McGILL UNIVERSITY **BOARD OF GOVERNORS**

Memorandum

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TO:	Senate
FROM:	Mr. Michael Di Grappa, Vice-Principal (Administration and Finance)
SUBJECT:	Annual Report on the Financial State of the University
DATE:	November 20, 2013
DOCUMENT #:	D13-28
ACTION REQUIRED:	☒ INFORMATION ☐ APPROVAL/DECISION
ISSUE:	This presentation will highlight relevant elements of the University's Financial Report 2012-2013.
BACKGROUND & RATIONALE:	The Financial Report to the Board of Governors is circulated to Senate. This presentation will focus on items from the report that are germane to Senate's mandate, will show indicators and trends and will provide an overview on expectations for future developments relating to the University's financial state.
MOTION OR RESOLUTION FOR APPROVAL:	N/A
PRIOR CONSULTATION:	Audit Committee of the Board of Governors, Board of Governors.
NEXT STEPS:	N/A
APPENDICES:	Appendix A: 2012-2013 Financial Report to the Board of Governors Appendix B: Annual Report on the Financial State of the University: PowerPoint Presentation

D13-28 Appendix A

McGill

2012-2013

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."

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PART I

Financial Report to the Board of Governors

OVERVIEW

The Mission of McGill University is the advancement of learning through teaching, scholarship and service to society by offering to outstanding undergraduate and graduate students the best education available; by carrying out scholarly activities judged to be excellent when measured against the highest international standards; and by providing service to society in 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, 2013 and includes the audited financial statements of the University as at April 30, 2013, prepared in accordance with Generally Accepted Accounting Principles (GAAP). Section 2 of this Report includes a "Financial Highlights section, which outlines in more details the elements of the audited financial statements.

The financial activities which support McGill's mission are accounted for internally in four distinct funds: Operating (Unrestricted), Restricted, Plant, and Endowment. The GAAP financials reflect the University's operational results, which would include the operating excess of revenue over expenses, Inter-fund transfers in the Operating Fund, and also 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, rather than 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 operating results 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 where the majority of Endowment earnings are reflected.

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. In addition, GAAP changes have resulted in recognition of amounts due from MESRST (previously 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 contains 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:

- McGill placed 18th in the QS World University rankings, the highest of any Canadian university. This was the sixth year McGill placed in the QS top 20.
- For the eighth consecutive year, *Maclean's* named McGill the number-one Canadian medical-doctoral university.
- Waterstone Human Capital named McGill one of Canada's 10 Most Admired Corporate Cultures for a second consecutive year.
- In December 2012, Standard & Poor's (S&P) Ratings Services confirmed McGill's credit rating at AA- (Stable), a reflection of the University's "excellent student-demand and research profile" and moderate debt load in relation to peer institutions. S&P last issued a rating for the Province of Québec of A+, one notch below that of McGill.

Operating highlights:

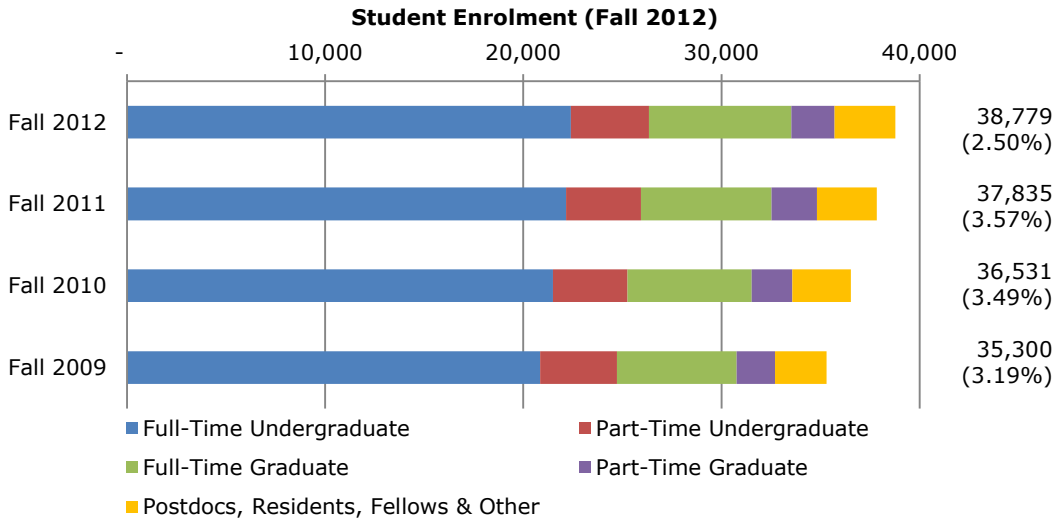
- Enrolment (Fall 2012) at 38,779 students; +2.50% over Fall 2011
- Fall 2011: +3.57% over Fall 2010
- Fall 2010 at 36,531 students; growth of approximately 2,248 (6.2%) over the last two years
- Tenure Track Academics total approximately 1,642; net change of + 296 over the fiscal periods 2002 to 2013
- Approximately 1,100 hires over the period 2002 to 2013

STUDENTS

Total student enrolment in the Fall of 2012 surpassed the 38,700 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 24% of the total.

Overall, enrolment grew by 2.50% (prior year: 3.57%), as highlighted below:



Source: McGill Enrolment Services/Planning and Institutional Analysis

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 2012 enrolments.

Enrolment by Faculty (Full-time and Part-time) – Fall 2012

	# of Students	Percentage of Student Population
Agricultural & Environmental Sciences	1,979	5.1%
Arts	8,370	21.6%
Arts & Science (B.A. & B.Sc.)	607	1.6%
School of Continuing Studies	4,739	12.2%
Dentistry	240	0.6%
Education	2,805	7.2%
Engineering	4,289	11.1%
Law	852	2.2%
Medicine[(i)]	5,321	13.7%
Desautels Faculty of Management	2,882	7.4%
Schulich School of Music	872	2.2%
Religious Studies	91	0.2%
Science	5,732	14.8%
	38,779	100.0%

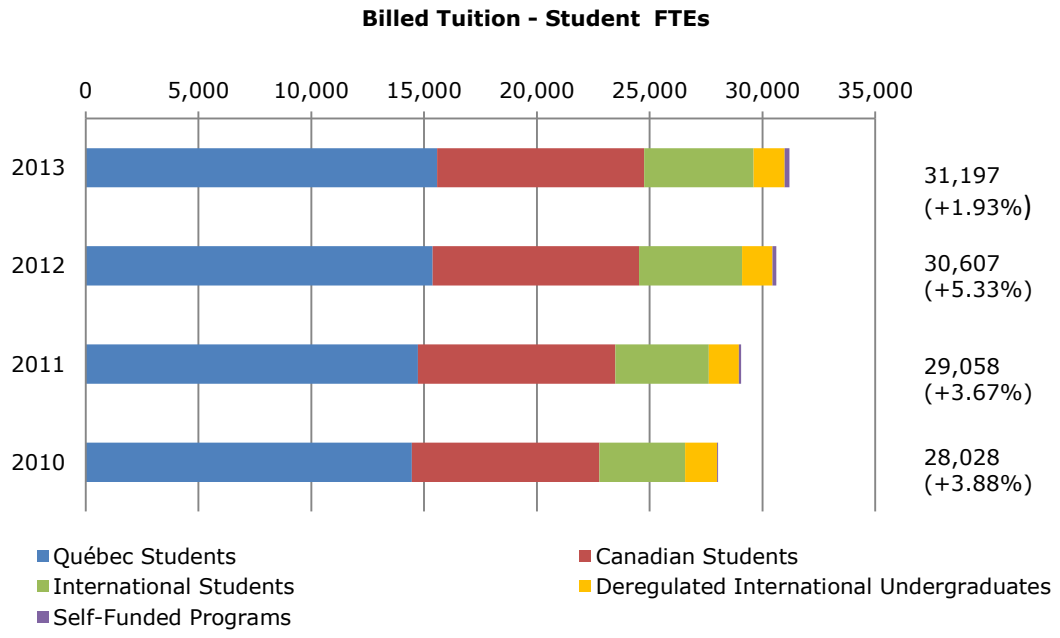
Source: McGill Enrolment Services/ Planning and Institutional Analysis

(i) Total enrolment in Medicine includes 810 undergraduate students registered in the Ingram School of Nursing and the School of Physical and Occupational Therapy (i.e. Bachelor of Nursing, BSC – Rehabilitation Science, and BSC – Nursing). The rest of the undergraduate class account for 737 students, those in the graduate program total 2,088 students, post-docs total 361 students, and residents and fellows make up the remaining 1,325 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 MESRST funding model funds students at various amounts based on their discipline of study. For example, in Fiscal 2013 an undergraduate student in Arts (classified as *Lettres* by MESRST) is currently funded at an annual amount of $5,250. On the other hand, an undergraduate student in Dentistry (classified as *Médicine dentaire* by MESRST) is currently funded at $30,059 per year.

Tuition and Fees



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 2.8% to 4,721 (compared to a plan of 4,735) from 4,591 in the prior year as the majority of this increase occurred in the non-deregulated international student population.

The tuition fee (regulated by MESRST) for a full-time Québec student in 2012-13 was $2,168 ($72.26 per credit), no change from fiscal 2012. The fee for a full-time out-of-province Canadian student was $5,858.10 ($195.27 per credit including supplements), no change from fiscal 2012. The fee for an International student in 2012-13 ranged from $14,562 ($485.40 per credit) to $34,750 (for the MBA) or $1,158.33 per credit including supplements, depending on the program. Currently, MESRST 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 later in the year it confirmed annual increases of only $254 per year over 7 years. In December 2012, the newly elected government reversed all tuition fee increases and confirmed that for future years, the fee increases would be limited to a cost of living index. These tuition amounts include amounts (35%) required to be contributed to the Provinces financial aid regime. In addition, McGill's current practice continues to set aside 30% of net tuition increases to the internal financial aid program.

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 $78.3 million (2012: $75.5 million), representing 44% of all tuition collected. The government does provide a limited number of differential fee waivers for students at the Graduate level which are administered through the Graduate & Postdoctoral Studies Office. 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 (approximately $12,400/year/student), further to bilateral agreements between Québec and those countries. MBA and certain Masters level programs pay tuition at a self-funded tuition rate. 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 ($2,168) 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 $36.8 million in fiscal 2013 (2012: $32.1 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 MESRST 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, MESRST finalized its definition of *Frais Institutionelles Obligatoires* (FIOs), which essentially represent those administrative fees charged by universities to students in addition to tuition. MESRST's 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, MESRST has dictated otherwise and required a change in how these students are charged. The annual increase for McGill in 2012-13 was limited to $15, unless specific agreements are acknowledged by both McGill and the affected student groups/representatives.

The total "FIO's" revenue amounted to $31.0 million (2012: $28.6 million). In addition to FIOs, other student fees charged for non-credit courses, student services, Athletics, and other activities totaled $19.9 million (2012: $20.1 million). These fees, combined with tuition, totaled $228.6 million (2012: $217.1 million) and represent 31.6% (2012: 30.5%) 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 MESRST):

Agricultural and Environmental Sciences	M.Sc.	(Applied) Bioresource Engineering; Non-Thesis – Integrated Food and Bioprocessing (45 cr.) (A) Human Nutrition; Non-Thesis – Dietetics Credentialing (83 cr.) - new option
	B.Eng. (Bioresource)	Bioresource Engineering, Major (113 cr.) - Honours add-on portion
	B.Sc. (Ag.Env.Sc.)	Agricultural Economics, Major (90 cr.) - Honours add-on portion Agro-Environmental Sciences, Major (90 cr.) - Honours add-on portion Environmental Biology, Major (90 cr.) - Honours add-on portion Global Food Security, Major (90 cr.) - Honours add-on portion Global Food Security, Major (90 cr.) Life Sciences (Biological and Agricultural), Major (90 cr.) - Honours add-on portion
	B.Sc.(F.Sc.)	Food Science, Major (90 cr.) - Honours add-on portion
	Concurrent B.Sc.(Nutr.Sc.)/B.Sc.(F.Sc.)	Nutritional Science, Major/Food Science, Major (122 cr.) - Honours add-on portion
Arts	B.A.	African Studies Component, Joint Honours (36 cr.) Religion and Globalization, Minor (18 cr.)
	M.A.	Art History; Thesis (45 cr.)
School of Continuing Studies		Certificate of Proficiency in Written English – Workplace Communication (48 CEUs) Certificate of Proficiency in Written French – Workplace Communication (48 CEUs) Certificate in Condominium Management (16 CEUs) Certificat en gestion de copropriété (16 CEUs) Certificate in Applied Marketing (30 cr.) Diploma in Applied Marketing (30 cr.) Diploma in Health and Social Services Management (30 cr.) Graduate Certificate in Health Services Management (15 cr.) Diploma in Integrated Aviation Management (30 cr.) Certificate in TESOL (Teaching English to Speakers of Other Languages) – (12 CEUs)

Education	M.Ed.	Educational Psychology; Non-Thesis – General Educational Psychology – Project (48 cr.) Educational Psychology; Non-Thesis – Inclusive Education – Project (48 cr.)
	M.A.	Education and Society; Mathematics and Science Education - new option Counselling Psychology; Non-Thesis - Project (60 cr.)
	Ph.D.	Educational Studies; Mathematics and Science Education - new option
		Master of Information Studies (M.I.St.) - Change in degree designation
Management	B.Com.	Organizational Behaviour, Major (30 cr.)
		Master in Manufacturing Management – change in program modality and venue: Zhejiang University, China
Medicine	Ph.D.	Physiology; Chemical Biology - new option
	M.Sc.	Physiology; Chemical Biology (45 cr.) - new option Physiology; Bioinformatics (45 cr.) Physiology (45 cr.)
Science	B.Sc.	Neuroscience, Honours (74 cr.) Earth System Science, Honours (66 cr.) Earth System Science, 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.

Graduation

	2011-12	2010-2011
Undergraduate	5,550	5,260
Masters	1,540	1,528
Doctoral	371	508
Certificates & Diplomas (Grad)	546	503
CE Non-credit Certificates	250	218
Dentistry Residents	25	23
	8,282	8,040

Degrees Awarded, by Faculty

	2011-12	2010-2011
Agricultural & Environmental Sciences	402	395
Arts	1,818	1,863
Arts & Science (B.A. & Sc.)	93	97
School of Continuing Studies	1,052	967
Dentistry	67	67
Education	684	675
Engineering	821	802
Law	220	226
Medicine	944	861
Desautels Faculty of Management	793	784
Schulich School of Music	205	217
Religious Studies	11	20
Science	1,172	1,066
	8,282	8,040

Source: McGill Enrolment Services/ Planning and Institutional Analysis

International Students

We now welcome over 8,300 International students from a variety of countries around the world, of whom 84% are from the countries listed below.

