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:	December 3, 2014
DOCUMENT #:	D14-23
ACTION REQUIRED:	☒ INFORMATION ☐ APPROVAL/DECISION
ISSUE:	This presentation will highlight relevant elements of the University's Financial Report for 2013-2014.
BACKGROUND & RATIONALE:	The Financial Report to the Board of Governors is circulated to Senate for information. 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: 2013-2014 Annual Financial Report to the Board of Governors Appendix B: Annual Report on the Financial State of the University: PowerPoint Presentation

D14-23 Appendix A

2013-2014

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.

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING | McGILL UNIVERSITY
2013-2014 FINANCIAL REPORT TO THE BOARD OF GOVERNORS

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PART I

Financial Report to the Board of Governors

OVERVIEW

The Mission of McGill University is the advancement of learning through teaching, scholarship and service to society by offering to outstanding undergraduate and graduate students the best education available, by carrying out scholarly activities judged to be excellent when measured against the highest international standards, and by providing service to society in 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, 2014 and includes the audited financial statements of the University as at April 30, 2014, 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 the Ministère de l'Enseignement supérieur, de la Recherche et de la Science (MESRS; previously MELS/MESRST) 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 by the following performance highlights from FY 2013-2014:

- The editors of Canada's Top 100 Employers named McGill one of Montreal's Top Employers for the fifth consecutive year. The Sustainability Projects Fund was highlighted as one of the reasons behind McGill's selection. Université de Montréal was the only other Montreal higher education institution on the list.

- McGill placed 21st in the QS World University rankings, down from 18th the previous year. This was the tenth year that McGill placed in the QS top 25.

- For the ninth consecutive year, *Maclean's* named McGill the number-one Canadian medical-doctoral university.

- In November 2013, Standard & Poor's Ratings Services re-affirmed McGill's credit rating as AA- (stable).

- In February 2014, Moody's Investor Service re-affirmed McGill's credit rating as Aa2 (stable).

- McGill placed 58th in the Academic Rankings of World Universities (also known as the Shanghai Rankings), up from 63rd place last year. This is McGill's highest result since these rankings were established in 2003.

OPERATING HIGHLIGHTS:

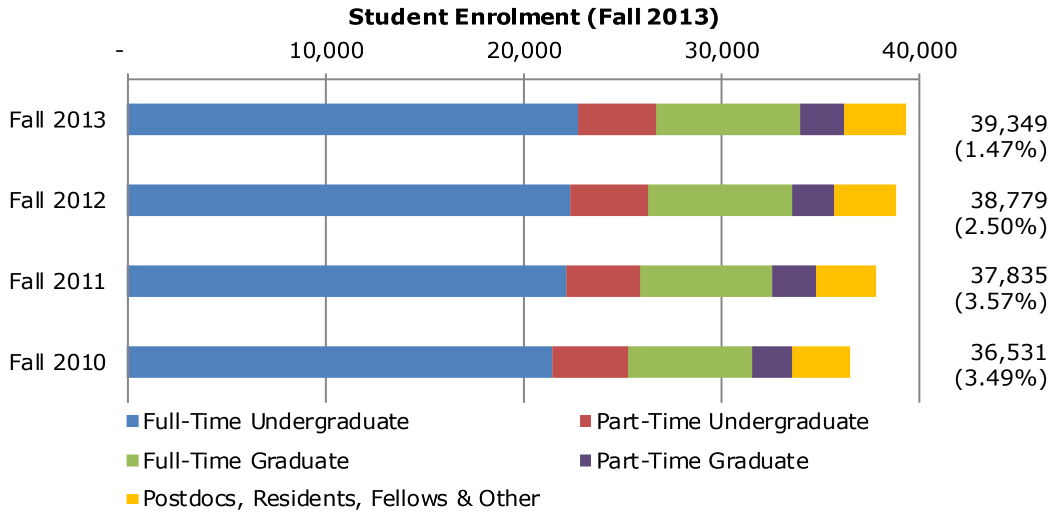
- Enrolment (Fall 2013) at 39,349 students; +1.47% over Fall 2012
- Fall 2012: +2.50% over Fall 2011
- Fall 2011 at 37,835 students; growth of approximately 1,514 (4.0%) over the last two years
- Tenure Track Academics total approximately 1,674; net change of + 327 over the fiscal periods 2002 to 2014
- Approximately 1,000 academic hires over the period 2003 to 2014

STUDENTS

Total student enrolment at McGill in the Fall of 2013 surpassed the 39,300 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 represent 16%, while the remaining 8% of the population are students associated with post-doctoral studies, medical residents and fellows and other categories of students. Graduate students (full and part-time) accounted for 24% of the total.

