed above, 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 20) 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, totaling $42.5 million (2011: $34.6 million), be shown as part of the change in Net Assets (externally restricted for endowed purposes) and not as revenue.

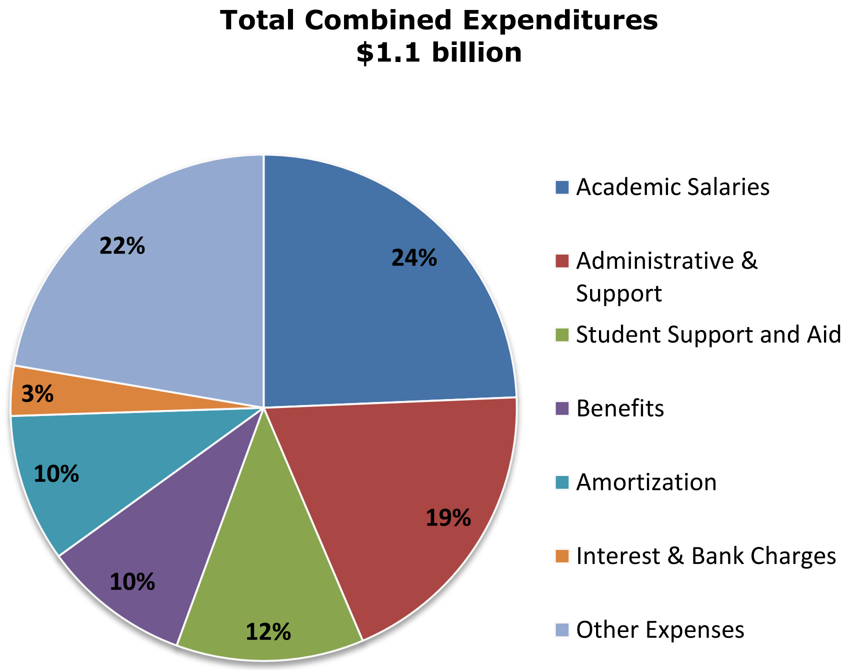
The chart below summarizes the various sources of revenues, excluding endowment gifts totaling $42.5 million (2011: $34.6 million).




Source: McGill Audited Financial Statements

Total combined expenses incurred to support McGill's activities were $1.109 billion in 2012 (2011: $0.988 billion) and $1.038 billion for the fiscal year-ended May 31, 2010; all amounts presented exclude 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, and periods and capitalization thresholds which have 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.




Source: McGill Audited Financial Statements

SOURCES OF REVENUES (12 months in fiscal 2012)

1. Total Grant revenue - all sources

Grant revenue used to support the teaching and research mission of the University totaled $704 million in 2012 (2011: $631 million), which represents 61.7% (2011: 63.7 %) of total (12 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, whether operating (unrestricted), restricted, or capital.

| **GRANTS ($ millions)** | 2012 (12 months) | | | | |
|---|---|---|---|---|---|
| **Purpose** | Quebec | Canada | US | Other Sources | 2012 |
| Operating | 357 | | | | 357 |
| Capital | 80 | 17 | | | 97 |
| Indirect Costs (Operating) | | 25 | | | 25 |
| Research (Restricted) Grants | 18 | 152 | 6 | 14 | 190 |
| Other Restricted Grants | 12 | 17 | | 6 | 35 |
| **Total:** | **467** | **211** | **6** | **20** | **704** |

| | 2011 (11 months) | | | | |
|---|---|---|---|---|---|
| **Purpose** | Quebec | Canada | US | Other Sources | 2011 |
| Operating | 295 | | | | 295 |
| Capital | 69 | 14 | | | 83 |
| Indirect Costs (Operating) | | 24 | | | 24 |
| Research (Restricted) Grants | 12 | 153 | 6 | 23 | 194 |
| Other Restricted Grants | 12 | 15 | | 8 | 35 |
| **Total:** | **388** | **206** | **6** | **31** | **631** |

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 2012 total $27.3 million (2011: $24.1 million) and $48.2 million (2011: $42.1) 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.

In addition to the above supplements, MELS also “claws-back” $8.3 million (2011: $7.6 million) in student aid contributions, indirectly collected via tuition fees. These amounts are accumulated and distributed by the Province’s financial aid system.

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 2012 was $17.7 million (net of $7.1 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 indirect costs (included in operating grants) associated with Québec-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.

Federal Indirect Cost of Research Grant ($ in 000)

| | 2012 | 2011 |
|---|---|---|
| Federal Grant | 24,766 | 24,414 |
| Amount Due to Hospitals | (7,076) | (6,649) |
| Total: | 17,690 | 17,765 |

Source: McGill Audited Financial Statements

d) Research grants

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 $17.2 million (2011: $15.2 million), classified as "Restricted Grants" (See Section e below).

Total Research Grants and Contracts ($ in 000)

| | 2012 | 2011 |
|---|---|---|
| Represented by: | | |
| Direct Funded Research | 193,642 | 180,209 |
| Infrastructure Grants | 17,111 | 22,494 |
| | 210,753 | 202,703 |

Source: McGill Financial Services

e) Other restricted grants

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 $17.2 million (2011: $15.2 million) while the provincial government awarded $2.9 million (2011: $3.2 million) for similar purposes. In addition, the provincial government funded other activities and programs, including $5.4 million (2011: $5.1 million) for teaching costs in the affiliated hospitals, and $3.2 million (2011: $3.7 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 $217.1 million (2011: $203.8 million), which accounts for 19.0% (2011:19.0%) 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)** | **2012** | **2011** |
|---|---|---|
| Quebec | 33.3 | 31.2 |
| Canadian (i) | 49.7 | 46.8 |
| International (ii) | 85.4 | 79.2 |
| Non-Credit courses | 4.7 | 4.3 |
| Administrative fees | 29.7 | 28.6 |
| Student Services & Athletics | 14.3 | 13.7 |
| **Total:** | **217.1** | **203.8** |

(i) Including $2.0 million (2011: $1.8 million) in fees exempt from Supplements
(ii) Including $2.9 million (2011: $2.3 million) in fees exempt from Supplements. Total also includes $32.1 million (2011: $28.2 million) of deregulated fees charged to undergraduate students.

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 $111.3 million (2011: $99.6 million) in revenues, are those generated (from third parties) primarily by ancillary type services, including residences, food services, the Bookstore, and others, totaling $76.8 million (2011: $73.0 million). Other academic and support units generated the remainder of revenues from the sale to third parties of various goods and services.

4. Investment and interest income

The investment and interest income recorded on a GAAP basis totals $51.6 million (2011: $48.8 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 totaled $78.7 million in fiscal 2011. In fiscal 2012, amounts distributed exceeded earnings by $24.4 million, including an unrealized loss of investment of $28.7 million (2011: $87.1 million gain). As per our policy, unit holders can only spend 4.25% of the average three year market value, which amounted to $41.4 million (2011: $39.0 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 an increase in Net Assets.

Overall, the total change in the Endowment resulted in a 1.6% (2011: 13.5%) growth in the fund. Of the total, 4.2% (2011: 4%) was generated from new endowment gifts received in the year.

Also, as at April 30, 2012, the accumulated unspent investment income, held as part of Endowment Assets, amounted to $67.6 million (2011: $71.9 million) and represents 1.6 years (2011: 1.8 years) of current annual distributions.

5. Other sources of revenue

The remaining sources of revenue include research contracts $20.1 million (2011: $10.5 million) and gifts and bequests $37.1 million (2011: $37.3 million), excluding endowment gifts (see Statement of Net Assets).

EXPENSES REQUIRED TO FULFILL THE UNIVERSITY'S MISSION (12 months in fiscal 2012 and 11 months in fiscal 2011)

Total Compensation and student support amounted to $720.9 million (2011: $644.9 million). This represents 65.0% of total expenditures, excluding Inter-Fund transfers (2011: 65.3%).