International Students - Full-time and Part-time Top 20 Countries	Fall 2012
1. USA	2,267
2. France	1,161
3. China	807
4. India	398
5. Saudi Arabia	288
6. Iran	263
7. Pakistan	258
8. South Korea	236
9. United Kingdom	172
10. Germany	128
11. Bangladesh	123
12. Mexico	118
13. Japan	117
14. Turkey	110
15. Australia	91
16. Italy	75
17. Brazil	74
18. Egypt	60
18. Lebanon	60
19. Colombia	53
19. Taiwan	53
20. Switzerland	49
Sub-total:	6,961

Source: McGill Enrolment Services/ Planning and Institutional Analysis

Student Mobility and Student Exchange Programs

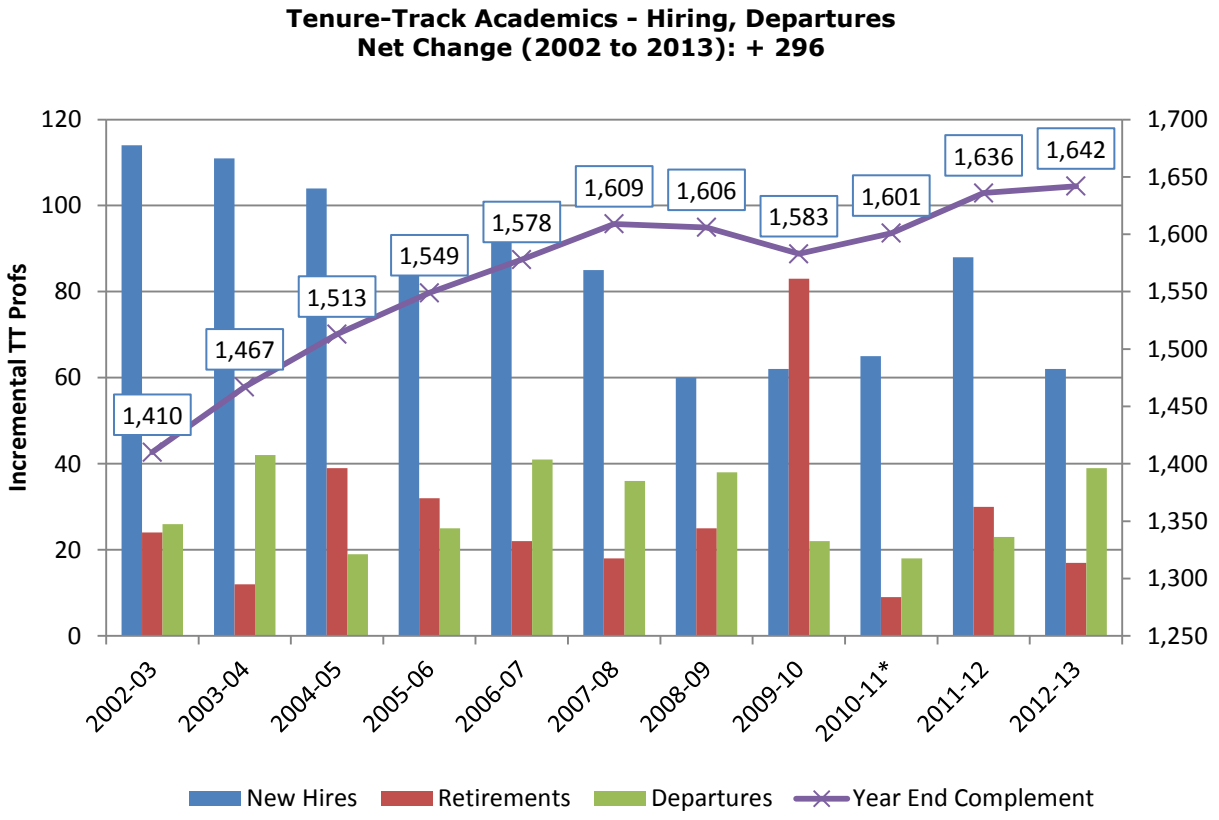
The student mobility and exchange programs, approved by Senate, include the following:

- University of California
- The University of Tokyo
- National Taiwan University
- Tshinghua University
- Université Jean Moulin Lyon II
- Université de Génève
- Kyoto University
- McGill Faculty of Law
    - Fundação Getulio Vargas- Direito Rio and Direito Sao Paolo
- Desautels Faculty of Management (B.Com only):
    - University of Cape Town, Faculty of Commerce, South Africa
    - Stellenbosch University, Economic and Management Sciences, South Africa
    - American University of Cairo, School of Business, Egypt
    - University of Ghana, Business School, Ghana
    - National University of Taiwan, College of Management, Taiwan
    - Xiamen University, School of Management, China
    - University of St. Gallen, Switzerland

Source: Office of the 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 1,642, 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.



*= 11 month year

Source: McGill Academic Personnel Office/ Planning and Institutional Analysis

During fiscal 2013, a total of 62 new tenure-track academics were appointed, ranging from assistant to full professors across the various faculties. Two tenure-track librarians were also appointed, as outlined in the following table.

New Tenure-Track by Faculty/Unit	FY2013	FY2012
Agricultural & Environmental Sciences	4.5	1.0
Arts	14.0	16.2
Dentistry	0.0	3.0
Education	4.0	5.0
Engineering	5.0	11.0
Law	2.0	1.5
Desautels Faculty of Management	4.0	5.0
Medicine	21.0	20.8
MSE (multi-Faculty)	0.5	1.0
Schulich School of Music	3.0	4.0
Religious Studies	-	1.0
Science	4.0	18.5
Faculties	**62.0**	**88.0**
Librarians	2.0	4.0
	64.0	**92.0**

Source: McGill Academic Personnel Office

Other Academic Staff (as at May 1st)	2013		
	Full-Time	Part-Time	Total
Research Associates & Assistants	379	70	449
	379	70	449

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 2013 was no exception, as a number of them were recognized for their distinctive work and accomplishments as highlighted below:

Recipient	**Award**
Allan Greer (History)	Killam Fellowship
David Plant (Electrical & Computer Engineering)	Killam Fellowship
Derek Gray (Chemistry)	NSERC Synergy Award for Innovation
In-Ho Jung (Mining & Materials Engineering)	NSERC Synergy Award for Innovation
Wagdi Habashi (Mechanical Engineering)	Ordre National du Québec (Chevalier)
Bartha Maria Knoppers (Human Genetics)	Ordre National du Québec (Officier)
Mark A. Wainberg (McGill AIDS Centre)	• Premio Venezia Award • CIHR-CMAJ Top Canadian Achievements in Health Research Award
François Crépeau (Law)	Royal Society of Canada
John Hall (Sociology)	Royal Society of Canada
Laurie Hendren (Computer Science)	Royal Society of Canada
Robert Lecker (English)	Royal Society of Canada
Bruce Lennox (Chemistry)	Royal Society of Canada
C. J. Li (Chemistry)	• Royal Society of Canada • Fellow, American Association for the Advancement of Science (AAAS)
Tim Moore (Geography)	Royal Society of Canada
Vijaya Raghavan (Bioresource Engineering)	Royal Society of Canada
Siegfried Hekimi (Biology)	Flavelle Medal, Royal Society of Canada
Catherine Potvin (Biology)	Miroslaw Romanowski Medal, RSC
Roxanne Pelletier (Clinical Epidemiology, RVH)	Alice Wilson Award, RSC
Guy Moore (Physics)	Rutherford Memorial Medal in Physics, RSC
Jack Sankey (Physics)	Sloan Fellowship
Roderick Macdonald (Law)	Order of Canada (Officer)
Dr. Terry Hebert (Pharmacology & Therapeutics)	Merit Award, Canadian Association for Medical Education (CAME)
Dr. Leonora Lalla (Family Medicine)	Merit Award, CAME
Dr. Kevin Waschke (Medicine)	Merit Award, CAME

Nahum Sonenberg (Rosalind and Morris Goodman Cancer Research Centre)	Fellow, American Association for the Advancement of Science (AAAS)
Leon Glass (Physiology)	Arthur T. Winfree Prize, Society for Mathematical Biology
Dr. Peter McLeod	Award for Outstanding Contribution for Faculty Development, Association for Faculties of Medicine of Canada
Dr. Charles Scriver (Professor emeritus, Pediatrics) and Chancellor Arnold Steinberg	Gold Medal of Honour, Health Research Foundation
Dr. Ariene Marelli (Cardiology, MUHC)	Prix d'excellence, International Conference of Preventive Cardiology
Dr. Richard Menzies (Medicine)	Union Scientific Prize, International Union Against Tuberculosis and Lung Disease
Dr. Carmen Loiselle (Nursing)	Prix Florence (Research in Nursing), Ordre des infirmières et infirmiers du Québec
Christine Ross (Art History)	Artexte Prize for Research in Contemporary Art
Brenda Milner (Neurology & Neurosurgery)	Canadian Science and Engineering Hall of Fame
Daniel Wise (Mathematics and Statistics)	Oswald Veblen Prize in Geometry, American Mathematical Society
Michelle Nadon (Nursing)	Prix Florence (Leadership), Ordre des infirmières et infirmiers du Québec
Esther Dajczman (lecturer, Nursing)	Prix Florence (Sickness Prevention), Ordre des infirmières et infirmiers du Québec
Dr. Eduardo Franco (Oncology)	Fellow, Canadian Academy of Health Sciences
Dr. Rebecca Fuhrer (Epidemiology, Biostatistics and Occupational Health)	Fellow, Canadian Academy of Health Sciences
Dr. Jody Heymann (McGill Institute for Health and Social Policy)	Fellow, Canadian Academy of Health Sciences
Dr. Constantin Polychronakos (Pediatrics and Human Genetics)	Fellow, Canadian Academy of Health Sciences
Dr. Christos Tsoukas (McGill AIDS Centre)	Fellow, Canadian Academy of Health Sciences
Dr. Brian J. Ward (McGill Centre for the Study of Host Resistance)	Fellow, Canadian Academy of Health Sciences

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 3,760 individuals work to support the academic and research mission of the University, as at May 1, 2013, highlighted below:

	2013		
	Full-Time	Part-Time	Total
Management	1,697	68	1,765
Clerical	890	51	941
Technical	411	47	458
Trades/Services	423	43	466
Library Assistants	109	-	109
Other (nurses, residences, Gault Estate)	17	4	21
	3,547	213	3,760

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, 2013

The reported revenue and expenditures represent twelve months of operations ended April 30, 2013.

Background– Financial Reporting

Fiscal 2013	Full fiscal (12 month) year; including 12 month comparative amounts
Fiscal 2012	Full fiscal (12 month) year; comparative amounts reported on 11 months Actual results included effects of strike on overall spending
Fiscal 2011	Change in year-end to April 30 (from May 31) mandated by MESRST 11 month year
Fiscal 2010	Conversion to GAAP (from previous MESRST mandated presentation) Introduction of new GAAP "Pension" and "Post-Retirement" liabilities (approximately $190 million) increasing reported accumulated deficit

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." MESRST, however, continues to assess the University's performance on both a GAAP and non-GAAP basis.

New Accounting Framework (Note 2 to Audited Financial Statements)

During the year-ended April 30, 2013, the University adopted the new Canadian Accounting standards for not-for-profit organizations issued by the CICA. The University has prepared and presented an opening balance sheet at the date of the transition to the new Standards (May 1, 2011), which includes the following:

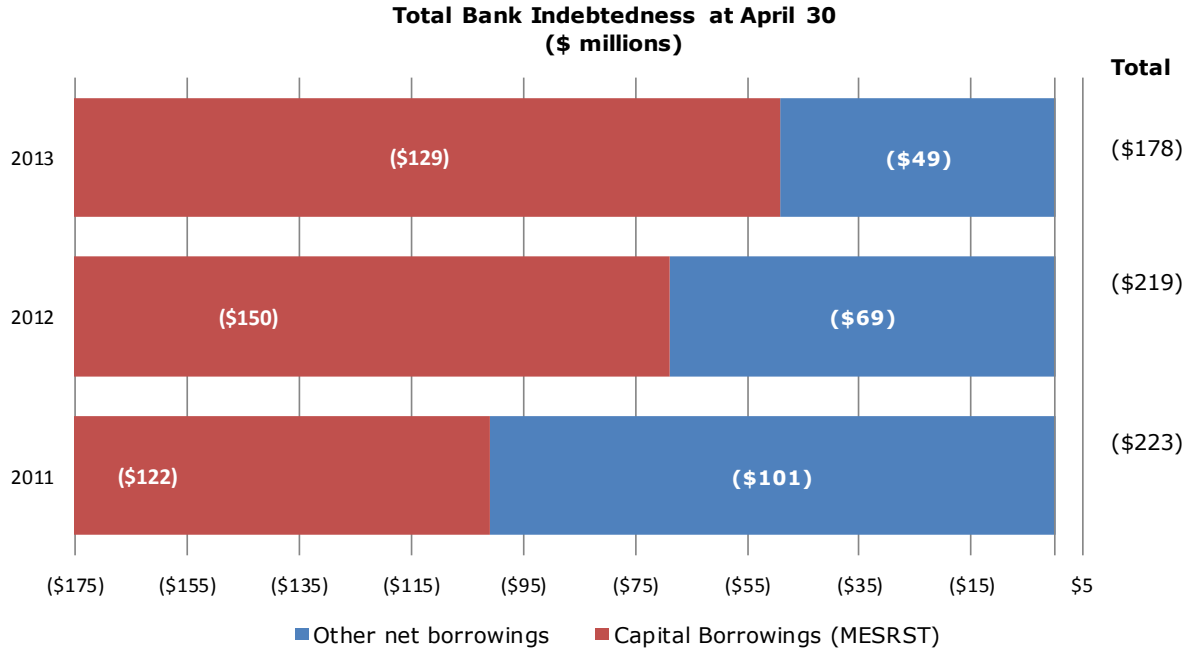
a) recognized all assets and liabilities whose recognition is required by the new standards;
b) did not recognize items as assets or liabilities if the new standards do not permit such recognition;
c) reclassified items that it recognized previously as one type of asset, liability or component of net assets, but are recognized as a different type of asset, liability or component of net assets under the new standards; and
d) applied the new standards in measuring all recognized assets and liabilities.

See Note 2 of the Audited Financial Statements for additional details.

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, 2013, McGill had a bank indebtedness of $178.2 million, as compared to $219.2 million one year earlier. Operating Bank indebtedness, net operating of cash and short-term investments excluding endowment investments of $28.3 million (2012: $68.4 million) held for operations, was $150.9 million (2012: $165.4 million). This bank indebtedness continues to be primarily required to temporarily finance borrowings owed by the *Ministère des Finances* and the *Ministère de l'Enseignement Superieure, Recherche, Science et Technologie* (MESRST) to McGill. As at April 30, 2013, the total capital borrowings owed from MESRST amounted to $129.2 million (2012: $150.4 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 MESRST (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 MESRST. The timing of the issuance of long-term debt to reimburse the temporary borrowings is dictated by MESRST.



Source: McGill Financial Services

2. Total receivables

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

Short-term receivables total $411.9 million (2012: $388.4 million), including $166.5 million (2012: $178.7 million) relating to research grants and contracts and $159.7 million (2012: $132.4 million) in capital grants receivables (i.e. – short term portion of LT debt, 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:

($ millions)	2013	2012	2011
Operating	37.3	36.2	47.8
Student Loans	3.5	2.9	2.8
Investment Income	1.6	1.7	2.1
Government Grant	43.3	36.5	50.1
Capital Grant	159.7	132.4	108.0
Grants & Contracts Related to Research	166.5	178.7	190.4
Total:	411.9	388.4	401.2

The Government (MESRST) grant receivable of $43.3 million relates to the operating grant.