Overall, enrolment grew by 1.47% year-over-year (prior year: 2.50%), 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 2013 enrolments.

Enrolment by Faculty (Full-time and Part-time) – Fall 2013

	# of Students	Percentage of Student Population
Agricultural & Environmental Sciences	1,937	4.9%
Arts	8,430	21.4%
Arts & Science (B.A. & B.Sc.)	620	1.6%
School of Continuing Studies	4,641	11.8%
Dentistry	243	0.6%
Education	2,951	7.5%
Engineering	4,509	11.5%
Law	880	2.2%
Medicine (i)	5,477	13.9%
Desautels Faculty of Management	2,975	7.6%
Schulich School of Music	857	2.2%
Religious Studies	108	0.3%
Science	5,721	14.5%
	39,349	100.0%

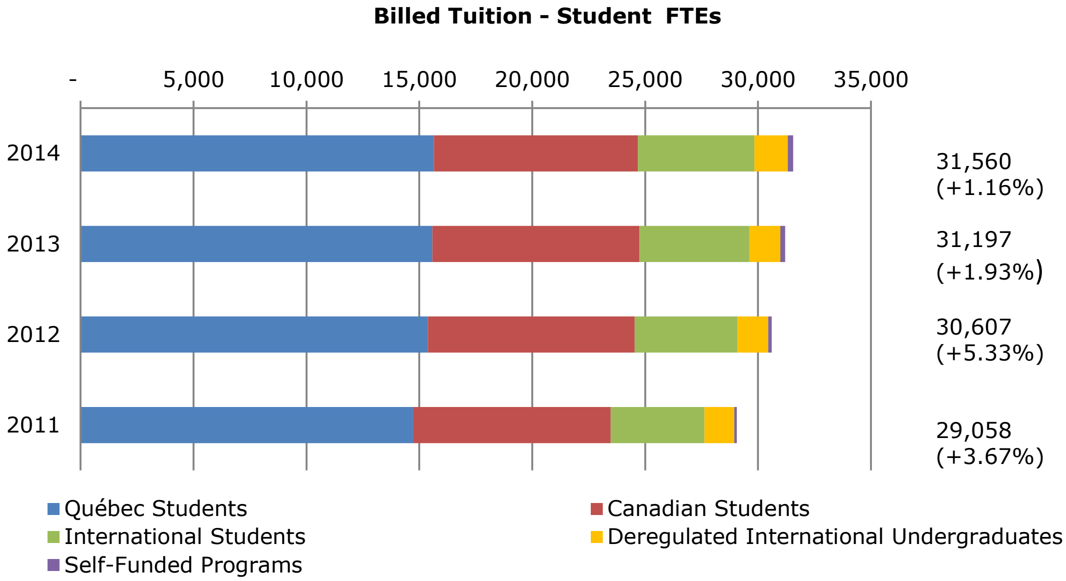
Source: McGill Enrolment Services/ Planning and Institutional Analysis

(i) Total enrolment in Medicine includes 888 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 742 students, those in the graduate program total 2,127 students, post-docs total 362 students, and residents and fellows make up the remaining 1,358 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 four 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 MESRS funding model funds students at various amounts based on their discipline of study. For example, in fiscal 2014, an undergraduate student in Arts (classified as *Lettres* by MESRS) is currently funded at an annual amount of $5,314. On the other hand, an undergraduate student in Dentistry (classified as *Médicine dentaire* by MESRS) is currently funded at $30,427 per year.

Tuition and Fees



Source: McGill Financial Services

Overall, the total numbers of full-time equivalent (FTE) students was slightly below budget by approximately 0.15%. The overall number of international FTEs (excluding those exempt from the supplement) increased by 3.05% to 4,935 (compared to a plan of 4,789) from 4,721 in the prior year as the majority of this increase occurred in the non-deregulated international student population.