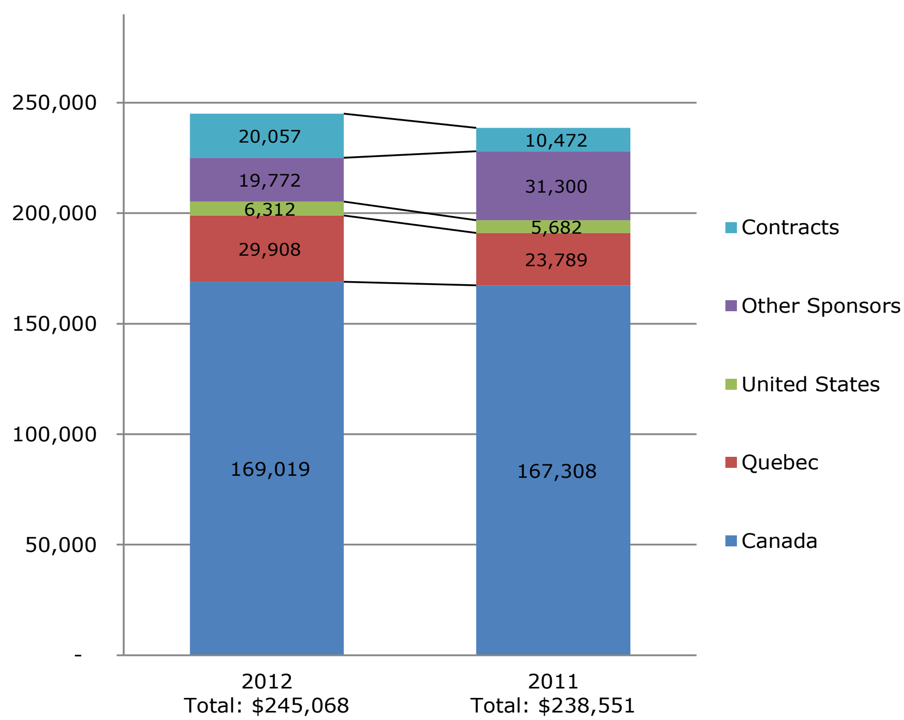
Other non-salary expenses, excluding Inter-Fund transfers, totaled $387.7 million (2011: $343.1 million), comprising of many various expense types, including *Materials, supplies, and publications* $39.6 million (2011: $36.9 million), *Building and Energy costs* totaling $39.6 million (2011: $35.0 million), *Amortization costs* of $104.9 million (2011: $87.6 million), *Interest and bank charges* of $35.4 million (2011: $31.7 million), and other expenditures. See *Statement of Revenue and Expenses* for further details.

RESEARCH ACTIVITIES (12 months in fiscal 2012 and 11 months in fiscal 2011)

Direct funded research totaled $193.6 million (2011: $180.9 million). A further $17.1 million (2011: $22.5 million) was generated in infrastructure grants.

The largest sponsors of restricted grants (including those relating to research) to McGill continue to be the federal and provincial governments. Together, they account for $170.1 million (2011: $163.9 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

As outlined earlier, research revenue recorded using the deferred method is recognized only to the extent of expenses are incurred. In the year grants are awarded, these associated revenues are either spent or deferred as "deferred contributions." The following table highlights total research revenue awarded in both fiscal years:

| ($ in millions) | **2012** (12 months) | **2011** (11 months) |
|---|---|---|
| Federal Government: | | |
| Tri-Council | $ 119.4 | $ 111.2 |
| Canada Research Chairs | $ 23.0 | $ 19.3 |
| CFI | $ 22.7 | $ 47.4 |
| Other | $ 4.4 | $ 3.6 |
| | $ 169.5 | $ 181.5 |
| Quebec Government: | | |
| FRSQ/FQNT/FQRSC | $ 22.3 | $ 20.0 |
| CFI | $ 5.4 | $ 29.9 |
| Other | $ 4.8 | $ 11.2 |
| | $ 32.5 | $ 61.1 |
| Canadian Foundations & Associations | $ 16.0 | $ 9.4 |
| Contracts | $ 16.7 | $ 19.6 |
| Other | $ 14.7 | $ 14.3 |
| | $ 47.4 | $ 43.3 |
| Total | $ 249.4 | $ 285.9 |

## OTHER RESTRICTED FUNDS (12 months in fiscal 2012 and 11 months in fiscal 2011)

In addition to restricted grants and contracts included in the above totals, total research and other restricted funding is supplemented by other sources of revenues, including investment income of $37.3 million, restricted gifts of $25.8 million, and other sources totaling $8.6 million. Total sources of revenues available for restricted and research purposes amounted to $316.8 million (2011: $308.8 million).

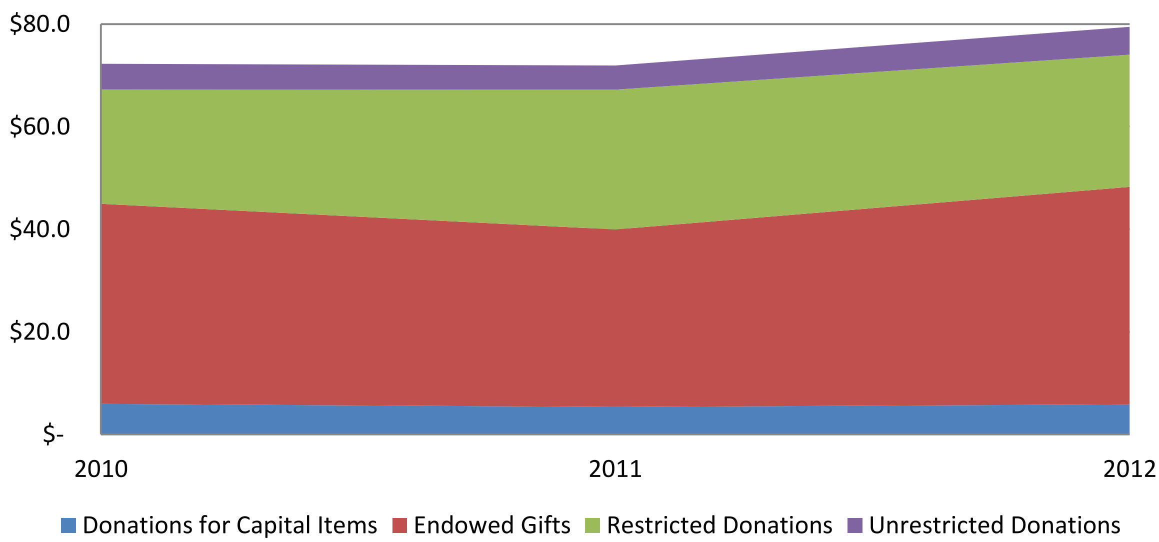
The Restricted expenses incurred include those with terms that are dictated by granting agencies (in the case of research grants or contracts) or the sponsoring party (e.g. donor gifts for student aid). These expenditures are considered and managed internally as "restricted" due to the nature of the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

On a GAAP basis, overall restricted expenses have increased to $319.4 million from a level of $293.8 million in the prior year, prior to Inter-Fund transfers relating to capital assets of $13.2 million (2011: $18.3 million), which in the prior presentation (non-GAAP) would have been included as part of overall expenses. Under GAAP, capital assets are no longer expensed as restricted expenditures, but rather capitalized and amortized over the economic lives of the associated assets. As a result, the associated restricted/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

Notwithstanding the continued economic slowdown, a total of $79.5 million (2011: $71.9 million) was received. The following chart illustrates all gifts and bequests revenue (including endowment gifts of $42.4 million presented in the Statement of Changes in Net Assets) over the last two years:

**Fund Raising Activities**
**$ 80 million (FY11: $ 72 million)**




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 include 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 2012, $41.4 million (11 month-2011: $ 39.0 million) was distributed, based on an MIP unit rate of $13.33 (prior year: $13.38 or $14.60 annualized).