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

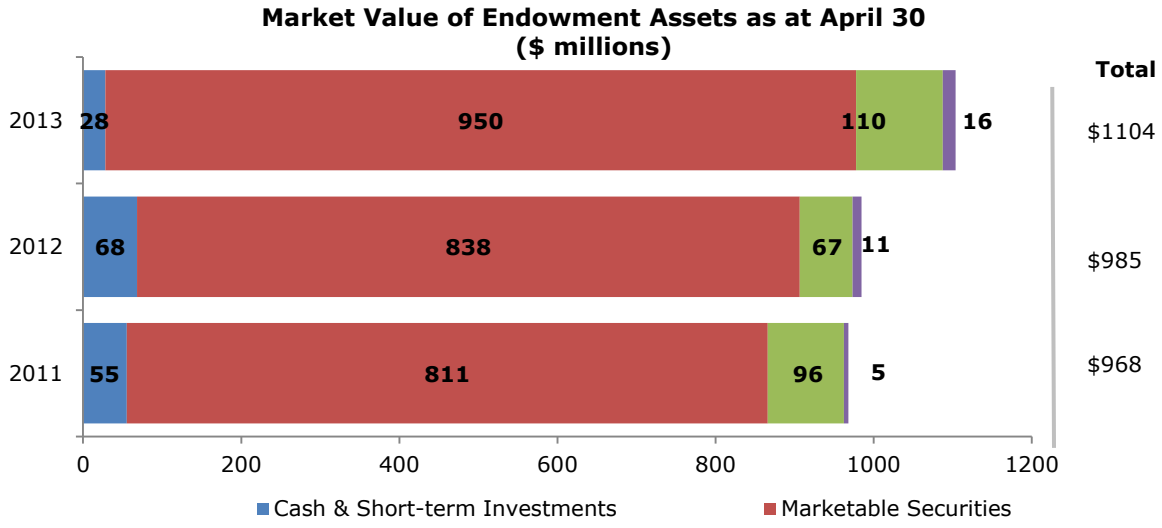
A total of $42.2 million (2012: $69.2 million) in research grants and contracts receivables exists at the end of the year. In conforming to GAAP, a receivable was recorded relating to current and prior year capital grants (MESRST) amounting to $657.1 million (2012: $653.4 million). This amount effectively includes $640.7 million associated with the long-term debt issued on behalf of MESRST (i.e. total debt, excluding $150 million of McGill Debentures.

Other loan receivables total $13.5 million (2012: $6.3 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 $1,116.8 million (2012: $953.0 million) and includes $1,059.7 million (2012: $905.2 million) relating to endowment investments. In addition, $48.3 million (2012: $47.0 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 $8.8 million (2012: $0.8 million) relates to other operating funds invested temporarily in marketable securities, including $8.3 million associated to a gift which is being invested temporarily.

The total endowment assets managed as part of the McGill Investment Pool amount to $1,103.9 million (2012: $984.7 million), including the $1,059.7 million in marketable securities mentioned above (see Section Endowment Gifts, page 37). The following chart outlines the significant assets included in the $1,103.9 million.



Source: McGill Audited Financial Statements

Other assets, totaling $16.0 million (2012: $11.1 million) include accrued income, staff mortgages, and other receivables.

4. Capital assets (Financial Statements, Note 7)

Total capital assets amount to $1.275 billion (2012: $1.221 billion) and include various asset categories as outlined in Note 7 of the *Audited Financial Statements*.

Capital assets additions (including those under development) during the year totaled $159.2 million (2012: $193.8 million), of which $85.4 million (2012: $116.1 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 ($10.5 million) and additional costs relating to the previous KIP projects commenced in fiscal 2011, namely the Otto Maass Chemistry Building ($8.4 million), Macdonald Engineering Building ($4.1 million), and the Ludmer Research and Training ($6.0 million), and others under $6 million each.

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

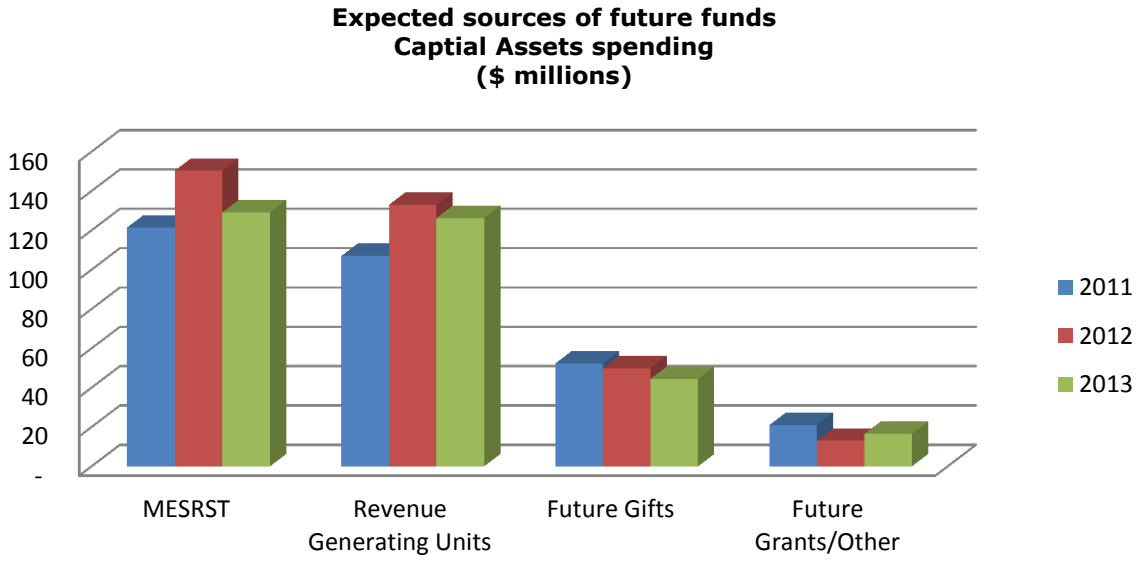
($ millions)	2013	2012	2011	
Land and Land Improvements	1.2	2.3	2.6	1.2%
Buildings and Renovations	85.4	116.1	135.5	59.9%
Leasehold Improvements	-	0.5	4.2	0.3%
Equipment (Including Intangibles)	58.2	59.8	59.8	30.9%
Library Books	13.9	14.9	13.2	7.7%
Other Assets	0.5	0.2	0.3	0.1%
Total:	159.2	193.8	215.6	1.11

The majority of the funding for these capital projects is from the Québec Government, the Federal Government (KIP projects), and 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, 2013, temporary capital asset borrowings on behalf of MESRST amounted to $129.2 million (2012: $150.4 million) and related to approved outstanding capital and other specific capital grants. In addition, borrowings of $2.1 million (2012: $7.2 million) remain for prior years McGill initiated deferred maintenance and campus renewal projects, which will be repaid from future capital grants and other sources. A total of $44.5 million (2012: $50.0 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 and interest repayments for its share of the $150 million bond debenture issue. As at April 30, 2013, a total of $126.3 million (2012: $122.2 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 $354.2 million (2012: $328.0 million), including accounts payable/accruals totaling $170.0 million (2012: $173.1 million). The increase in accruals includes an estimate relating to severances associated with the voluntary retirement program (i.e. signed agreements to April 30th) as well as provisions for the potential future pay equity settlement which has yet to be finalized with respect to the years 2001 to 2013.

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. Due to the complexity of the dossier, it is impossible to predict with certainty what the full costs will be.

Unearned revenue of $24.6 million (2012: $22.5 million) also forms part of this category and includes fees paid for the Summer 2012 semester.

The short-term portion of the long-term debt, as described in Section 7 below, totals $159.7 million (2012: $132.4 million) and is expected to be re-financed by MESRST in fiscal 2014. MESRST has confirmed a total of $219 million in refinancing for fiscal 2014.

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, 2013 amounted to $411.5 million (2012: $437.7 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, 2013 total was $789.2 million (2012: $776.5 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 MESRST issued debt increased by a net $69.0 million (2012: net $10.3 million) as a result of new *Financement Québec Promissory Notes* (Notes) issued by MESRST totaling $192.0 million (2012: $118.0 million). In addition, new loans totaling $9.2 million were issued by the government to finance the Molson Stadium (Phase II) project. This was in part used to repay matured bonds and repayment of previously issued notes totaling $131.1 million (2012: $107.7 million). The remainder of the proceeds were used to repay our temporary bank borrowings. Other bank debt repayments amounted to $1.3 million (2012: $1.3 million) on debt previously issued by other provincial ministries and other parties.

The remaining component relates to the change in bond discounts which totaled $0.2 million at April 30, 2013, as compared to $0.2 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 $41.9 million (2012: $49.2 million), and post-employment benefits of $118.8 million (2012: $118.6 million).

Both of these liabilities were confirmed by independent external actuaries and incorporate appropriate assumptions relating to each of the valuation exercises. At April 30th, the actuary updated certain Pension assumptions, consistent with those used in the December 31, 2012 triennial evaluation of the Pension Plan, which had an effect of reducing the year-end balance sheet liability by approximately $7.6 million. See Note 12 for further pension plan details. This GAAP adjustment does not change the funding requirement associated with the triennial Pension Plan valuation at December 31, 2012, which will be filed with the Regie des Rentes du Quebec.

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, 2013, McGill had a balance of $255.5 million (2012: $212.9 million) in Invested in Capital Assets, $1,054.8 million (2012: $937.2 million) associated with Externally Restricted balances associated with Endowments, $58.1 million (2012: $53.7 million) of Internally Restricted balances, of which $34.4 million (2012: $33.6 million) related to Endowments. Finally, a negative $315.3 million (2012: $301.9) in Unrestricted Net Assets balances existed at April 30, 2013. Together, Unrestricted and Internally Restricted Net Assets (excluding Endowments) total $(287.5) million (2012: $(274.4) million) and represent the "accumulated deficit" of the University.

Impact of GAAP on the University's Operating Net Assets as at April 30, 2013 ($ million)

Unrestricted Net Assets	$ (315.3)
Internally Restricted Net Assets	$ 27.8
Net Assets (deficiency) -as at April 30, 2013 (i)	$ (287.5)

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

The fiscal 2013 Net Assets (deficiency balance has increased as a result of the following factors:

($ millions)

Operating Deficit- Fiscal 2013	($20.4)
GAAP adjustment- Pension liability	$7.3
Increase in Accumulated Operating Deficit:	($13.1)

The fiscal 2013 operating deficit compares unfavourably to the original $7 million fiscal 2013 budgeted deficit, in large part due to the government's mid-year amendment of a $19.2 million grant cut (another $19.2 million cut has been confirmed for fiscal 2014). In addition, the government's repeal of previously announced tuition increases resulted in a negative $1.6 million effect on operating deficit, as compared to the budget. As a result of these negative impacts, the overall spending was somewhat curtailed in the second half of the year, offset by specific cost increases relating to pay equity, severances, and capital costs.

10. Statement of Changes in Net Assets

Endowment contributions totaled $40.0 million (2012: $42.4 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 37 of this report.

The Statement of Changes in Net Assets also includes net investment income earned from Endowment investments resulting in an gain of $75.7 million (2012: loss of $24.4 million), which effectively represents unrealized gains on investments, net of amounts distributed of earnings in excess for endowed spending. The earnings in excess of amounts distributed for spending totaled $10.9 million in the three funds.

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.

OVERALL SOURCES OF REVENUES AND EXPENSES (fiscal year ending April 30, 2013)

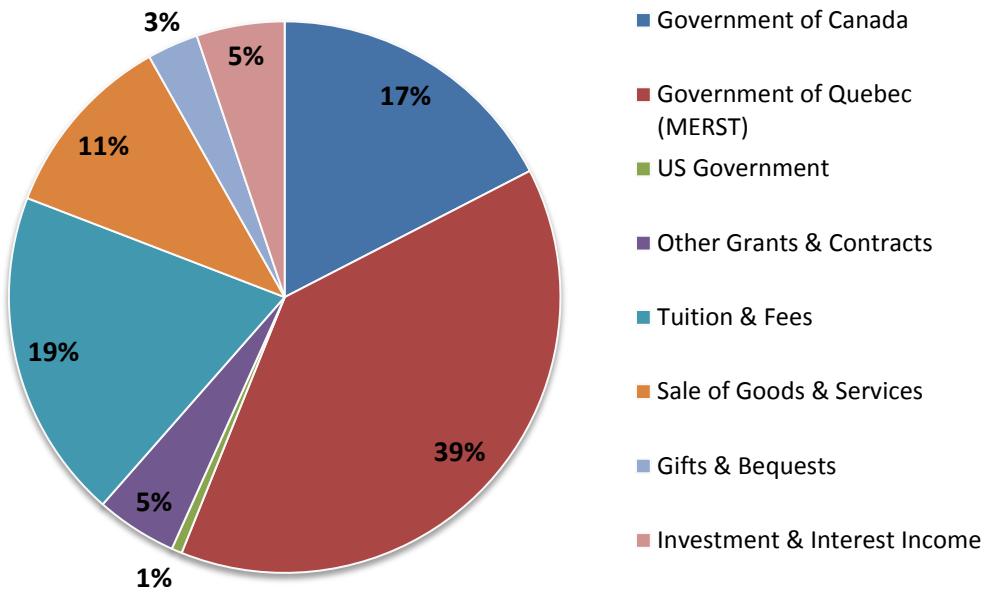
As a result of the newly adopted GAAP changes, the new presentation outlines the change in revenues and expenses for any particular year in the line item *Excess (deficiency) of revenue over expenses, before Inter-fund transfer items* which are required to be considered in arriving at the change in Net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

The current year's total revenue on a GAAP basis was $1.18 billion (2012: $1.14 billion); total revenues for the 11 month year-ended April 30, 2011 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 was a reflection of awarded/accrued revenues recognized in the fiscal year, being greater than the related expenses incurred.

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 $40.0 million (2012: $42.5 million), be shown as part of the change in Net Assets (externally restricted for endowed purposes) and not as revenue.

The chart below summarizes all sources of revenues totalling $1.18 billion (2012: $1.14 billion), excluding endowment gifts of $38.5 million (2012: $40.1 million).