Overall, the endowment investment returns improved from 2011 levels due to better market conditions. The table below outlines the overall growth in McGill's Endowment Assets.

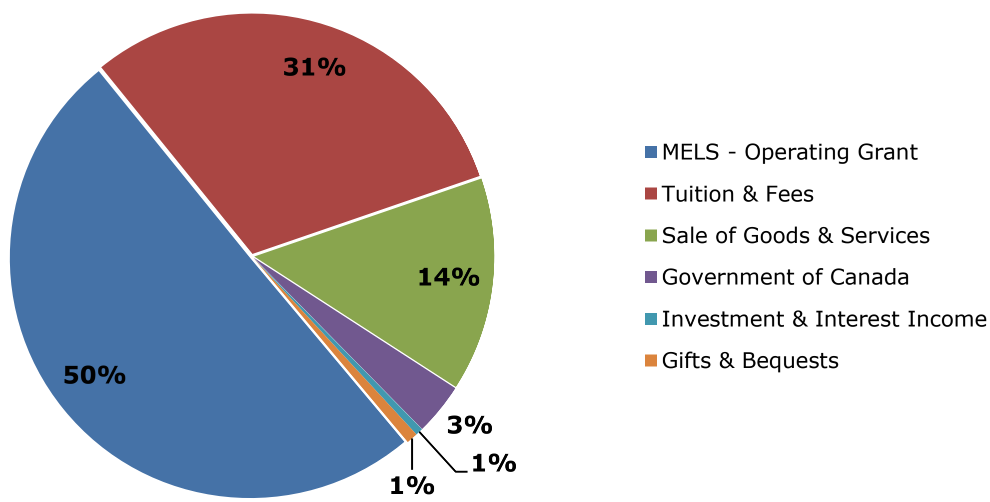
| ($ in millions) | **2012** | | **2011** | |
|---|---|---|---|---|
| Opening Book Value | 857.6 | | 831.0 | |
| Unrealized Market Value | 96.3 | | 9.2 | |
| Opening Net Assets - Market Value | 953.9 | | 840.2 | |
| New Gifts Received | 40.1 | 4.2% | 33.9 | 4.0% |
| Net Income (Loss) Realized | 36.4 | 3.8% | 28.8 | 3.4% |
| Net Income Distributed (Net of capitalizations) | (34.5) | -3.6% | (31.9) | -3.8% |
| Transfers from (to) Other Funds | 4.2 | 0.4% | (4.2) | -0.5% |
| Realized Increase in Assets | 46.2 | 4.8% | 26.6 | 3.2% |
| Change in Unrealized Market Values | (29.3) | -3.1% | 87.1 | 10.4% |
| Total Increase in Fund Value | 16.9 | 1.8% | 113.7 | 13.5% |
| Closing Book Value | 903.8 | 93.1% | 857.6 | 89.9% |
| Unrealized Market Value | 67 | 6.9% | 96.3 | 10.1% |
| Closing Net Assets - Market Value | 970.8 | | 953.9 | |

Source: Financial Services

OPERATING HIGHLIGHTS (12 months ended April 30, 2012)

The following chart highlights the various sources of Operating (Unrestricted) Fund revenue on a GAAP basis for the year-ended April 30, 2012:

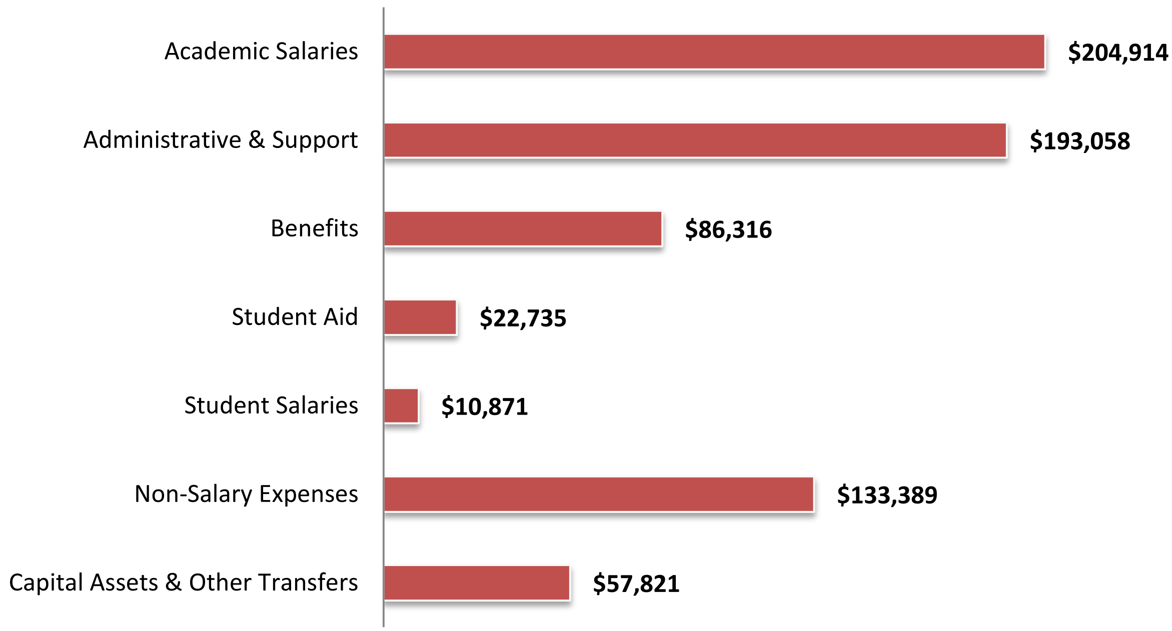
**Sources of Operating (Unrestricted) Revenues**
**$709.8 million**




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 $709.1 million on a GAAP basis, including Inter-Fund transfers of $57.8 million relating to Capital Asset additions and other transfers. Below is a summary of the types of all expenses incurred, including Inter-Fund transfers; salaries, benefits, and student support, all totals $517.9 million (2011: $457.7 million).

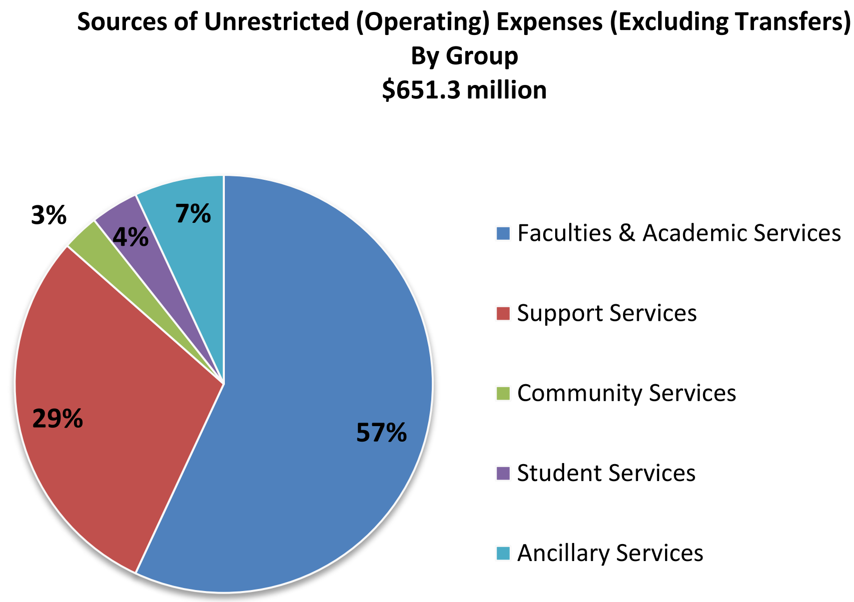
**Sources of Unrestricted (Operating) Expenses (Including Transfers) By Type**
**($709.1 million)**




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.




Source: McGill Financial Services

The twelve months of activities in fiscal 2012 ended with an overall operating surplus of $0.7 million (11 month-2011: surplus of $4.7 million). The surplus was greater than our budgeted deficit of $ 0.4 million for fiscal 2012, but consistent with the $0.3 million surplus forecasted for the 2012 fiscal year in the 2013 Budget Report approved by the Board last May.

Our "accumulated deficit" now stands at $274.4 million, including the GAAP adjustments mentioned earlier.

Overall, some operating revenues also differed from the year-end forecasts included in the 2013 Budget Report, including the following significant items below:

- MELS grant forecast included a greater claw-back ($4.4 million) due to the MUNACA strike, than the amount calculated at year-end. Other amounts ($0.3 million) were also added to the grant amount at year-end.
- Tuition and fees were $1.4 million above forecasted amounts.
- Overall, the University generated more sales of goods and services, net of related costs, than previously forecasted.
- Despite the downturn in the economy, unrestricted gifts and bequests were $0.7 million more than what was planned for.

The fiscal 2012 operating expenses are affected by the two expense components (salary and non-salary). The items below represent final expense amounts incurred over forecasted levels included in the 2013 Budget Report.

1. Salaries and benefits totaled $517.9 million as compared to a forecast of $515.9 million. Included in the total is $33.6 million of student salaries and aid (excluding related benefits), as compared to $30.9 million in the prior year.

2. Total academic, administrative, and support salaries and benefits totaled $484.3 million (2011: 426.8 million) and represent 74.4% (2011: 74.1%) of total operating expenses (excluding transfers).

3. Total Benefits includes an accrual estimate for pay equity for the periods 2001 to 2012. The initial pay equity exercise had been conducted in the past, which led to an initial $2 million payment for the 2001-2005 period.

4. Overall, non-salary expenses were lower than amounts forecasted for fiscal 2012 by $4.1 million. Overall, non-salary expenses increased by $14.9 million over the 11-month total of $118.5 million in fiscal 2011. On an annualized basis, the increase was approximately $4 million (approximately 3%).

## 3. DEFERRED MAINTENANCE – CAMPUS RENEWAL

A 2007 study conducted under the auspices of *Conférence des recteurs et des principaux des universités du Québec (*CREPUQ) estimated McGill's total deferred maintenance inventory to be almost $650 million. This study included only McGill's government subsidized buildings and supporting infrastructure; buildings funded by the *Ministère d'Éducation, Loisir et Sports* (MELS). A similar study of self-financed buildings conducted in 2009 revealed an additional $185 million of deferred maintenance inventory at the University's two campuses.

In the Fall of 2007, the Government of Québec announced a 15-year capital funding plan which resulted in a $25.9 million allocation to McGill in 2008-09 and $27.2 million in 2009-10, specifically targeted for deferred maintenance. In 2009, an additional $100 million was secured by McGill (including the Douglas Hospital) through the Federal Government's Knowledge Infrastructure Program (KIP), $81 million of which was spent on three buildings on the downtown McGill campus. McGill's contribution to these three projects was $9 million, funded from the University's allocation of deferred maintenance funds from MELS. As a result, the total government contribution through the KIP program at McGill was $72 million.

Other potential sources of funding for campus renewal include the annual capital grant from MELS ($19.6 million), the Canada Foundation for Innovation, energy conservation funding, and other sources including departmental and faculty budgets and donations.

Following the 2007 inventory, all 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. Projects were further categorized as urgent, essential, desirable, and planned. Based on this list, those projects considered to be the most urgent were selected for execution over the period of 2008-2011 ("Lot 1"). These included the three KIP projects, all now either complete or close to final completion: McIntyre Medical ($25.8 million), Otto Maass ($22.9 million) and the Macdonald Engineering KIP project ($22.9 million). In total, McGill budgeted approximately $259 million between 2008 and 2011 to these Lot 1 projects, to correct the most urgent of the University's deferred maintenance needs. Of this total budgeted amount, $171 million was disbursed on Lot 1 projects, with the balance continuing to be disbursed over the coming few years simultaneous with the initiation of Lot 2 (2011-2014) and Lot 3 (2014-2017).

McGill's Lot 1 investments have resulted in important upgrades to classrooms, teaching labs and research laboratories, and critical code compliance upgrades (fire and safety) in 13 major academic buildings. In addition, the HVAC, electrical, mechanical and elevator infrastructure in many buildings, have been renewed and significant upgrades to the campus energy distribution systems and service tunnels have been made. During the same time period, self-financing units such as McGill Residences and Athletics & Recreation also invested over $20 million in renewal of their facilities.

Between the periods 2011 and 2014, the University planned for an estimated $350 million worth of essential deferred maintenance projects (Lot 2). To date, over $137 million of these Lot 2 projects have been initiated and are in various stages of estimate, design and execution. It is projected that an additional $300 million could be expended in 2014-2017 on Lot 3 projects, for which planning has already been initiated.

A major project slated for execution in the coming years is the complete redevelopment of Wilson Hall, estimated at $51 million. Following McGill's urgent petition to MELS for funding of this project, the Québec government announced in the Spring of 2012 a contribution of $35 million towards this project. Construction may begin as early as Spring, 2014 with a target completion date of 2016.

In addition to the above Lots 2 and 3 deferred maintenance projects, Residences and Student Housing has prioritized $40 million of projects to be completed by 2016.

The construction and renovation projects summarized above continue to make a substantial 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, we are not managing to gain ground with respect to McGill's deferred maintenance status. While we expend great efforts and funds to cope with the backlog of deferred maintenance, new issues continue to arise 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.

McGill continues to actively press the Québec government for additional funding to deal with deferred maintenance, especially given the unique and historic nature of many of our buildings. Emphasis is being placed not only on securing the necessary funds to deal with the backlog of deferred maintenance, but also to close the current gap in capital funding in order to avoid the tendency to create deferred maintenance in the first place. As part of this, and as an on-going initiative to track deferred maintenance inventories and to make the case for further funding support, McGill has joined in a CREPUQ initiative to develop a uniform inventory of accumulated deferred maintenance for all universities in Québec. A specialist has been chosen by CREPUQ to do this work and results should be available by the end of 2014. It is hoped that these will update and expand the results of the 2007 survey, giving a more accurate and complete inventory of the state of MELS-subsidized buildings at McGill. The result of this analysis will allow 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 planning efforts have 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. A further refinement of this model will incorporate other strategic directions/initiatives, as well as fully integrate elements of the Strategic Research Plan and Physical Asset Master Plan.

The overall 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. These assumptions are being seriously challenged by both looming pension deficits (next formal actuarial valuation scheduled for December 2012) and the prevailing pay equity legislation. Both of these are estimated to bring new additional costs to McGill's operating budget, thus requiring either more revenues or expense reductions in the near term. MELS is still requesting balanced budgets from universities, as the prospect of new investments on their part is bleak. In addition, there is a significant risk that the newly elected government will repeal the previously announced tuition increases, thus further impacting the deficit by approximately $5 million. Finally, 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

On June 29, 2012, Moody's Investors Services downgraded McGill's debt rating from Aa1 to Aa2. Standard & Poor's Rating Service reaffirmed (AA-) McGill's ratings associated with the $150 million of unsecured debentures in December 2011.

Moody's newly confirmed an Aa2 rating was subsequent to the previous re-affirmation of the Aa1 rating in May 2012. The downgrade reflected Moody's revised assessment of the linkages between McGill and the Province of Québec. This revision came about within the context of a growing emphasis on linkages between government related issues and their supporting governments. Despite this, Moody's confirmed that the University continues to hold flagship status in the Province of Québec and a dominant national and international market presence. It considers McGill to be one of Canada's most prominent and internationally renowned institutions and cites the following factors for the rating:

- Strong student demand reflecting internally recognized academic reputation.
- Premier research activities that attract superior faculty and students.
- Significant financial strength that features ample endowment funds.
- Low debt burden supported by provincial debt service subsidies.