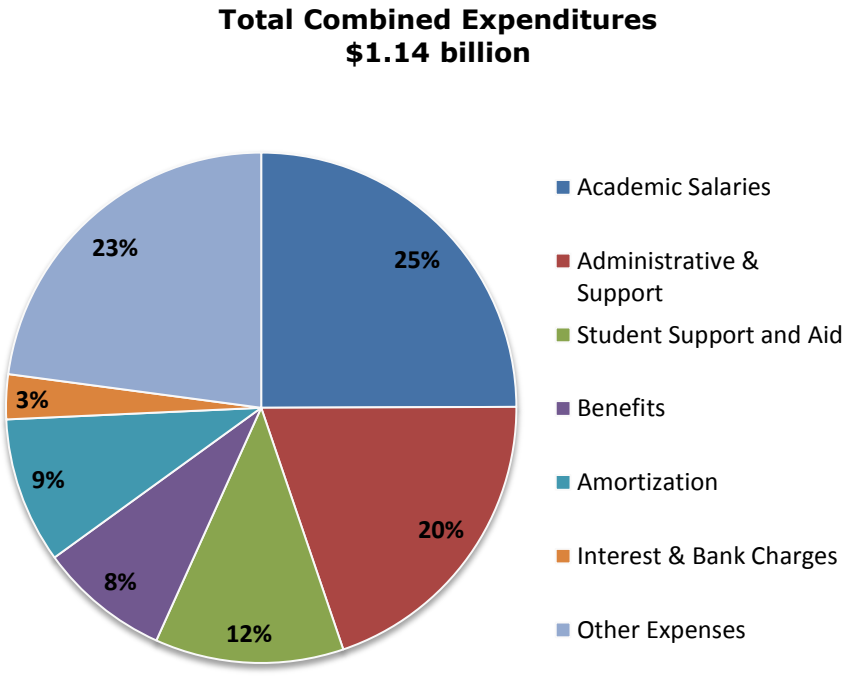
Total Combined Sources of Funding
$1.18 billion



Source: McGill Audited Financial Statements

Total combined expenses incurred to support McGill's activities were $1.14 billion in 2013 (2012: $1.11 billion) and $0.99 billion for the fiscal year-ended April 30, 2011; 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 MESRST 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 2013)

1. Total Grant revenue - all sources

Grant revenue used to support the teaching and research mission of the University totaled $708 million in 2013 (2012: $704 million), which represents 60.0% (2012: 61.7%) of total 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 in nature.

	2013				
Purpose	Quebec	Canada	US	Other Sources	2013
Operating	331				331
Capital	81	18			99
Indirect Costs (Operating)		25			25
Research (Restricted) Grants	34	146	7	35	222
Other Restricted Grants	11	17		3	31
Total:	457	206	7	38	708

	2012				
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

a) Operating grants

Include amounts received from MESRST 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, MESRST 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 MESRST in fiscal 2013 total $28.7 million (2012: $27.3 million) and $49.6 million (2012: $48.2 million) for Canadian and International students, respectively. MESRST 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, MESRST also "claws-back" $8.3 million (2012: $8.3 million) in student aid contributions, indirectly collected via tuition fees. These amounts are accumulated and distributed by the Province's financial aid system.

The decrease in operating MESRST grants reflects the $19.2 million grant cut, net of $4.5 million "tuition loss" compensation and other changes. The fiscal 2012 grant amount included approximately $10 million of grant adjustments related to fiscal years prior to 2012, which were received in 2012.

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 2013 was $16.9 million (net of $8.0 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%; MESRST 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.

	2013	2012	2011
Federal Grant	24,851	24,766	24,414
Amount Due to Hospitals	(7,978)	(7,076)	(6,649)
Total:	16,873	17,690	17,765

Source: McGill Audited Financial Statements

d) Research grants and contracts

McGill is considered one of Canada's top research intensive universities. Annually, the University attracts research grants and contracts from various governments, foundations, corporations, and other sources. The overall research activity is generally summarized in two main streams: direct research grants and contracts and infrastructure grants. The direct research grants and contracts are primarily characterized by annual grant awards from the federal tri-council, provincial granting councils, or other grant sponsors from Canada or other countries. Since the early 2000s, both the provincial and federal levels of government have also created new pools of resources to fund research infrastructure: Canada via the *Canadian Foundation for Innovation* (CFI), and Québec through various matching programs. Overall, the breakdown of activities, including research contracts but excluding Federal student aid of $16.6 million (2012: $17.2 million), classified as "Restricted Grants" (See Section e below), is highlighted below:

	2013	2012	2011
Represented by:			
Direct Funded Research Grants	202,822	153,794	147,844
Infrastructure Grants	19,162	36,750	44,472
Subtotal:	221,984	190,544	192,316
Research Contracts	17,963	19,979	10,387
Total grants and contracts:	239,947	210,523	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 $16.6 million (2012: $17.2 million) while the provincial government awarded $1.9 million (2012: $2.9 million) for similar purposes. In addition, the provincial government funded other activities and programs, including $5.4 million (2012: $5.4 million) for teaching costs in the affiliated hospitals, and $5.5 million (2012: $6.2 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 $228.6 million (2012: $217.1 million), which accounts for 20.4% (2012:19.9%) of total revenues, excluding investment income and fair impacts value. 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.

	2013	2012	2011
Quebec	33.8	33.3	31.2
Canadian [(i)]	50.0	49.7	46.8
International [(ii)]	93.9	85.4	79.2
Non-Credit courses	4.4	4.7	4.3
Administrative fees	32.1	29.7	28.6
Student Services & Athletics	14.5	14.3	13.7
Total:	228.6	217.1	203.8

(i) Including $1.9 million (2012: $2.0 million; 2011: $1.8 million) in fees exempt from Supplements
(ii) Including $3.3 million (2012: $2.9 million; 2011: $2.3 million) in fees exempt from Supplements. Total also includes $36.8 million (2012: $32.1 million; 2011: $28.2 million) of deregulated fees charged to undergraduate students.

The fiscal 2013 total compares to a budget of $229.5 million, which included increases in tuition, which were then repealed by the current government. Nevertheless, other increases in FTE volumes and fees offset the $6 million budgeted tuition increase, to arrive at a net variance to budget of $0.9 million.

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 $129.7 million (2012: $111.3 million) in revenues, are those generated (from third parties) primarily by ancillary type services, including residences, food services, the Bookstore, and others, totaling $89.8 million (2012: $76.8 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, and changes in fair value of investments and financial instruments, recorded on a GAAP basis totals $60.9 million (2012: $51.7 million) and includes, in large part, non-distributed income derived from endowment investments, which are deferred to future periods to support future distributions. These restricted amounts are included in the total increase in Net Assets, which totaled $75.7 million in fiscal 2013 (2012: $24.4 million reduction).

As per our policy, any earnings in excess of distributions to unit holders, and any unspent distributions, are transferred back to the Endowment Fund and included as part of the increase in Net Assets mentioned above. Although these revenues are technically included in the "Excess of Revenues and Expenses," they are not available for spending as they are transferred back to the Endowment Fund.

Overall, the total change in the Endowment (net of Distributions and fees) resulted in a 12.2% (2012: 1.7%) growth in the fund. Of the total, 4.0% (2012: 4.2%) was generated from new endowment gifts received in the year. See page 37.

Also, as at April 30, 2013, the accumulated unspent investment income, held as part of Endowment Assets amounted to $97.5 million (2012: $67.6 million) and represents 2.4 years (2012: 1.6 years) of current annual distributions.

5. Other sources of revenue

The remaining sources of revenue include research contracts $18.0 million (2012: $20.1 million) and gifts and bequests $35.4 million (2012: $37.1 million), excluding endowment gifts (see Statement of Net Assets).

EXPENSES REQUIRED TO FULFILL THE UNIVERSITY'S MISSION

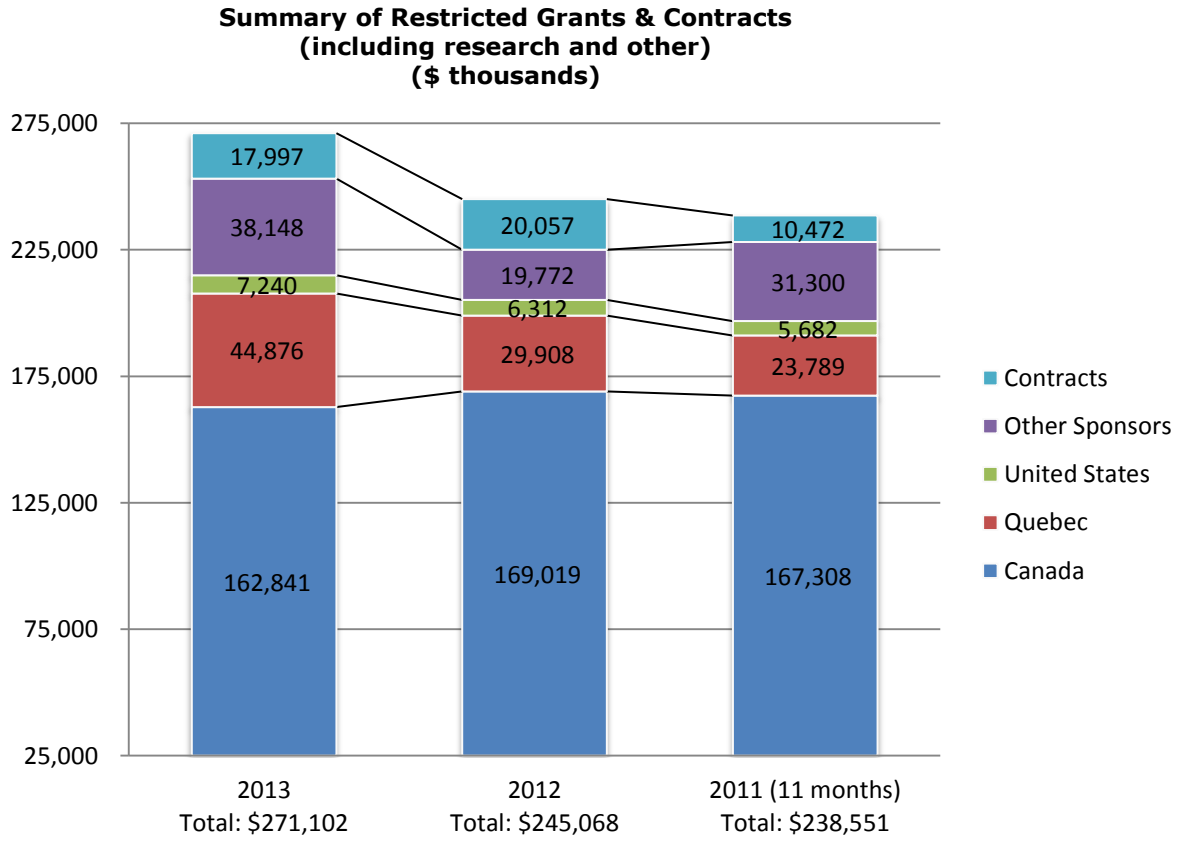
Total Compensation and student support amounted to $744.2 million (2012: $720.9 million). This represents 65.0% (2012: 65.0%) of total expenditures, excluding Inter-fund transfers.

Other non-salary expenses, excluding Inter-fund transfers, totaled $400.3 million (2012: $387.7million), comprising of many various expense types, including *Materials, supplies, and publications* $43.6 million (2012: $39.6 million), *Building and Energy costs* totaling $40.0 million (2012: $39.6 million), *Amortization costs* of $105.9 million (2012: $104.9 million), *Interest and bank charges* of $32.5 million (2012: $35.4 million), and other expenditures. See *Statement of Revenue and Expenses* for further details.

RESEARCH AND RESTRICTED ACTIVITIES

Direct funded research totaled $202.8 million (2012: $153.8 million). A further $19.2 million (2012: $36.8 million) was generated in infrastructure grants and $18.0 million (2012: $20.0 million) in contracts.

The largest sponsors of restricted grants (including those relating to research above) continue to be the federal and provincial governments. Together, they account for $207.7 million (2012: $198.9 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:



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:

AWARDED BASIS - Research Revenues ($ millions)	2013	2012	2011
Federal Government:			
Tri Agencies/Council	$ 122.9	$ 119.3	$ 111.2
Canada Research Chairs	$ 19.8	$ 23.0	$ 19.3
CFI	$ 9.0	$ 22.8	$ 47.4
Other	$ 6.1	$ 8.1	$ 3.6
	$ 157.8	$ 173.2	$ 181.5
Quebec Government:			
FRSQ/FQNT/FQRSC	$ 21.5	$ 22.3	$ 20.0
CFI	$ 4.4	$ 5.4	$ 29.9
Other	$ 7.8	$ 4.8	$ 11.2
	$ 33.7	$ 32.5	$ 61.1
Canadian Foundations & Associations	$ 16.8	$ 16.5	$ 9.4
Contracts	$ 10.6	$ 16.7	$ 19.6
Other	$ 13.1	$ 14.7	$ 14.3
	$ 40.5	$ 47.9	$ 43.3
Total:	$ 232.0	$ 253.6	$ 285.9

OTHER RESTRICTED FUNDS

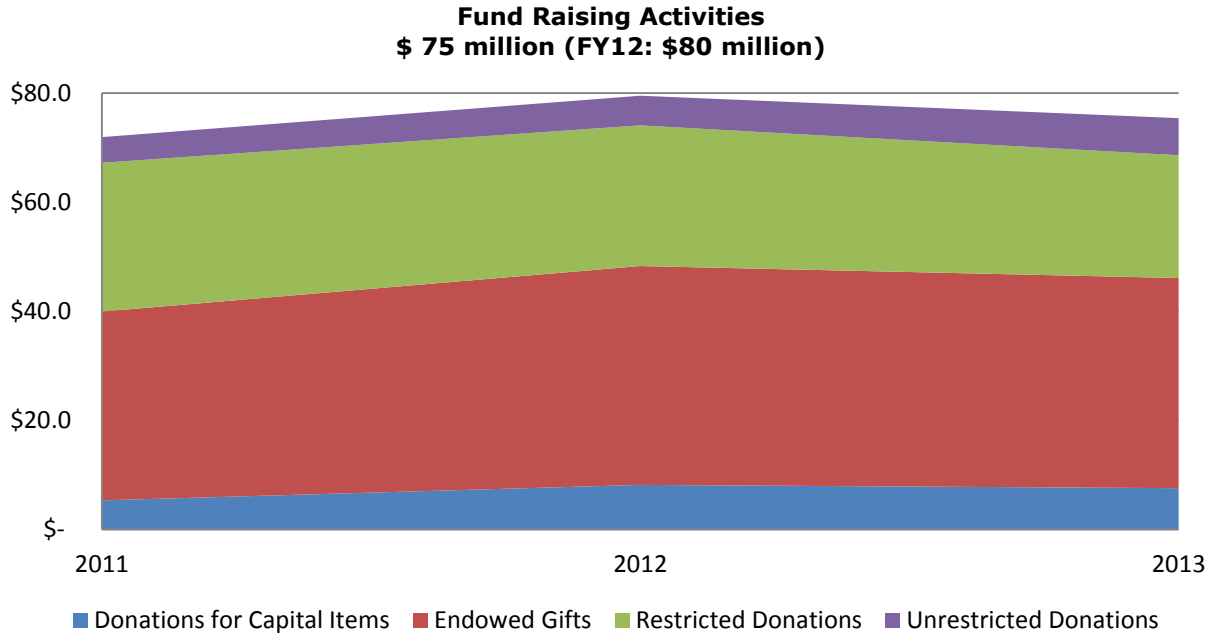
In addition to restricted grants and contracts recognized and included on the previous page, total research and other restricted funding is supplemented by other sources of revenues, including investment income of $46.6 million (2012: $37.3 million), restricted gifts of $22.5 million (2012: $25.8 million), and other sources totaling $8.8 million (2012: $8.6 million). Total sources of revenues available for restricted and research purposes amounted to $349.0 million (2012: $316.8 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 $330.1 million from a level of $319.4 million in the prior year, prior to Inter-fund transfers relating to capital assets of $19.9 million (2012: $13.2 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 $75.4 million (2012: $79.6 million) was received, including gifts in kind. The following chart illustrates all gifts and bequests revenue including endowment gifts of $40.0 million (prior year: $42.4 million) presented in the Statement of Changes in Net Assets over the last three years:



Source: Financial Services

The Annual Report on Private Giving provides comprehensive details of the total gifts and bequests. Campaign McGill generated a total of slightly above $1 billion. On a steady state basis, 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 current policy is to distribute 4.25% (based on the rolling three-year average) of investment earnings to the beneficiaries of the Endowments. In fiscal 2013, $40.8 million (2012: $ 41.4 million) was distributed, based on an MIP unit rate of $12.75 (prior year: $13.33).

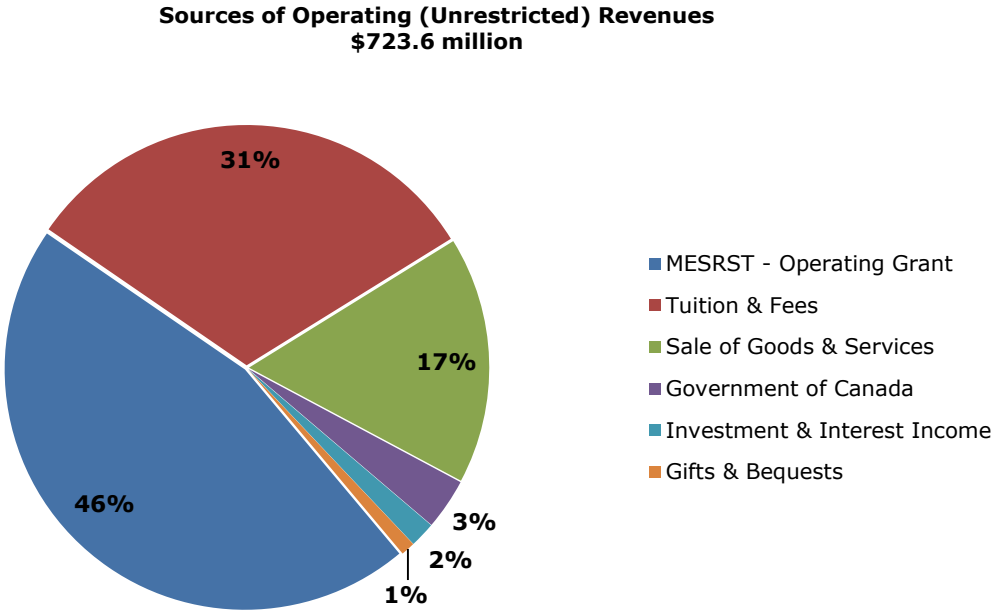
Overall, the endowment investment returns improved from 2012 levels due to better market conditions. The table below outlines the overall growth in McGill's Endowment Assets, net of $14.8 million (prior year: $13.8 million) of endowment accounts payables.

($ millions)	2013		2012	
Opening Book Value	903.8		857.6	
Unrealized Market Value	67.0		96.3	
Opening Net Assets- Market Value	970.8		953.9	
New Gifts Received	38.5	4.0%	40.1	4.2%
Net Income (Loss) Realized	71.6	7.4%	36.4	3.8%
Net Income Distributed (Net of capitalizations)	(34.5)	(3.6%)	(34.5)	(3.6%)
Transfers from (to) Other Funds	0	0.0%	4.2	0.4%
Realized Increase in Assets	75.6	7.8%	46.2	4.8%
Change in Unrealized Market Values	42.9	4.4%	(29.3)	(3.1%)
Total Increase in Fund Value	118.4	12.2%	16.9	1.8%
Closing Book Value	979.3	89.9%	903.8	93.1%
Unrealized Market Value	109.9	10.1%	67	6.9%
Closing Net Assets- Market Value	1,089.2		970.8	

Source: Financial Services

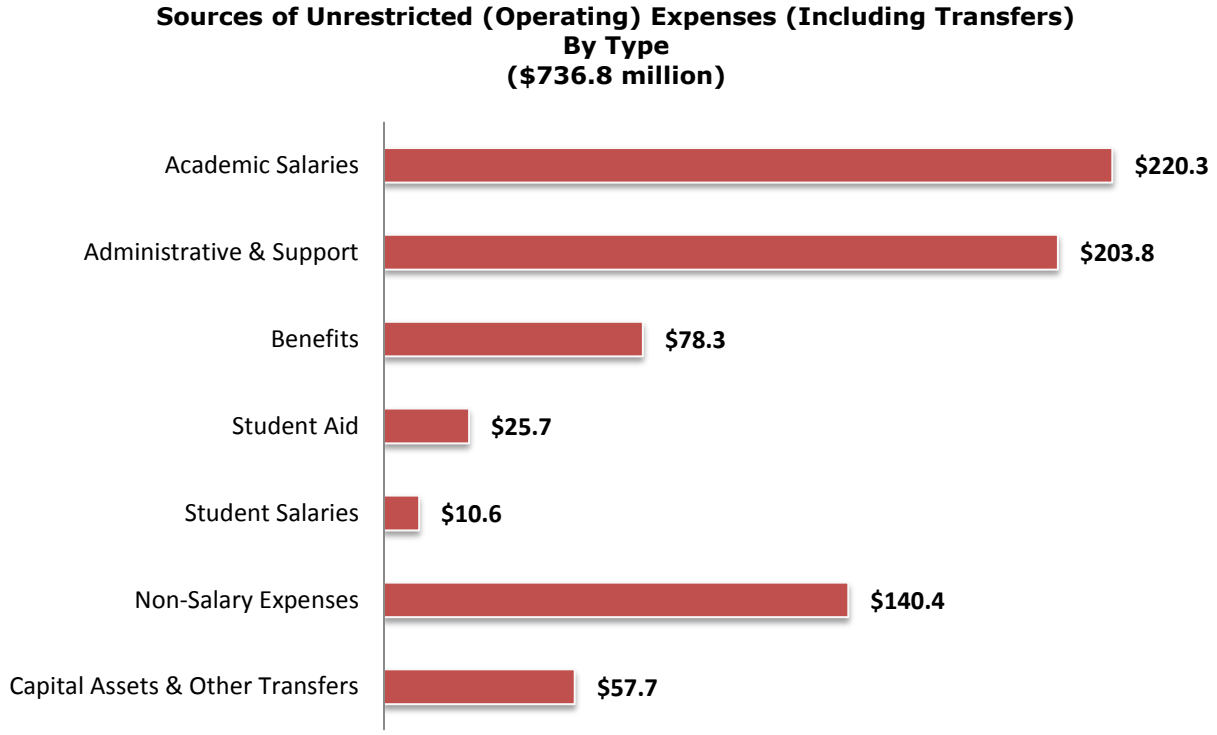
OPERATING HIGHLIGHTS (fiscal year ended April 30, 2013)

The following chart highlights the various sources of Operating (Unrestricted) Fund revenue on a GAAP basis for the year-ended April 30, 2013:



Source: McGill Financial Services

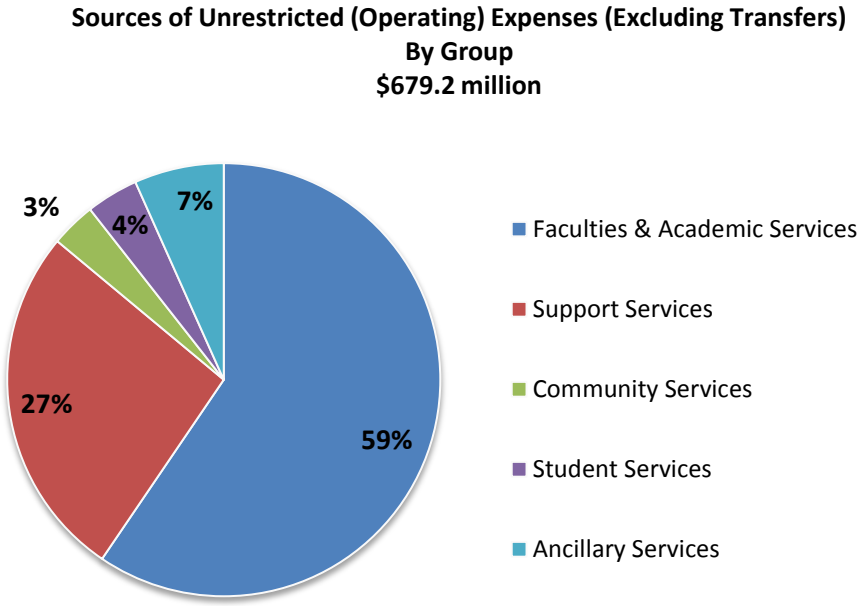
The University's spending is varied and consists of many different types of expenditures. Total operating type of expenditures amounted to $736.8 million (2012: $709.0 million) on a GAAP basis, including Inter-fund transfers of $57.8 million (2012: $57.5 million) relating to Capital Asset additions and other transfers. Below is a summary of the types of all expenses incurred, including Inter-fund transfers; salaries, benefits, and student support, all totals $737 million (2012: $708 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 86.3% of total spending. The remaining units are considered self-financing, of which ancillary operations (e.g. the Bookstore, residences, parking, etc.) represent 13.7% 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 2013 ended with a net operating deficit of $13.1 million (2012: surplus of $0.9 million). The deficit was greater than our budgeted deficit of $7.0 million for fiscal 2013, but lower than the $29.8 million deficit forecasted for the 2013 fiscal year included in the 2014 Budget Report approved by the Board in April 2013. This operating deficit of $20.7 million was offset by a one-time GAAP adjustment related to Pension Liability ($7.3 million) in arriving at the net deficit of $13.1 million for fiscal 2013.

Our operating "accumulated operating deficit" now stands at $208.5 million, including the GAAP adjustments mentioned earlier.

Overall, some operating revenues also differed from the year-end forecasts included in the 2014 Budget Report, including the following significant items below:

- MESRST grant was affected by the $19.2 million cut, offset by $4.4 million in tuition compensation.
- Tuition and fees were $0.9 million below budget, however $11.5 million greater than the prior year.
- Overall, the University generated more sales of goods and services, net of related costs, than previously forecasted and budgeted.
- Despite the downturn in the economy, unrestricted gifts and bequests were $2.5 million more than what was budgeted.
- Short-term interest income and investment income totalled combined, $7 million more than budgeted, due to an overall 12.2% growth in endowment assets.

The fiscal 2013 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 2014 Budget Report.

1. Operating salaries (including student and aid) and benefits totaled $538.8 million as compared to a forecast of $553.1 million. The variance, in large part, being affected by a reversal of pension benefit liability of $7.3 million and a reduction of $5 million in provisions for additional benefit costs which were included in the forecast. Also included in the total is $36.3 million of student salaries and aid (excluding related benefits), as compared to $33.6 million in the prior year.

2. Total academic, administrative, and support salaries and benefits totaled $502.5 million (2012: 484.3 million) and represent 74.0% (2012: 74.4%) of total operating expenses (excluding transfers).

3. Total operating benefits also includes an accrual estimate for severances associated with the 2013 voluntary retirement program and for pay equity for the periods 2001 to 2013. 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 operating expenses were lower than amounts forecasted for fiscal 2013 by $0.9 million. Overall, non-salary operating expenses increased by $7.0 million over the total of $133.4 million in fiscal 2012 (approximately 5.2% increase).

3. DEFERRED MAINTENANCE – CAMPUS RENEWAL

As reported last year, a study conducted in 2007 under the auspices of *Conférence des recteurs et des principaux des universités du Québec (*CREPUQ) estimated McGill's total deferred maintenance (DM) inventory to be almost $650 million. This study included only those buildings and supporting infrastructure 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, giving a total DM inventory of $835 million 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, $27.2 million in 2009-10 and $27.1 million in 2010-11, specifically targeted for deferred maintenance. In 2009-10, $81 million was dedicated to deferred maintenance projects at three buildings on the downtown McGill campus, $72 million of which was secured through the Federal Government's Knowledge Infrastructure Program (KIP), and $9 million of which was funded from the University's allocation of deferred maintenance funds from MELS.

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

Following the 2007 inventory, all deferred maintenance projects were prioritized and over 225 projects considered to be the most urgent were selected for execution over the period of 2008-2011 ("Lot 1"). Lot 1 included the three KIP projects, which have all now been completed. In total, McGill estimated approximately $259 million required between 2008 and 2011 (Lot 1 projects), to correct the most urgent of the University's deferred maintenance needs. Of this total amount, $245 million has been disbursed on Lot 1 projects (including $100 million for the KIP projects), with the balance continuing to be disbursed over the coming few years simultaneous with execution of Lot 2 (2011-2014) and implementation of Lot 3 (2014-2017).

The University has planned for an estimated $350 million worth of essential deferred maintenance projects to be initiated between 2011 and 2014 (Lot 2), should funding be found. To date, close to $319 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 will be required for expenditure 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 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. Initiation of this project is contingent upon approval from Infrastructure Québec of the "dossier de présentation Stratégique," which is currently in the final stages of submission. Construction is expected to begin in 2015, with a target completion date of 2017.

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, and to be funded by existing Bond proceeds. We are presently approximately 30% into this global scope of work.

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. These infrastructure projects also improve the campus environment in a manner that is consistent with the Planning & Design Principles of the Master Plan and McGill's Sustainability Policy. However, despite significant capital investment, McGill is making limited progress towards its goal of decreasing its deferred

maintenance inventory to an acceptable industry level. While current and projected Lot 2 and 3 projects will address the backlog of deferred maintenance projects, campus infrastructure continues to decay at an accelerating rate. This, coupled with the limited amount of capital funding, means that simply keeping pace with the rate of infrastructure deterioration on campus will be a challenge. An enormous amount of work remains to be done and finances must be secured to continue to advance this agenda.

McGill continues to actively press the Québec government for additional funding to deal with deferred maintenance, highlighting 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 a CREPUQ initiative to develop a uniform inventory of accumulated deferred maintenance for all universities in Québec. The dossier is currently under review; it is anticipated that the process will be re-initiated this fall. Once complete, these inventories 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 will allow an apples-to-apples comparison of deferred maintenance issues across institutions – a comparison that should support McGill's 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 expectations are being seriously challenged by both increasing pension costs and the prevailing pay equity legislation. Both of these are estimated to result in additional costs to McGill's operating budget, thus requiring either more revenues or expense reductions in the near term. MESRST is still requesting balanced budgets from universities, as the prospect of new investments in fiscal 2015 on their part is bleak. In addition, the newly elected government continues to limit tuition increases to a reduced inflation factor, thus further impacting the deficit. 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

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

Moody's newly confirmed an Aa2 rating 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 2012, 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 level.