Standard & Poor's confirmed an AA- rating and a continued stable outlook in December 2011, citing that McGill has:

- Excellent student demand and research profile.
- Provincial support that is considered good and consistent (Province of Québec rated at A+).
- Greater tuition flexibility.
- McGill has a moderate debt levels.

## 6. RECENT DEVELOPMENTS

In 2011, the government 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, however no new stimulus has been announced. The possibility of repeal in the earlier announced tuition fee increases will result in overall pressure on the operating deficits, however, any compensation for this through additional government grants is still unknown. If the current low interest environment were ever to cease, this would also add additional strain on the Provinces' limited resources, as well as impact our own borrowing costs.

Respectfully submitted,

Michael Di Grappa
Vice-Principal, Administration and Finance

Albert Caponi, CPA, CA
Assistant Vice-Principal, Financial Services

September 2012

**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 April 30 (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 Inter-Fund 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.

# PART II

## Audited Financial Statements

*Financial statements of*

# THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

**(see Note 1)**

*April 30, 2012*

# THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

## Table of contents

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# Independent auditor's report

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

We have audited the accompanying financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheet as at April 30, 2012, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Institution for the Advancement of Learning / McGill University as at April 30, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Other matter*

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which explains that certain comparative information for 11-month period ended April 30, 2011 has been restated.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.[1]

October 9, 2012

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

# THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

## Balance sheet

**as at April 30, 2012**
**(in thousands of dollars)**

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ (Restated – Note 2) |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **37,657** | 12,196 |
| Short-term investments (Note 16) | **84,478** | 64,692 |
| Receivables (Note 4) | **255,966** | 293,253 |
| Prepaid expenses | **3,515** | 3,638 |
| Inventory | **2,439** | 2,839 |
| | **384,055** | 376,618 |
| Marketable securities, at fair value (Note 16) | **952,953** | 950,725 |
| Grants receivable - operating | **541** | 1,361 |
| Grants and contracts related to research receivable | **69,202** | 78,305 |
| Capital grants receivable (Note 5) | **785,804** | 763,162 |
| Loans receivable (Note 6) | **6,325** | 1,966 |
| Capital assets (Note 7) | **1,221,385** | 1,132,508 |
| Total assets | **3,420,265** | 3,304,645 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank indebtedness (Note 8) | **219,179** | 223,421 |
| Accounts payable and accrued liabilities | **173,130** | 160,854 |
| Unearned revenue | **22,451** | 19,929 |
| Current portion of long-term debt (Note 11) | **132,400** | 107,989 |
| | **547,160** | 512,193 |
| Deferred contributions (Note 9) | **437,688** | 429,241 |
| Deferred capital contributions (Note 10) | **776,512** | 744,009 |
| Long-term debt (Note 11) | **589,213** | 604,418 |
| Accrued pension liability (Note 12) | **49,179** | 50,590 |
| Post-employment benefit obligation (Note 12) | **118,558** | 112,860 |
| | **2,518,310** | 2,453,311 |
| Commitments and contingent liabilities (Notes 18 and 19) | | |
| **Net assets (deficiency)** | | |
| Invested in capital assets | **212,944** | 174,487 |
| Externally restricted for endowment purposes (Note 13) | **937,215** | 920,766 |
| Internally restricted (Note 14) | **53,678** | 55,244 |
| Unrestricted | **(301,882)** | (299,163) |
| | **901,955** | 851,334 |
| Total liabilities and net assets | **3,420,265** | 3,304,645 |

**Approved by the Board of Governors**

..................................................Governor

..................................................Secretary - General

# THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

## Statement of revenue and expenses

**year ended April 30, 2012**
**(in thousands of dollars)**

| | **2012 (12 months)** | 2011 (11 months) |
|---|---|---|
| | **$** | $ (Restated – Note 2) |
| **Revenue** | | |
| Grants | | |
| Canada | **210,912** | 205,631 |
| Quebec | **467,118** | 388,039 |
| United States | **6,312** | 5,682 |
| Other sources | **19,772** | 31,300 |
| Contracts | **20,057** | 10,472 |
| Tuition and fees | **217,133** | 203,835 |
| Sale of goods and services | **111,326** | 99,632 |
| Gifts and bequests | **37,067** | 37,327 |
| Investment and interest income | **51,611** | 48,801 |
| Total revenue | **1,141,308** | 1,030,719 |
| Expenses | | |
| Salaries | | |
| Academic | **269,866** | 246,169 |
| Administrative and support | **213,509** | 187,034 |
| Benefits | **104,658** | 92,125 |
| Student aid | **84,533** | 51,521 |
| Student | **48,369** | 68,068 |
| Total salaries | **720,935** | 644,917 |
| Non-salary | | |
| Material, supplies and publications | **39,631** | 36,930 |
| Contributions to partner institutions | **38,954** | 37,854 |
| Contract services | **18,567** | 16,548 |
| Professional fees | **18,014** | 16,675 |
| Travel | **23,716** | 20,382 |
| Cost of goods sold and services rendered | **19,963** | 19,209 |
| Building occupancy costs | **19,117** | 15,310 |
| Energy | **20,524** | 19,749 |
| Other non-salary expenses | **42,265** | 35,534 |
| Hardware and software maintenance | **6,684** | 5,542 |
| Amortization of capital assets | **104,852** | 87,623 |
| Interest | **34,260** | 30,613 |
| Bank charges | **1,197** | 1,102 |
| Total non-salary | **387,744** | 343,071 |
| Total expenses | **1,108,679** | 987,988 |
| **Excess of revenue over expenses** | **32,629** | 42,731 |

# THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

## Statement of changes in net assets

**year ended April 30, 2012**
**(in thousands of dollars)**

| | Unrestricted | Internally restricted | Externally restricted | Invested in capital assets | Endowments | Total 2012 (12 months) | Total 2011 (11 months) |
|---|---|---|---|---|---|---|---|
| Net assets, as previously reported | **(299,163)** | **22,867** | **-** | **505,555** | **920,766** | **1,150,025** | 952,357 |
| Adjustment to prior period (Note 2) | **-** | **32,377** | **-** | **(331,068)** | **-** | **(298,691)** | (257,057) |
| Net assets (deficiency), beginning of year, as restated | **(299,163)** | **55,244** | **-** | **174,487** | **920,766** | **851,334** | 695,300 |
| Excess of revenue over expenses | **26,438** | **37,315** | **(2,615)** | **(28,509)** | **-** | **32,629** | 42,731 |
| Endowment contributions and gifts in kind | **-** | **-** | **-** | **2,327** | **40,088** | **42,415** | 34,563 |
| Investment income items reported as direct (decrease) increase in net assets | **760** | **551** | **(6,411)** | **-** | **(19,323)** | **(24,423)** | 78,740 |
| Net change in internally restricted net assets | **29,214** | **(39,432)** | **4,993** | **5,709** | **(484)** | **-** | - |
| Investment in capital assets | **(44,759)** | **-** | **(13,186)** | **57,945** | **-** | **-** | - |
| Other transfers | **(14,372)** | **-** | **17,219** | **985** | **(3,832)** | **-** | - |
| Net assets, end of year | **(301,882)** | **53,678** | **-** | **212,944** | **937,215** | **901,955** | 851,334 |

# THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

## Statement of cash flows

**year ended April 30, 2012**
**(in thousands of dollars)**

| | 2012 | 2011 |
|---|---|---|
| | $ | $ (Restated – Note 2) |
| **Operating activities** | | |
| Excess of revenue over expenses | **32,629** | 42,731 |
| Adjustments for: | | |
| Amortization of capital assets | **104,852** | 87,623 |
| Amortization of bond discount | **231** | 263 |
| Amortization of deferred contributions (Note 9) | **(120,639)** | (128,949) |
| Amortization of deferred capital contributions (Note 10) | **(80,376)** | (67,540) |
| | **(63,303)** | (65,872) |
| Net change in non-cash working capital items (Note 15) | **27,251** | 8,600 |
| Increase in government grant receivable | **(8,207)** | (114,688) |
| Decrease (increase) in grants and contracts related to research receivable | **20,845** | (57,271) |
| Increase in deferred contributions | **129,086** | 157,455 |
| Increase (decrease) in pension liability | **(1,411)** | 1,272 |
| Increase in post-retirement benefit obligation | **10,486** | 9,017 |
| Post-retirement benefit obligation payments | **(4,788)** | (4,475) |
| | **109,959** | (65,962) |
| **Investing activities** | | |
| Increase in short-term investments | **(19,786)** | (31,702) |
| Acquisition of capital assets | **(193,729)** | (215,705) |
| Purchase of marketable securities | **(739,052)** | (707,773) |
| Proceeds from sale of marketable securities | **736,824** | 612,897 |
| Change in loans receivable | **(4,359)** | 1,158 |
| | **(220,102)** | (341,125) |
| **Financing activities** | | |
| Change in bank indebtedness | **(4,242)** | 49,436 |
| Investment income reported as direct (decrease) increase in net assets | **(24,423)** | 78,740 |
| Endowment contributions | **42,415** | 34,563 |
| Issuance of long-term debt | **118,000** | 97,000 |
| Repayment of long-term debt | **(109,025)** | (44,762) |
| Deferred capital contributions | **112,879** | 199,330 |
| | **135,604** | 414,307 |
| Net change in cash and cash equivalents | **25,461** | 7,220 |
| Cash and cash equivalents, beginning of year | **12,196** | 4,976 |
| **Cash and cash equivalents, end of year** | **37,657** | 12,196 |

*Supplementary information*

| | | |
|---|---|---|
| Interest paid | **12,411** | 11,531 |

## 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.* To maintain its charitable organization status, the University must respect an annual disbursement quota under the *Income Tax Act.* Failure to comply with this quota can result in revocation of its charitable registration status. As at April 30, 2012, the University met its disbursement quota.

As mandated by the Ministère de l'Éducation, du Loisir et du Sport de Quebec, the University changed its year end to April 30 from May 31, effective June 1, 2010. Accordingly, the 2011 period presented is an eleven-month period.

## 2. Prior period adjustments

In the preparation of its 2012 financial statements, McGill determined that certain items were misclassified in prior periods and has made prior period adjustments for these items. These were as follows.

In fiscal 2010, McGill first applied the deferral method of accounting for contributions as part of the financial reform to conform to Canadian generally accepted accounting principles ("GAAP") mandated by the Ministère de l'Éducation, du Loisir et du Sport du Quebec ("MELS"). McGill has identified the following misclassifications made in 2010:

a) certain net assets balances previously classified as Invested in capital assets have been reclassified to Deferred contributions in the amount of $257 million;
b) certain debit net assets balances previously classified as Internally restricted have been reclassified to Invested in capital assets to reflect the nature of the net assets balances in the amount of $32 million.

In fiscal 2011, $41.6 million of capital assets purchased with Externally restricted funds designated for capital expenditures were incorrectly recorded, resulting in an overstatement of grant revenues and amounts invested in capital assets and an understatement of deferred contributions.

**(tabular amounts in thousands of dollars)**

## 2. Prior period adjustments (continued)

The effect of the prior period adjustments on revenues on the statement of revenue and expenses for the period ended April 30, 2011 and on the balance sheet as at that date is summarized as follows:

*Balance sheet*

| | 2011 | | |
|---|---|---|---|
| | As previously reported | Restatements | As restated |
| | $ | $ | $ |
| **Liabilities** | | | |
| Deferred Contributions | **130,550** | **298,691** | **429,241** |
| | **130,550** | **298,691** | **429,241** |
| **Net assets** | | | |
| Invested in capital assets | **505,555** | **(331,068)** | **174,487** |
| Internally restricted | **22,867** | **32,377** | **55,244** |
| | **528,422** | **(298,691)** | **229,731** |

*Statement of revenue and expenses*

| | 2011 (11 months) | | |
|---|---|---|---|
| | As previously reported | Restatements | As restated |
| | $ | $ | $ |
| **Revenue** | | | |
| Grants | | | |
| Canada | **227,634** | **(22,003)** | **205,631** |
| Quebec | **407,670** | **(19,631)** | **388,039** |
| | **635,304** | **(41,634)** | **593,670** |

## 3. Significant accounting policies

The financial statements are prepared in accordance with Canadian GAAP 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 deferred contributions and are recognized as revenue when the related expense is incurred. Where contributions relate to capital assets, the revenue is recognized on the same basis as the amortization of the asset acquired. Unrestricted contributions are recognized as revenue when received. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Pledged donations are not recognized until received.

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

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

Sales of goods and services 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 is not recognized in these financial statements.

Research grants are recorded based on the deferral method and are recognized as revenue in the year in which related expenses are recognized.

*Financial instruments*

The University has maintained its election to use the exemption provided by the Canadian Institute of Chartered Accountants ("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)*

Cash, 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 amounts reported by fund managers, quoted market yields, or 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. Recorded against long-term debt are bond discounts and issuance costs.

Transaction costs are expensed as incurred for items classified as held for trading.

*Derivative financial instruments*

Derivative financial instruments are recorded at their fair values and changes in 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.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and highly liquid investment instruments which mature within 90 days or less from the date of acquisition.

*Student loans*

Student loans are due within one year after graduation and do not bear interest up until that time. After their due date, interest is charged based on the prevailing rates when the loan agreements were signed. A provision is recorded for estimated uncollectible amounts.

(tabular amounts in thousands of dollars)

## 3. Significant accounting policies (continued)

*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 $20.0 million ($19.2 million in 2011).

*Capital assets*

Capital assets are recorded at cost. Constructed assets do not include interest incurred during construction. Contributed capital assets are recorded at appraised fair value at the date of contribution when fair value can be reasonably estimated; otherwise they are recorded at a nominal amount. Amortization of assets under development commences when development is completed. The amortization rates are calculated on a straight-line basis over the estimated useful lives in years of various asset categories as follows:

| | |
|---|---|
| Land improvements | 10 or 20 |
| Buildings | 20 to 50 |
| Major renovations | 20 to 50 |
| Leasehold improvements | Over term of lease, to a maximum of 10 years |
| Equipment | 3 to 20 |
| Rolling stock | 5 |
| Library materials | 10 |
| Intangible assets (primarily software) | 3 to 5 |

*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.

## 3. Significant accounting policies (continued)

*Employee future benefits*

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits for eligible Plan members. The University also has certain post-employment benefits plans and a legacy defined benefit pension plan. The cost of providing defined pension benefits and post-employment benefits other than pensions is determined periodically by independent actuaries. The actuarial valuation performed every three years is based on the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The 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 (2011 - 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. The most recent actuarial evaluation for funding purposes filed was dated December 31, 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, pay equity and employee future benefits.

*Future accounting changes – New accounting framework*

The CICA has approved a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and Canadian accounting standards for not-for-profit organizations, whichever suits them best. McGill University currently plans to adopt the new Canadian accounting standards for not-for-profit organizations. The impact of this transition has not yet been determined.