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 MESRST, 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 no further economic stimulus is envisioned, rather, the current government is attempting to limit infrastructure spending. As announced in the current year, MESRST will proceed with $19.2 million in grant cuts in each of fiscal 2013 and 2014, with potential re-investments in fiscal 2015 and beyond, if certain economic conditions persist. Current signs are that their intended re-investments proposed for the Education sector may not materialize to levels predicted, due to the current economic climate. 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 2013

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 MESRST are now accounted for as a receivable, including annual capital grants, MESRST 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) MESRST 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 MESRST 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 MESRST (see *Other mandated changes by MESRST* 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 MESRST 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, 2013 and April 30, 2012

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

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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 sheets as at April 30, 2013, April 30, 2012 and May 1, 2011, and the statements of revenue and expenses, changes in net assets and cash flows for the years ended April 30, 2013 and April 30, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained in our audits 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, 2013, April 30, 2012 and May 1, 2011, and the results of its operations and its cash flows for the years ended April 30, 2013 and April 30, 2012, in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte s.e.n.c.r.l.[1]

September 26, 2013

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Balance sheets

as at April 30, 2013, April 30, 2012 and May 1, 2011
(in thousands of dollars)

	April 30, 2013	April 30, 2012	May 1, 2011
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	**19,450**	37,657	12,196
Short-term investments (Note 17)	**36,117**	84,478	64,692
Receivables (Note 4)	**411,900**	388,366	401,242
Prepaid expenses	**3,930**	3,515	3,638
Inventory	**2,088**	2,439	2,839
	473,485	516,455	484,607
Marketable securities (Note 17)	**1,116,812**	952,953	950,725
Grants receivable - operating	**-**	541	1,361
Grants and contracts related to research receivable	**42,229**	69,202	78,305
Capital grants receivable (Note 5)	**657,108**	653,404	655,173
Loans receivable (Note 6)	**13,529**	6,325	1,966
Capital assets (Note 7)	**1,274,699**	1,221,385	1,132,508
Total assets	**3,577,862**	3,420,265	3,304,645
Liabilities			
Current liabilities			
Bank indebtedness (Note 8)	**178,163**	219,179	223,421
Accounts payable and accrued liabilities	**169,986**	173,130	160,854
Unearned revenue	**24,603**	22,451	19,929
Current portion of long-term debt (Note 11)	**159,657**	132,400	107,989
	532,409	547,160	512,193
Deferred contributions (Note 9)	**411,508**	437,688	429,241
Deferred capital contributions (Note 10)	**789,221**	776,512	744,009
Long-term debt (Note 11)	**630,967**	589,213	604,418
Accrued pension liability (Note 12)	**41,899**	49,179	50,590
Post-employment benefit obligation (Note 12)	**118,783**	118,558	112,860
	2,524,787	2,518,310	2,453,311
Commitments and contingent liabilities (Notes 19 and 20)			
Net assets (deficiency)			
Invested in capital assets	**255,462**	212,944	174,487
Externally restricted for endowment purposes (Note 13)	**1,054,785**	937,215	920,766
Internally restricted (Note 14)	**58,124**	53,678	55,244
Unrestricted	**(315,296)**	(301,882)	(299,163)
	1,053,075	901,955	851,334
Total liabilities and net assets	**3,577,862**	3,420,265	3,304,645

Approved by the Board of Governors

....., Governor

....., Secretary – General

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statements of revenue and expenses

years ended April 30, 2013 and April 30, 2012
(in thousands of dollars)

	2013	2012
	$	$
Revenue		
Grants		
Canada	**205,705**	210,912
Quebec	**456,155**	467,118
United States	**7,240**	6,312
Other sources	**38,148**	19,772
Contracts	**17,997**	20,057
Tuition and fees	**228,623**	217,133
Sale of goods and services	**129,675**	111,326
Gifts and bequests	**35,417**	37,067
Investment and interest income (Note 15)	**60,916**	51,611
Total revenue	**1,179,876**	1,141,308
Expenses		
Salaries		
Academic	**285,482**	269,866
Administrative and support	**227,123**	213,509
Benefits	**94,816**	104,658
Student aid	**100,962**	96,968
Student	**35,815**	35,934
Total salaries	**744,198**	720,935
Non-salary		
Material, supplies and publications	**43,554**	39,631
Contributions to partner institutions	**39,978**	38,954
Contract services	**23,761**	18,567
Professional fees	**21,630**	18,014
Travel	**25,176**	23,716
Cost of goods sold	**19,156**	19,963
Building occupancy costs	**21,981**	19,117
Energy	**18,036**	20,524
Other non-salary expenses	**41,619**	42,265
Hardware and software maintenance	**7,081**	6,684
Amortization of capital assets	**105,850**	104,852
Interest	**31,243**	34,260
Bank charges	**1,240**	1,197
Total non-salary	**400,305**	387,744
Total expenses	**1,144,503**	1,108,679
Excess of revenue over expenses	**35,373**	32,629

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statements of changes in net assets

years ended April 30, 2013 and April 30, 2012 and May 1, 2011
(in thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	$	$	$	$	$	$
Net assets (deficiency), May 1, 2011	(299,163)	55,244	-	174,487	920,766	851,334
Excess (deficiency) of revenue over expenses	26,438	37,315	(2,615)	(28,509)	-	32,629
Endowment contributions and gifts in kind	-	-	-	2,327	40,088	42,415
Investment income items reported as direct increase (decrease) in net assets	760	551	(6,411)	-	(19,323)	(24,423)
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 (deficiency), April 30, 2012	(301,882)	53,678	-	212,944	937,215	901,955
Excess (deficiency) of revenue over expenses	**43,957**	**27,766**	**18,874**	**(55,224)**	**-**	**35,373**
Endowment contributions and gifts in kind	**-**	**-**	**-**	**1,576**	**38,468**	**40,044**
Investment income items reported as direct (decrease) increase in net assets	**(2,539)**	**(2,333)**	**(6,119)**	**-**	**86,694**	**75,703**
Net change in internally restricted net assets	**10,458**	**(33,580)**	**(3,291)**	**27,205**	**(792)**	**-**
Investment in capital assets	**(42,943)**	**-**	**(22,012)**	**64,955**	**-**	**-**
Other transfers	**(22,347)**	**12,593**	**12,548**	**4,006**	**(6,800)**	**-**
Net assets (deficiency), April 30, 2013	**(315,296)**	**58,124**	**-**	**255,462**	**1,054,785**	**1,053,075**

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statements of cash flows

years ended April 30, 2013 and April 30, 2012
(in thousands of dollars)

	2013	2012
	$	$
Operating activities		
Excess of revenue over expenses	**35,373**	32,629
Adjustments for:		
Amortization of capital assets	**105,850**	104,852
Amortization of bond discount	**204**	231
Amortization of deferred contributions (Note 9)	**(380,149)**	(358,902)
Amortization of deferred capital contributions (Note 10)	**(85,116)**	(80,376)
Change in unrealized fair value of investments	**2,635**	(1,933)
Change in fair value of derivative financial instruments	**1,395**	10,158
	(319,808)	(293,341)
Net change in non-cash working capital items (Note 16)	**(2,712)**	27,251
Increase in government grant receivable	**(37,277)**	(8,207)
Decrease in grants and contracts related to research receivable	**39,209**	20,845
Increase in deferred contributions	**353,969**	367,349
Increase (decrease) in pension liability	**(7,280)**	(1,411)
Increase in post-retirement benefit obligation	**5,064**	10,486
Post-retirement benefit obligation payments	**(4,839)**	(4,788)
	26,326	118,184
Investing activities		
Decrease (increase) in short-term investments	**48,361**	(19,786)
Acquisition of capital assets	**(159,164)**	(193,729)
Purchase of marketable securities	**(1,025,493)**	(739,052)
Proceeds from sale of marketable securities	**857,604**	728,599
Change in loans receivable	**(7,204)**	(4,359)
	(285,896)	(228,327)
Financing activities		
Change in bank indebtedness	**(41,016)**	(4,242)
Investment income reported as direct increase (decrease) in net assets	**75,703**	(24,423)
Endowment contributions	**40,044**	42,415
Issuance of long-term debt	**201,234**	118,000
Repayment of long-term debt	**(132,427)**	(109,025)
Deferred capital contributions	**97,825**	112,879
	241,363	135,604
Net change in cash and cash equivalents	**(18,207)**	25,461
Cash and cash equivalents, beginning of year	**37,657**	12,196
Cash and cash equivalents, end of year	**19,450**	37,657

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

1. Status and nature of activities

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

2. Adoption of a new accounting framework

During the year ended April 30, 2013, the University adopted the new Canadian accounting standards for not-for-profit organizations (the "new standards") issued by the Canadian Institute of Chartered Accountants ("CICA") and set out in Part III of the CICA Handbook. In accordance with Section 1501 of Part III of the CICA Handbook, *First-time Adoption for not-for-profit organizations* ("Section 1501"), the date of transition to the new standards was May 1, 2011, and the University has prepared and presented an opening balance sheet at the date of transition to the new standards. This opening balance sheet is the starting point for the entity's accounting under the new standards. In its opening balance sheet, under the recommendations of Section 1501, the University:

a) recognized all assets and liabilities whose recognition is required by the new standards;
b) did not recognize items as assets or liabilities if the new standards do not permit such recognition;
c) reclassified items that it recognized previously as one type of asset, liability or component of net assets, but are recognized as a different type of asset, liability or component of net assets under the new standards; and
d) applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively.

The University has elected to adopt the exemptions available under Section 1501 relating to financial instruments, allowing for the accounting of certain investments held at the date of transition at fair value. The adoption of the new standards had no impact on the financial statements.

3. Significant accounting policies

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

Consolidation

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

Revenue recognition

The University follows the deferral method of accounting for restricted contributions, which include gifts and bequests, grants and contracts. Under the deferral method, amounts that are restricted are recorded as deferred contributions and are recognized as revenue when the related expense is incurred. Where contributions relate to capital assets, the revenue is recognized on the same basis as the amortization of the asset acquired. Unrestricted contributions are recognized as revenue when received. Endowment contributions are recognized as 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 fair value are recorded as investment income. To the extent that investment income is restricted, it is included in the deferred contributions account and recognized when the related expense is incurred, except for the excess of amounts made available for spending and unrealized gains and losses on externally restricted endowments which are recorded as a direct increase or decrease to endowments.

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

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

Gifts-in-kind are recorded at their fair value on receipt or at a nominal value when fair value cannot be reasonably determined. The value of 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.

3. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the University becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for investments and derivative financial instruments, which are measured at fair value at the balance sheet date. The fair value of listed shares is based on the latest closing price and the fair value quote received from the bank counterparty is used as a proxy for the fair value of derivative financial instruments. The fair value of the non-publicly traded investment funds is based on fair value confirmation received from the fund manager with whom those instruments are negotiated. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability, and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statements of revenue and expenses as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the University recognizes in the statements of operations an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in statements of revenue and expenses in the period the reversal occurs.

Foreign exchange

Monetary assets and liabilities and other assets accounted for at fair value denominated in foreign currencies are translated into Canadian dollars using foreign exchange rates at the balance sheet date. Revenue and expense items are translated into Canadian dollars at the rates of exchange prevailing at the date of the transaction. The gain or loss resulting from translation is included in the statements 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.

3. Significant accounting policies (continued)

Student loans

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

Inventory

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in, first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was $19.2 million ($20.0 million in 2012).

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 (2012 - 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, 2012.

Use of estimates

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

4. Receivables

	April 30, 2013	April 30, 2012	May 1, 2011
	$	$	$
Operating, net of provision for doubtful accounts of $2,270 (April 30, 2012 - $2,180; May 1, 2011 - $605)	**37,308**	36,209	47,768
Student loans, net of provision for doubtful accounts of $340 (April 30, 2012 - $276; May 1, 2011 - $311)	**3,506**	2,855	2,858
Investment income	**1,649**	1,743	2,111
Government grant	**43,345**	36,488	50,103
Grants and contracts related to research	**166,435**	178,671	190,413
Capital grants receivable – short term	**159,657**	132,400	107,989
	411,900	388,366	401,242

5. Capital grants receivable

Capital grants receivable relate to capital grants approved by the Ministere de l'Enseignement Superieure, Recherche, Science et Techonologie (MESRST), formerly Ministere de l'Education, du Loisir et du Sport de Quebec (MELS), but funded through long-term debt issued in McGill's name or not yet funded. These amounts are due immediately, however, only a portion their collection is expected within the next fiscal year and the remainder are presented as long-term.

6. Loans receivable

Loans receivable bear interest at rates varying from 3.013% to 4.267% (April 30, 2012 - 4.125% to 4.267%; May 1, 2011 - 3.60% to 5.39%), with maturities up to 10 years.

7. Capital assets

	April 30, 2013		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	28,706	-	28,706
Land improvements	35,155	9,569	25,586
Buildings	630,687	322,553	308,134
Major renovations	762,491	178,683	583,808
Leasehold improvements	6,065	3,440	2,625
Equipment	525,067	325,984	199,083
Rolling stock	2,116	1,360	756
Library materials	166,462	103,290	63,172
Intangible assets	15,237	13,224	2,013
	2,171,986	958,103	1,213,883
Assets under development	60,816	-	60,816
	2,232,802	958,103	1,274,699

	April 30, 2012		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	28,706	-	28,706
Land improvements	33,964	7,812	26,152
Buildings	596,836	313,656	283,180
Major renovations	674,206	153,580	520,626
Leasehold improvements	6,065	2,315	3,750
Equipment	471,499	273,966	197,533
Rolling stock	1,769	1,016	753
Library materials	152,517	90,578	61,939
Intangible assets	13,584	10,046	3,538
	1,979,146	852,969	1,126,177
Assets under development	95,208	-	95,208
	2,074,354	852,969	1,221,385

7. Capital assets (continued)

	May 1, 2011		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	28,706	-	28,706
Land improvements	31,685	6,113	25,572
Buildings	594,915	304,953	289,962
Major renovation	526,144	131,472	394,672
Leasehold improvements	1,429	781	648
Equipment	413,964	222,582	191,382
Rolling stock	1,314	706	608
Library materials	137,574	75,327	62,247
Intangible assets	11,290	6,186	5,104
	1,747,021	748,120	998,901
Assets under development	133,607	-	133,607
	1,880,628	748,120	1,132,508

8. Bank indebtedness

As required by MESRST, McGill's Board of Governors has approved maximum borrowings of $300 million ($300 million as at April 30, 2012, and $250 million as at May 1, 2011) under short-term credit facilities, of which $178 million has been used as at April 30, 2013 ($219 million in 2012 and $223 million in 2011). Unsecured and uncommitted lines of credit, totalling $330 million (April 30, 2012 - $330 million; May 1, 2011 - $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 (3.00% in 2012 and 2.96% in 2011). Through the use of bankers' acceptances, the average cost of borrowing for the year was 1.49% (1.49% in 2012 and 1.24% in 2011). The rate in effect as at April 30, 2013, was 1.50% (1.44% as at April 30, 2012, and 1.50% as at May 1, 2011). Bankers' acceptances outstanding at year-end bear interest at rates ranging from 1.29% to 1.68% (1.27% to 1.82% as at April 30, 2012, and 1.30% to 1.82% as at May 1, 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.

	April 30, 2013	April 30, 2012	May 1, 2011
	$	$	$
Balance, beginning of year	**437,688**	429,241	400,736
Restricted funds received during the year	**319,163**	341,434	422,230
Gifts and bequests	**34,806**	25,915	23,580
Amortization of deferred contributions	**(380,149)**	(358,902)	(417,305)
Balance, end of year	**411,508**	437,688	429,241

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

Federal grants	**207,596**	213,189	215,706
Provincial grants	**51,007**	61,884	67,685
United States grants	**4,344**	4,512	3,883
Other grant sponsors	**58,589**	72,338	61,805
Contracts	**18,190**	25,220	29,511
Gifts and bequests	**52,354**	33,614	24,638
Endowment income	**14,918**	22,344	21,504
Investment income	**4,510**	4,587	4,509
	411,508	437,688	429,241

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 statements of revenue and expenses. The deferred capital contributions balance consists of the following:

	April 30,		May 1,
	2013	2012	2011
	$	$	$
Balance, beginning of year	**776,512**	744,009	612,219
Deferred capital contributions received	**97,825**	112,879	199,330
Amortization of deferred capital contributions	**(85,116)**	(80,376)	(67,540)
Balance, end of year	**789,221**	776,512	744,009
Represented by:			
Net deferred contributions – MESRST	**370,394**	352,362	315,470
Net deferred contributions – Other provincial	**135,316**	138,402	142,154
Net deferred contributions – Federal	**128,362**	131,583	128,434
Net deferred contributions – Other	**155,149**	154,165	157,951
Balance, end of year	**789,221**	776,512	744,009

11. Long-term debt

	April 30, 2013	April 30, 2012	May 1, 2011
	$	$	$
a)			
1) Bonds (i)			
6.20% Series "4C", matured on June 14, 2011	-	-	13,981
4.00% Series "12C", matured on November 24, 2011	-	-	5,605
5.75% Series "6C", matured on February 14, 2012	-	-	3,858
5.70% Series "7C", matured on February 15, 2012	-	-	5,358
4.10% Series "13C", matured on February 24, 2012	-	-	8,837
5.75% Series "8C", matured on February 28, 2012	-	-	5,400
5.80% Series "8C", matured on February 28, 2012	-	-	3,872
	-	-	46,911
4.05% Series "11C", matured on May 27, 2012	-	8,571	8,571
5.40% Series "9C", matured on September 12, 2012	-	7,405	7,405
5.30% Series "10C", matured on February 27, 2013	-	10,451	10,451
	-	26,427	26,427
4.50% Series "11C", due May 27, 2015	**4,703**	4,703	4,703
4.40% Series "13C", due February 24, 2016	**4,653**	4,653	4,653
4.50% Series "14C", due March 8, 2016	**7,000**	7,000	7,000
	11,653	11,653	11,653
Total bonds:	**16,356**	42,783	89,694

11. Long-term debt (continued)

		April 30, 2013	April 30, 2012	May 1, 2012
		$	$	$
a)	2) Notes (ii)			
	3.794%, matured on June 16, 2011 (iii)	-	-	88
	4.288%, matured on December 1, 2011	-	-	19,188
	4.814%, matured on April 25, 2012	-	-	16,000
	2.257%, matured on October 25, 2012	-	54,011	57,005
	4.952%, matured on November 1, 2012	-	26,634	29,258
	4.355%, due September 16, 2013	**68,313**	72,651	76,988
	4.607%, due September 16, 2013	**28,000**	29,400	30,800
	3.240%, due September 23, 2013	**32,375**	34,281	36,188
	3.320%, due June 1, 2014	**11,216**	12,144	13,072
	3.690%, due December 1, 2014	**20,966**	22,725	24,483
	3.839%, due December 1, 2014	**30,241**	32,680	35,120
	4.267%, due December 1, 2015 (iii)	**519**	678	830
	3.601%, due June 2, 2016	**8,383**	9,192	10,000
	2.820%, due June 2, 2016	**24,747**	26,374	28,000
	2.849%, due December 1, 2016	**63,480**	66,240	69,000
	1.928%, due April 25, 2017	**8,462**	9,456	-
	2.323%, due December 1, 2017	**63,888**	66,550	-
	2.472%, due December 1, 2017	**21,585**	23,000	-
	2.213%, due June 1, 2018	**187,000**	-	-
	2.112%, due June 1, 2018	**5,000**	-	-
	2.406%, due December 1, 2018	**18,000**	18,000	-
	4.125%, due August 24, 2020	**5,123**	5,655	6,122
	3.013%, due September 28, 2022	**9,300**	-	-
	4.991%, due June 1, 2034	**22,000**	23,000	24,000
	Total notes:	**628,598**	532,671	476,142
	Total Government of Quebec debt	**644,954**	575,454	565,836
b)	McGill Senior Unsecured Debentures (iv), 6.15% Series "A," due September 22, 2042	**150,000**	150,000	150,000
c)	Royal Bank loans (v), 5.81%, due March 19, 2014	**543**	1,056	1,056
d)	Other	**177**	292	891
e)	Bond discounts and issuance costs	**(5,050)**	(5,189)	(5,376)
	Total long-term debt	**790,624**	721,613	712,407
	Current portion of long-term debt	**(159,657)**	(132,400)	(107,989)
	Long-term debt	**630,967**	589,213	604,418

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
	$	$
4.355%, due September 16, 2013	4,337	68,313
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	19,208
3.839%, due December 1, 2014	2,441	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
2.213%, due June 1, 2018	10,812	132,940
2.112%, due June 1, 2018	582	2,090
2.406%, due December 1, 2018	1,110	12,450
4.125%, due August 24, 2020	554	4,570
3.013%, due September 28, 2022	811	8,459
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 MESRST 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.

11. Long-term debt (continued)

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

	$
2014	159,657
2015	82,677
2016	41,795
2017	105,628
2018	84,260

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, 2012, and the next required valuation will be as of December 31, 2015.

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, 2013, is estimated at $2.0 million ($2.0 million as at April 30, 2012, and as at May 1, 2011). These amounts are recorded as accrued liabilities. See also Note 19.

12. Employee future benefits (continued)

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, 2013 is estimated at $118.8 million ($118.6 million as at April 30, 2012, and $112.9 million as at May 1, 2011). These amounts are recorded as liabilities.

Pension plan defined contribution plan

The University has a defined contribution pension plan offered to basically all employees. The University contributes to the Plan up to a maximum of 10% 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:

	April 30, 2013	April 30, 2012	May 1, 2011
	$	$	$
Cash payments recognized	**37,615**	33,423	31,048
Benefit costs	**24,333**	23,542	22,128
Accrued pension liability			
Defined benefit cost			
Current service cost	**943**	1,158	1,571
Interest cost on accrued benefit obligation	**1,315**	2,732	3,145
	2,258	3,890	4,716

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

	April 30, 2013	April 30, 2012	May 1, 2011
	$	$	$
Accrued pension liability	**(355,045)**	(318,081)	(327,798)
Fair value of Plan assets	**242,000**	254,913	270,859
Plan deficit	**(113,045)**	(63,168)	(56,939)
Unamortized net actuarial loss	**71,146**	13,989	6,349
Obligation for defined benefits	**(41,899)**	(49,179)	(50,590)

12. Employee future benefits (continued)

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

	April 30, 2013	2012	May 1, 2011
	%	%	%
Cash equivalents	**6.2**	8.6	2.9
Real estate	**17.2**	16.6	14.4
Equity	**26.2**	23.6	23.2
Fixed income	**50.3**	45.7	55.4
Other	**0.1**	5.5	4.1

The significant assumptions used are as follows:

	April 30, 2013	2012	May 1, 2011
	%	%	%
Discount rate	**3.00**	4.25	4.75
Expected long-term rate of return on Plan assets	**4.75**	4.75	5.25
Price inflation allowance	**3.00**	2.00	2.25

Post-employment benefit obligation - unfunded benefits

	April 30, 2013	2012	May 1, 2011
	$	$	$
Balance, beginning of year	**118,558**	112,860	108,318
Current service cost	**1,674**	3,392	2,817
Interest cost on accrued benefit obligation	**5,194**	6,668	6,489
Benefit paid	**(4,839)**	(4,788)	(4,475)
Net actuarial loss	**1,604**	764	49
Past service costs	**(3,408)**	(338)	(338)
Balance, end of year	**118,783**	118,558	112,860

12. Employee future benefits (continued)

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

	April 30, 2013	April 30, 2012	May 1, 2011
	%	%	%
Accrued benefit obligation as at year-end			
Discount rate	**4.0**	4.5	5.0
Rate of compensation increase – Academics	**4.5**	4.5	4.5
– Non-Academics	**3.5**	3.5	3.5
Health care cost trend rates			
Current trend rate	**8.0**	8.0	8.0
Ultimate trend rate	**5.0**	5.0	5.0
Year of ultimate trend rate	**2016**	2016	2016

13. Externally restricted for endowment purposes

	April 30, 2013	April 30, 2012	May 1, 2011
	$	$	$
Faculty endowments	**446,067**	412,603	391,139
Student aid	**354,051**	315,663	302,130
Research endowments	**96,611**	92,891	89,993
Emerging priorities	**18,316**	14,138	12,261
Library endowments	**22,911**	22,097	22,419
Student services	**6,243**	5,258	4,818
Annuities	**2,197**	1,961	2,010
Accumulated income	**108,389**	72,604	95,996
	1,054,785	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.

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 statements 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 2012) of the average fair value of the endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that the actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. 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

	April 30,		May 1,
	2013	2012	2011
	$	$	$
Self-financing teaching and research	**11,125**	4,573	6,876
Professor start-up funds	**10,648**	10,553	8,647
Other	**36,351**	38,552	39,721
	58,124	53,678	55,244

15. Investment and interest income

	2013	2012
	$	$
Change in unrealized fair value of investments	**2,635**	(1,933)
Change in fair value of derivative financial instruments	**1,395**	10,158
Investment and interest income	**56,886**	43,386
	60,916	51,611

16. Net change in non-cash working capital items

	2013	2012
	$	$
Receivables	(1,656)	11,930
Prepaid expenses	(415)	123
Inventory	351	400
Accounts payable and accrued liabilities	(3,144)	12,276
Unearned revenue	2,152	2,522
	(2,712)	27,251

17. Financial instruments

Financial risks

McGill is subject to market risk, which is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The concentration of risk is minimized because of McGill's diversification of its investment portfolio.

The University has foreign currency risk arising from its foreign denominated marketable securities. As at April 30, 2013, McGill's foreign denominated marketable securities had a fair value of CAN$743 million (April 30, 2012 – CAN$587; May 1, 2011 – CAN$575 million), including US$508 million (CAN$512 million) (April 30, 2012 – US$395 million (CAN$390 million); May 1, 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 is due from governments which are believed to be at low risk of default. For the remaining receivables, the concentration of risk is minimized because of McGill's large and diverse base of counterparties and investments.

17. Financial instruments (continued)

Financial risks

McGill's objective is to have sufficient liquidity to meet its liabilities when due. McGill monitors its cash balances and cash flows generated from operations to meet its requirements. As at April 30, 2013, the most significant financial liabilities are bank indebtedness, accounts payable and accrued liabilities, long-term debt, pension liability and post-employment benefit obligations.

Derivatives

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of EURO$23.5 million as at April 30, 2013, with a forward rate of 1.34376 that matured on June 12, 2013 (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, 2013, the fair value of these contracts approximated an unrealized gain of $0.4 million which was included in marketable securities (April 30, 2012 - an unrealized loss of $0.1 million). There were no forward contracts outstanding as at May 1, 2011.

In October 2003, McGill entered into an agreement with RBC Dominion Securities ("RBCDS") whereby it invested in a US$13 million US-denominated bond maturing in 2029. Under this agreement, the bond principal and the semiannual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill $85.7 million in 2029. The fair value of the bond and the swap agreement is $48.4 million (April 30, 2012 – $46.9 million; May 1, 2011 - $36.8 million) and is included in marketable securities.

The US Dollar denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable in exchange for a fixed amount of proceeds. As at April 30, 2013, the fair value of the swap is $20.0 million (April 30, 2012 - $19.8 million; May 1, 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.

17. Financial instruments (continued)

Derivatives (continued)

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 $0.3 million lower than the fixed price contracted (April 30, 2012 - $1.4 million lower; May 1, 2011 - $0.6 million lower) resulting in a change in fair value gain of $1.1 million in the year (loss of $0.8 million in 2012). The resulting liability has been recorded in the balance sheets within the accounts payable and accrued liabilities.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	April 30,		May 1,
	2013	2012	2011
	%	%	%
Canadian Equity	**12**	19	21
US Equity	**19**	14	13
Non North American Equity	**21**	21	23
Canadian Fixed Income	**16**	16	16
Hedge Funds	**18**	17	17
Alternate strategies, including private equity and other	**14**	13	10
	100	100	100

Short-term investments consist of highly liquid fixed income securities maturing within one year and bearing interest at rates ranging from 0.99% to 1.04% (April 30, 2012 – 0.96% to 0.98%; May 1, 2011 – 1.00% to 1.03%).

18. Pledges

Outstanding donation pledges as at April 30, 2013, amounted to $173.4 million (April 30, 2012 - $119.7 million; May 1, 2011 – $121.3 million). These have not been recognized in the financial statements.

19. Commitments

Operating leases

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

	$
2014	**4,318**
2015	**2,866**
2016	**1,713**
2017	**1,219**
2018	**321**
Thereafter	**196**
	10,633

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $49.1 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 $56.7 million within the next four years in accordance with its arrangements with these funds.

Retirement program

McGill initiated a voluntary retirement program during the year to qualifying employees and signed agreements as at April 30, 2013, amounting to $3.2 million, recorded as accounts payable and accrued liabilities. In addition, subsequent to April 30, 2013, additional employees signed voluntary retirement contracts. The total liability related to these subsequent contracts amounts to $11.4 million and is also expected to be paid during the next fiscal year. This amount has not been accrued in the financial statements.

20. Contingent liabilities

Litigation

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the *Civil Code of Quebec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2013, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

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

McGILL UNIVERSITY- **SECRETARIAT**

McGill Memorandum

Secretariat
845 Sherbrooke Street West, Room 313
Montreal, Quebec H3A 0G4
Tel.: (514) 398-3948 / Fax.: (514) 398-4758

Date: September 27, 2013

To: Mr. Michael Di Grappa, Vice-Principal (Administration and Finance)
Mr. Albert Caponi, Assistant Vice-Principal (Financial Services)

cc: Mr. Michael Boychuk, Chair, Audit Committee

From: Mr. Stephen Strople, Secretary-General

Subject: AUDITOR'S REPORT, FINANCIAL STATEMENTS AND FINANCIAL REPORT TO THE BOARD OF GOVERNORS FOR FISCAL YEAR ENDING APRIL 30, 2013 [GD13-03]

At its meeting of September 26, 2013, the Board of Governors approved the 2012-2013 Financial Report to the Board of Governors including the external Auditor's Report and Audited Financial Statements of The Royal Institution for the Advancement of Learning/McGill University for the year ended April 30, 2013.