**(tabular amounts in thousands of dollars)**

## 4. Receivables

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| Operating | **36,209** | 47,768 |
| Student loans | **2,855** | 2,858 |
| Investment income | **1,743** | 2,111 |
| Government grant | **36,488** | 50,103 |
| Grants and contracts related to research | **178,671** | 190,413 |
| | **255,966** | 293,253 |

## 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 4.125% to 4.267%, with maturities up to ten years.

## 7. Capital assets

| | **2012** | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| | **$** | **$** | **$** | $ | $ | $ |
| Land | **28,706** | **-** | **28,706** | 28,706 | - | 28,706 |
| Land improvements | **33,964** | **7,812** | **26,152** | 31,685 | 6,113 | 25,572 |
| Buildings | **596,836** | **313,656** | **283,180** | 594,915 | 304,953 | 289,962 |
| Major renovations | **674,206** | **153,580** | **520,626** | 526,144 | 131,472 | 394,672 |
| Leasehold Improvements | **6,065** | **2,315** | **3,750** | 1,429 | 781 | 648 |
| Equipment | **471,499** | **273,966** | **197,533** | 413,964 | 222,582 | 191,382 |
| Rolling stock | **1,769** | **1,016** | **753** | 1,314 | 706 | 608 |
| Library materials | **152,517** | **90,578** | **61,939** | 137,574 | 75,327 | 62,247 |
| Intangible assets | **13,584** | **10,046** | **3,538** | 11,290 | 6,186 | 5,104 |
| | **1,979,146** | **852,969** | **1,126,177** | 1,747,021 | 748,120 | 998,901 |
| Assets under development | **95,208** | **-** | **95,208** | 133,607 | - | 133,607 |
| | **2,074,354** | **852,969** | **1,221,385** | 1,880,628 | 748,120 | 1,132,508 |

(tabular amounts in thousands of dollars)

## 8. Bank indebtedness

McGill's Board of Governors has approved maximum borrowings of $300 million ($250 million in 2011) under short-term credit facilities, of which $219 million has been used at April 30, 2012 ($223 million in 2011). Unsecured and uncommitted lines of credit, totalling $330 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 3.00% for the year (2.96% in 2011). Through the use of bankers' acceptances, the average cost of borrowing for the year was 1.49% (1.24% in 2011). The rate in effect as at April 30, 2012 was 1.44% (1.50% as at April 30, 2011). Bankers' acceptances outstanding at year end bear interest at rates ranging from 1.27% to 1.82% (1.30% to 1.82% as at April 30, 2011).

## 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.

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| | | (Restated – Note 2) |
| Balance, beginning of year | **429,241** | 400,735 |
| Restricted funds received during the year | **123,522** | 157,455 |
| Gifts and bequests | **5,564** | - |
| Amortization of deferred revenue | **(120,639)** | (128,949) |
| Balance, end of year | **437,688** | 429,241 |

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

| | | |
|---|---|---|
| Federal Grants | **213,189** | 215,706 |
| Provincial Grants | **61,884** | 67,685 |
| United States Grants | **4,512** | 3,883 |
| Other Grant Sponsors | **72,338** | 61,805 |
| Contracts | **25,220** | 29,511 |
| Gifts and Bequests | **33,614** | 24,638 |
| Endowment Income | **22,344** | 21,504 |
| Investment Income | **4,587** | 4,509 |
| | **437,688** | 429,241 |

**(tabular amounts in thousands of dollars)**

## 10. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as grant revenue in the statement of revenue and expenses. The deferred capital contributions balance consists of the following:

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of year | **744,009** | 612,219 |
| Deferred capital contributions received | **112,879** | 199,330 |
| Amortization of deferred capital contributions | **(80,376)** | (67,540) |
| Balance, end of year | **776,512** | 744,009 |
| | | |
| Represented by: | | |
| Net Deferred Contributions – MELS | **352,362** | 315,470 |
| Net Deferred Contributions – Other Provincial | **138,402** | 142,154 |
| Net Deferred Contributions – Federal | **131,583** | 128,434 |
| Net Deferred Contributions – Other | **154,165** | 157,951 |
| Balance, end of year | **776,512** | 744,009 |

## 11. Long-term debt

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| a) | | |
| 1) Bonds (i) | | |
| 6.20% Series “4C” matured June 14, 2011 | **-** | 13,981 |
| 4.00% Series “12C” matured November 24, 2011 | **-** | 5,605 |
| 5.75% Series “6C” matured February 14, 2012 | **-** | 3,858 |
| 5.70% Series “7C” matured February 15, 2012 | **-** | 5,358 |
| 4.10% Series “13C” matured February 24, 2012 | **-** | 8,837 |
| 5.75% Series “8C” matured February 28, 2012 | **-** | 5,400 |
| 5.80% Series “8C” matured February 28, 2012 | **-** | 3,872 |
| | **-** | 46,911 |
| 4.05% Series “11C” due May 27, 2012 | **8,571** | 8,571 |
| 5.40% Series “9C” due September 12, 2012 | **7,405** | 7,405 |
| 5.30% Series “10C” due February 27, 2013 | **10,451** | 10,451 |
| | **26,427** | 26,427 |
| 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: | **42,783** | 89,694 |

**(tabular amounts in thousands of dollars)**

## 11. Long-term debt (continued)

| | | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| a) | | | |
| | 2) Notes (ii) | | |
| | 3.794% matured June 16, 2011 (iii) | **-** | 88 |
| | 4.288% matured December 1, 2011 | **-** | 19,188 |
| | 4.814% matured April 25, 2012 | **-** | 16,000 |
| | 2.257% due October 25, 2012 | **54,011** | 57,005 |
| | 4.952% due November 1, 2012 | **26,634** | 29,258 |
| | 4.355% due September 16, 2013 | **72,651** | 76,988 |
| | 4.607% due September 16, 2013 | **29,400** | 30,800 |
| | 3.240% due September 23, 2013 | **34,281** | 36,188 |
| | 3.320% due June 1, 2014 | **12,144** | 13,072 |
| | 3.690% due December 1, 2014 | **22,725** | 24,483 |
| | 3.839% due December 1, 2014 | **32,680** | 35,120 |
| | 4.267% due December 1, 2015 (iii) | **678** | 830 |
| | 3.601% due June 2, 2016 | **9,192** | 10,000 |
| | 2.820% due June 2, 2016 | **26,374** | 28,000 |
| | 2.849% due December 1, 2016 | **66,240** | 69,000 |
| | 1.928% due April 25, 2017 | **9,456** | - |
| | 2.323% due December 1, 2017 | **66,550** | - |
| | 2.472% due December 1, 2017 | **23,000** | - |
| | 2.406% due December 1, 2018 | **18,000** | - |
| | 4.125% due August 24, 2020 | **5,655** | 6,122 |
| | 4.991% due June 1, 2034 | **23,000** | 24,000 |
| | Total Notes: | **532,671** | 476,142 |
| | Total Government of Quebec debt | **575,454** | 565,836 |
| b) | McGill Senior Unsecured 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 | **1,056** | 1,056 |
| d) | Other | **292** | 891 |
| e) | Bond discounts and issuance costs | **(5,189)** | (5,376) |
| | Total long-term debt | **721,613** | 712,407 |
| | Current portion of long-term debt | **(132,400)** | (107,989) |
| | Long-term debt | **589,213** | 604,418 |

(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 Quebec under Orders-in-Council.

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

| | Annual payment | Lump sum payment |
|---|---|---|
| | $ | $ |
| 2.257% due October 25, 2012 | **2,995** | **54,011** |
| 4.952% due November 1, 2012 | **2,624** | **26,634** |
| 4.355% due September 16, 2013 | **4,337** | **68,314** |
| 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** | **10,288** |
| 3.690% due December 1, 2014 | **1,758** | **19,209** |
| 3.839% due December 1, 2014 | **2,440** | **27,800** |
| 3.601% due June 2, 2016 | **808** | **5,960** |
| 2.820% due June 2, 2016 | **1,626** | **19,870** |
| 2.849% due December 1, 2016 | **2,760** | **55,200** |
| 1.928% due April 25, 2017 | **994** | **5,480** |
| 2.323% due December 1, 2017 | **2,662** | **53,240** |
| 2.472% due December 1, 2017 | **1,415** | **15,925** |
| 2.406% due December 1, 2018 | **1,110** | **12,450** |
| 4.125% due August 24, 2020 | **532** | **867** |
| 4.991% due June 1, 2034 | **1,000** | **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:

| | $ |
|---|---|
| **2013** | **132,400** |
| **2014** | **147,479** |
| **2015** | **70,448** |
| **2016** | **29,541** |
| **2017** | **93,348** |

## 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, which then creates a defined benefit obligation for the University. Under certain circumstances, employees in the Accumulation Fund are also eligible for an enhancement to their accumulated amount. Commencing January 1, 2011, employees are no longer able to elect to obtain a McGill annuity upon retirement.