Report on the Financial State of the University

Year ended April 30, 2013

Presentation to Senate
(D13-28 Appendix B)

December 4, 2013

McGill

Opening Remarks

- We are currently in our 2nd year of the cut in government funding and lost tuition increases.

- Significant budget reduction measures were necessary, and resulted in a plan to permanently reduce $43.5 million in operating expenses while protecting McGill's core academic and research mission.

- Despite these additional challenges, we continue to be recognized as being fiscally responsible and prudent.

- Compared to our peers of similar size, we continue to do more with less and performing, academically, to a high standard.

- We face on-going challenges with respect to our facilities.

- Re-investment still likely, but there are risks relating to amounts and timing.

Over the last four years….

Fiscal 2013

- Full fiscal (12 month) year; including 12 months comparative amounts

Fiscal 2012

- Full fiscal (12 month) year; comparative amounts reported on 11 months
- Break-even position

Fiscal 2011

- Change in year-end to April 30 (from May 31) mandated by MESRST
- 11 month year

Fiscal 2010

- Conversion to GAAP (from previous MESRST mandated presentation)
- Introduction of new GAAP “Pension” and “Post-Retirement” liabilities (approximately $190 million) increasing reported accumulated deficit

Operating Highlights (P.2&3)
FY 2013

1. Enrolment

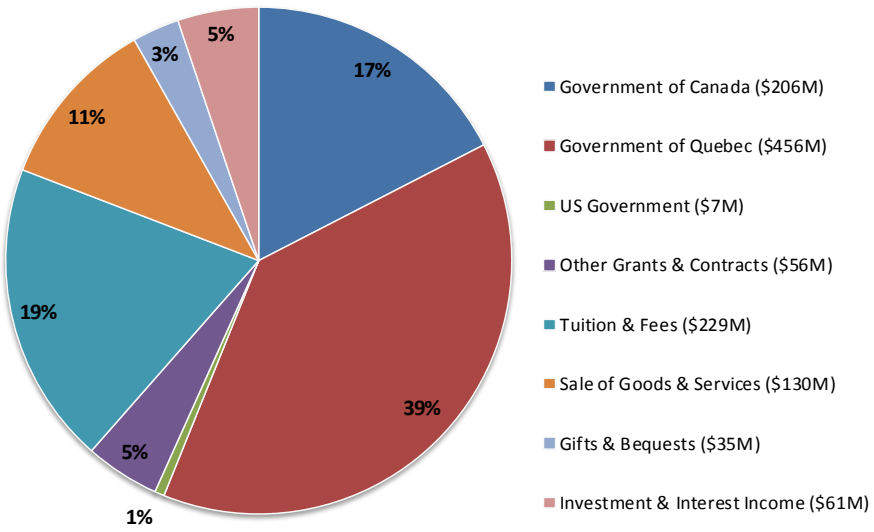
		Increase
Fall 2012	38,779	2.50%
Fall 2011	37,835	3.57%
Fall 2010	36,531	3.49%

2. Tenure Track Academics

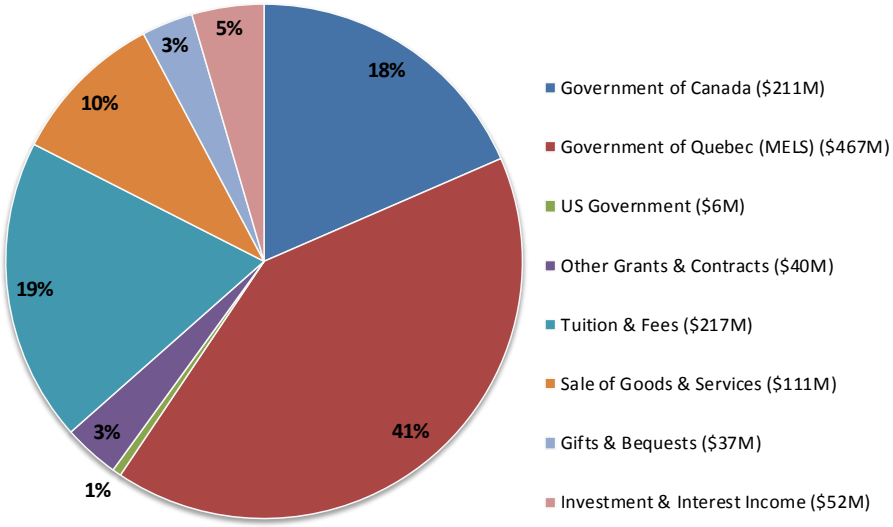
- TT Academics approx. 1,642 at year end 2013
- net change of + 296 between 2002 to 2013

Total Combined Sources of Funding (P.27)
FY 2013 - $1.18 billion
FY 2012 - $1.14 billion

Fiscal Year 2013



Fiscal Year 2012



Total Grant revenue – all sources (P.29)

GRANTS ($ millions)

	2013				
Purpose	Quebec	Canada	US	Other Sources	2013
Operating	331				331
Capital	81	18			99
Indirect Costs (Operating)		25			25
Research (Restricted) Grants	34	146	7	35	222
Other Restricted Grants	11	17		3	31
Total:	**457**	**206**	**7**	**38**	**708**

	2012				
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**

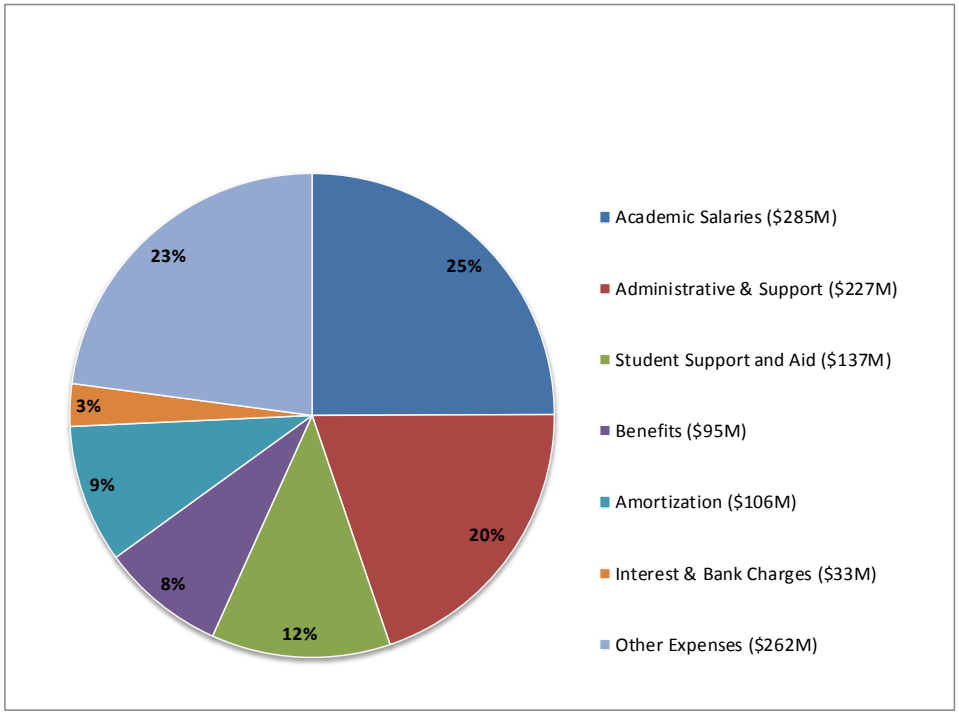
Total Research Grants and Contracts (P.31)
($ in thousand)

	2013	2012	2011
Represented by:			
Direct Funded Research Grants	202,822	153,794	147,844
Infrastructure Grants	19,162	36,750	44,472
Subtotal:	221,984	190,544	192,316
Research Contracts	17,963	19,979	10,387
Total grants and contracts:	239,947	210,523	202,703

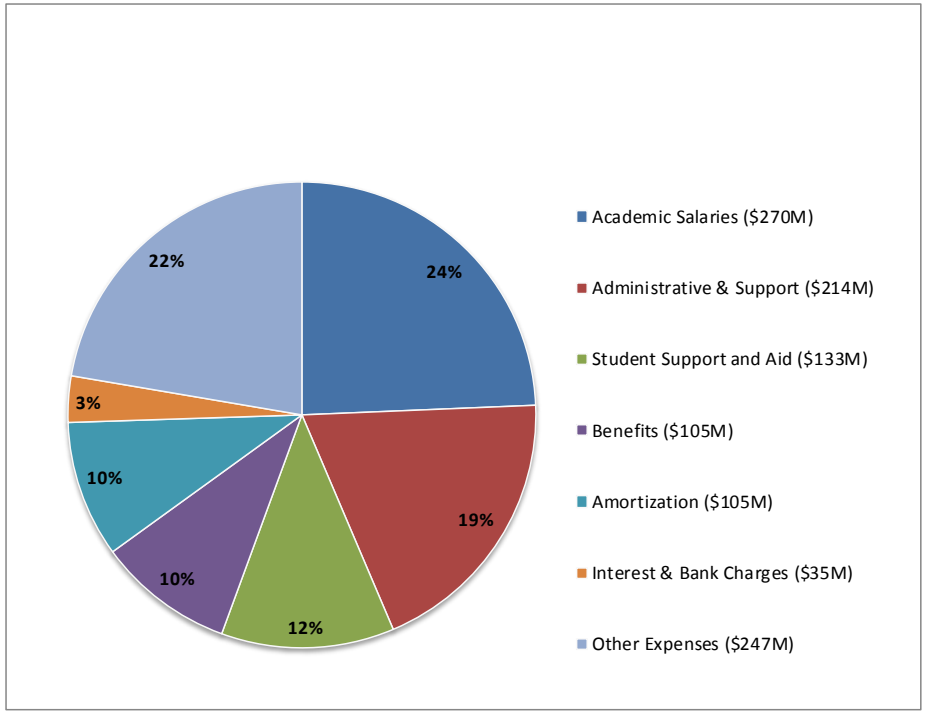
* On an “Award basis”, research grants have decreased in FY13 to $ 232M, vs. $ 253.6M in FY12 (and $ 285.9M in FY11) – see page 34 in BOG report.

Total Combined Expenditures (P.28)
FY 2013 - $1.14 billion
FY 2012 - $1.11 billion

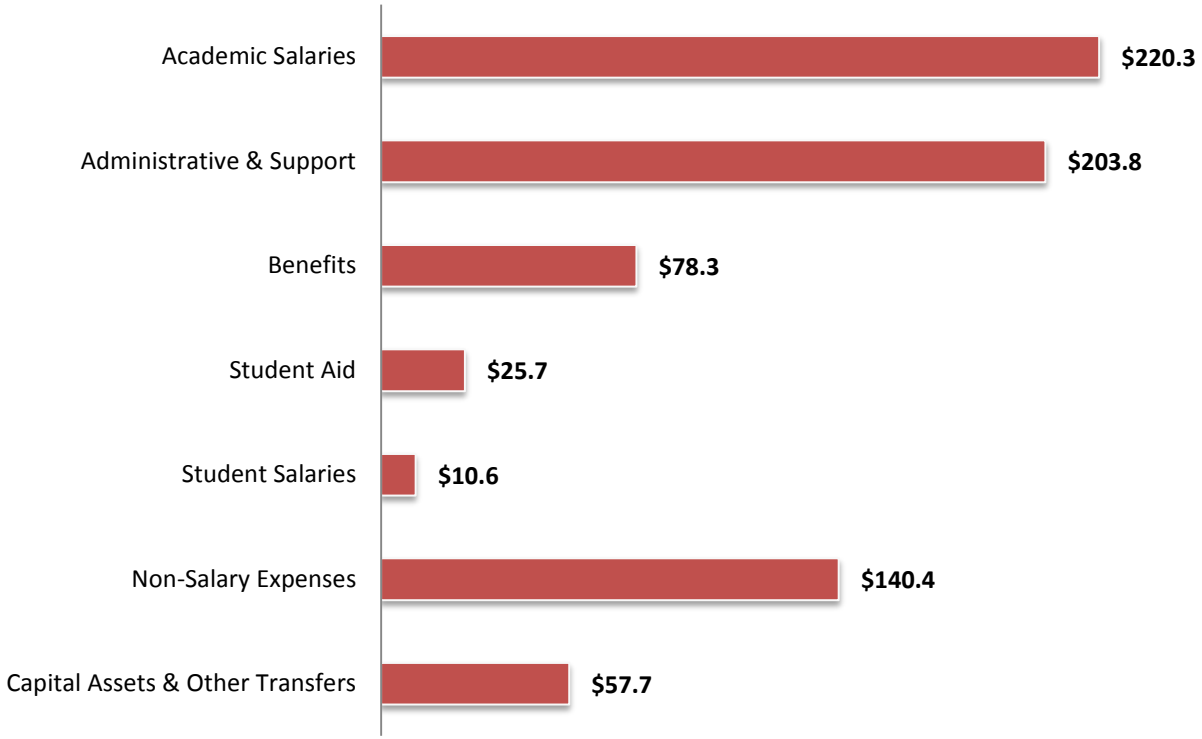
Fiscal Year 2013



Fiscal Year 2012



Sources of Unrestricted Operating Expenses (Including Transfers) By Type (P.38) ($736.8 million)



Deferred Maintenance (DM) (P.41)

- 2007 CREPUQ study estimated matter at $835M
- MESRST will continue to fund approximately $28M over next 10 years
- Annual capital grant ($19.6M) insufficient to deter DM from increasing
- Campus infrastructure continues to decay at an accelerating rate
- Significant resources required to address current backlog and to avoid future backlog
- Borrowing is an option, but there are currently no re-payment solutions

Pension Liability

	April 30,		May 1,
	2013	2012	2011
	$	$	$
Accrued pension liability	**(355,045)**	(318,081)	(327,798)
Fair value of Plan assets	**242,000**	254,913	270,859
Plan deficit	**(113,045)**	(63,168)	(56,939)
Unamortized net actuarial loss [(i)]	**71,146**	13,989	6,349
Obligation for defined benefits	**(41,899)**	(49,179)	(50,590)

(i) GAAP changes have been proposed for FY15, which may no longer recognize unamortized actuarial losses. If accepted, the unamortized net actuarial loss will result in an increase to the accumulated (operating) GAAP deficit (i.e. $288M to $359M), all things being equal.

Indicators / Trends

- Attracting more students
- Overall fundraising campaign>$1 billion
- MESRST funding for deferred maintenance maintained.....for now
- McGill Investments in student aid continues
- S&P maintained our bond rating of AA-, one notch above Quebec (A+), despite Moody's downgrade

Challenges

- Compensation pressures (current & future), including Pension and pay equity costs
- Risk of no MESRST re-investments in FY15; Gov't confirmed that it will not balance its budget
- Deferred maintenance (DM) backlog, with no additional funding in sight – Quebec debt to GDP: 54% (#1 in Canada)
- Investments required in IT / telephony
- Federal indirect cost funding not sufficient to absorb related costs

Future Developments / Outlook

- MESRST funding for “GAAP” liabilities or Pay equity still unknown
- Capital requirements still not fully funded by MESRST; continued pressure on operating funds
- Funding for new buildings / major renovations limited due to government cutbacks
- Regulations / additional burden not letting down from MESRST & other ministries; costly on system

Questions and comments