The University measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at April 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2009 and the next required valuation will be as of December 31, 2012.

*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 April 30, 2012 is estimated at $2.0 million ($2.0 million in 2011). These amounts are recorded as accrued liabilities.

*Post-employment obligations*

The University provides post-employment benefits other than pension benefits to eligible retired employees, including health and dental care. The present value of these commitments as at April 30, 2012 is estimated at $118.6 million ($112.9 million as at April 30, 2011). These amounts are recorded as liabilities.

(tabular amounts in thousands of dollars)

## 12. Employee future benefits (continued)

*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:*

| | **2012** | 2011 |
|---|---|---|
| | **(12 months)** | (11 months) |
| | **$** | $ |
| Cash payments recognized | **33,423** | 31,048 |
| Benefit costs | **23,542** | 22,128 |

*Accrued pension liability*

| | **2012** | 2011 |
|---|---|---|
| | **(12 months)** | (11 months) |
| | **$** | $ |
| Defined benefit cost | | |
| Current service cost | **1,158** | 1,571 |
| Interest cost on accrued benefit obligation | **2,732** | 3,145 |
| | **3,890** | 4,716 |

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

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| Accrued pension liability | **(318,081)** | (327,798) |
| Fair value of plan assets | **254,913** | 270,859 |
| Plan deficit | **(63,168)** | (56,939) |
| Unamortized net actuarial loss | **13,989** | 6,349 |
| Obligation for defined benefits | **(49,179)** | (50,590) |

(tabular amounts in thousands of dollars)

## 12. Employee future benefits (continued)

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

| | **2012** | 2011 |
|---|---|---|
| | **%** | % |
| Cash equivalents | **8.6** | 2.9 |
| Real estate | **16.6** | 14.4 |
| Equity | **23.6** | 23.2 |
| Fixed income | **45.7** | 55.4 |
| Other | **5.5** | 4.1 |

The significant assumptions used are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **%** | % |
| Discount rate | **4.25** | 4.75 |
| Expected long-term rate of return on plan assets | **4.75** | 5.25 |
| Price inflation allowance | **2.00** | 2.25 |

*Post-employment benefit obligation - unfunded benefits*

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of year | **112,860** | 108,318 |
| Current service cost | **3,392** | 2,817 |
| Interest cost on accrued benefit obligation | **6,668** | 6,489 |
| Benefit paid | **(4,788)** | (4,475) |
| Net actuarial loss | **764** | 49 |
| Past service costs | **(338)** | (338) |
| Balance, end of year | **118,558** | 112,860 |

(tabular amounts in thousands of dollars)

## 12. Employee future benefits (continued)

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

| | **2012** | 2011 |
|---|---|---|
| | **%** | % |
| Accrued benefit obligation as at year end | | |
| Discount rate | **4.5** | 5.0 |
| Rate of compensation increase – Academics | **4.5** | 4.5 |
| – Non-Academics | **3.5** | 3.5 |
| Health care cost trend rates | | |
| Current trend rate | **8.0** | 8.0 |
| Ultimate trend rate | **5.0** | 5.0 |
| Year of ultimate trend rate | **2016** | 2016 |

## 13. Externally restricted for endowment purposes

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| Faculty endowments | **412,603** | 391,139 |
| Student aid | **315,663** | 302,130 |
| Research endowments | **92,891** | 89,993 |
| Emerging priorities | **14,138** | 12,261 |
| Library endowments | **22,097** | 22,419 |
| Student services | **5,258** | 4,818 |
| Annuities | **1,961** | 2,010 |
| Accumulated income | **72,604** | 95,996 |
| | **937,215** | 920,766 |

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.

(tabular amounts in thousands of dollars)

## 13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends, and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (4.25% in 2011) 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 investment income.

## 14. Internally restricted net assets

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| Self-financing teaching and research | **4,573** | 6,876 |
| Professor start-up funds | **10,553** | 8,647 |
| Other | **38,552** | 39,721 |
| | **53,678** | 55,244 |

## 15. Net change in non-cash working capital items

| | **2012** | 2011 |
|---|---|---|
| | **(12 months)** | (11 months) |
| | **$** | $ |
| Receivables | **11,930** | (17,466) |
| Prepaid expenses | **123** | 2,346 |
| Inventory | **400** | (417) |
| Accounts payable and accrued liabilities | **12,276** | 30,623 |
| Unearned revenue | **2,522** | (6,486) |
| | **27,251** | 8,600 |

## 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 April 30, 2012, McGill's foreign denominated marketable securities had a fair value of CAN$587 million (April 30, 2011 – CAN$575 million), including US$395 million (CAN$390 million) (April 30, 2011 – US$367 million (CAN$348 million)).

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 April 30, 2012, the carrying values of receivables 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 $779.2 million at April 30, 2012 (April 30, 2011 – $755.1 million).

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of EURO$18.4 million as at April 30, 2012 with a forward rate of 1.30069 that matured on June 15, 2012. As at April 30, 2012, the fair value of these contracts approximated an unrealized loss of $0.1 million and was included in marketable securities. There were no forward contracts outstanding as at April 30, 2011.

**(tabular amounts in thousands of dollars)**

## 16. Financial instruments (continued)

*Fair value (continued)*

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 $46.9 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 April 30, 2012, the fair value of the swap is $19.8 million (April 30, 2011 – $19.3 million).

The future value of this investment, including accumulated growth to the year 2042, is expected to be sufficient to effectively redeem the $150 million of outstanding Senior Debentures.

The University entered into a swap agreement for the purchase of natural gas maturing at various dates until April 1, 2014. The fair value of commodity financial swaps is determined using the discounted value of expected cash flows. Expected future cash flows are determined using forward prices or rates in effect on the valuation date of the underlying financial index under the contractual term of the instrument. These cash flows are then discounted using a curve that reflects the credit risk of McGill or the counterparty, as applicable. The fair value of the swap is $1.4 million lower than the fixed price contracted and this loss has been recorded in expenses for the period. The resulting liability has been recorded on the balance sheet within the accounts payable and accrued liabilities.

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

| | **2012** | 2011 |
|---|---|---|
| | **%** | % |
| Canadian Equity | **19** | 21 |
| US Equity | **14** | 13 |
| Non North American Equity | **21** | 23 |
| Canadian Fixed Income | **16** | 16 |
| Hedge Funds | **17** | 17 |
| Alternate strategies, including private equity and other | **13** | 10 |
| | **100** | 100 |

Short-term investments consist of highly-liquid fixed income securities maturing within one year and bearing interest at rates ranging from 0.96% to 0.98%.

(tabular amounts in thousands of dollars)

## 17. Pledges

Outstanding donation pledges at April 30, 2012 amounted to $119.7 million (April 30, 2011 – $121.3 million). These have not been recognized in the financial statements.

## 18. Commitments

*Operating leases:*

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

| | $ |
|---|---|
| **2013** | **3,824** |
| **2014** | **2,922** |
| **2015** | **1,459** |
| **2016** | **1,351** |
| **2017** | **898** |
| **Thereafter** | **127** |
| | **10,581** |

*Construction in progress*

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $55.8 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 $48.6 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 April 30, 2012, 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.

## 19. Contingent liabilities (continued)

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 period ended April 30, 2011 have been reclassified in order to conform to the presentation adopted in the current year.