The tuition fee (regulated by MESRS) for a full-time Québec student in 2013-14 was $2,224 ($74.14 per credit), an increase of 2.6% from fiscal 2013. The fee for a full-time out-of-province Canadian student was $6,235 ($207.83 per credit including supplements), a 6.4% increase from fiscal 2013. The fee for an International student in 2013-14 ranged from $14,949 ($498.30 per credit) to $36,250 (for the MBA or $1,208.33 per credit) including supplements, depending on the program. Currently, MESRS 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 seven 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 $83.1 million (2013: $78.3 million), representing 37% 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 $12,360/year/student), further to bilateral agreements between Québec and those countries. All MBA (except students admitted prior to 2010) and Masters in Manufacturing Management students pay a self-funded tuition rate, as well as students registered in distance programs outside of Quebec, 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 ($2,224) 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 $43 million in fiscal 2014 (2013: $36.8 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 MESRS funding for each of these students will decrease by an incremental 20%, resulting in no funding for these students subsequent to the fifth year (fiscal 2014). All support and building operating grants will not be affected by this new policy.

MESRS has defined *Frais Institutionnels Obligatoires* (FIOs), which essentially represent those administrative fees charged by universities to students in addition to tuition. MESRS’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, MESRS has dictated otherwise and required a change in how these students are charged. The annual increase for McGill in 2013-14 was limited to 2.6%, unless specific agreements are acknowledged by both McGill and the affected student groups/representatives.

The total “FIO’s” revenue amounted to $32.4 million (2013: $31.0 million). In addition to FIOs, other student fees charged for non-credit courses, student services, Athletics, and other activities totaled $21.0 million (2013: $19.9 million). These fees, combined with tuition, totaled $245.2 million (2013: $228.6 million) and represent 32.0% (2013: 31.6%) 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 MESRS):

New programs by Faculties

Arts	B.A.	European Literature and Culture (18 cr.) Indigenous Studies; minor concentration; 18 cr.
	M.A.	Economics; Population Dynamics; Non-Thesis (45 cr.) Sociology; Population Dynamics; Non-Thesis (45 cr.) Art History; Gender and Women's Studies; Thesis; 45 cr.
	Ph.D.	Sociology; Population Dynamics (0 cr.)
		McGill Summer School in Greece
School of Continuing Studies		Graduate Certificate in Professional Accounting (24 cr.) Professional Development Certificate; Aviation Management Consulting (29-30.5 CEUs) Professional Development Certificate; Digital Content and Community Management (22.5 CEUs) Professional Development Certificate; Management Consulting (23.5 CEUs)
Education	M.A.	School/Applied Child Psychology Project; Non-Thesis (60 cr.)
		Certificat d'études supérieures; Enseignement Immersif (15 cr.)
Engineering	B. Eng.	Major in Bioengineering
Management	B. Com.	Strategic Management; Major (30 cr.) General Management; Concentration in Managing for Sustainability; Major Managing for Sustainability; Major (39 cr.)
	Ph.D.	Management; Environment (0 cr.)
		Graduate Certificate in Professional Accounting (24 cr.)
Medicine	M.Sc.	Experimental Surgery; Surgical Education, Thesis (45 cr.) Experimental Surgery; Surgical Innovation; Thesis (45 cr.) Experimental Surgery; Thesis (45 cr.) Public Health; Population Dynamics; Non-Thesis (60 cr.) (applied); Nursing; Primary Care Nurse Practitioner; Non-Thesis (45 cr.) (applied); Nursing Services Administration; Non-Thesis (49 cr.) (applied); Nursing; Nursing Education; Non-Thesis (49 cr.) (applied); Nursing; Neonatology Nurse Practitioner; Non-Thesis (45 cr.) (applied); Global health Direct Entry; Non-Thesis (58 cr.) (applied); Nursing; Global Health Clinical Nurse Specialist; Non-Thesis (51 cr.) (applied); Nursing; Direct Entry Nursing; Non-Thesis (55 cr.) (applied); Nursing; Clinical Nurse Specialist; Non-Thesis (49 cr.)
	Ph.D.	Epidemiology; Population Dynamics (0 cr.)
Music	B. Mus.	Music; Jazz; Faculty Program (123 cr.)
Science	B.Sc.	Biology; Quantitative Biology; Honours (74-79 cr.)

Program retirements by Faculties

Arts	B.A.	Liberal Arts Component; Joint honours (36 cr.) Middle East Studies; Major Concentration (36 cr.) Middle East Studies; Honours (60 cr.) Middle East Studies Component; Joint Honours (36 cr.) Middle East Studies; Minor Concentration (18 cr.) Middle East Languages; Minor Concentration (18 cr.) Islamic Studies; Minor Concentration (18 cr.)
Management		Graduate Diploma; Public Accountancy (30 cr.)
Medicine	M.Sc.	(applied); Nursing; Non-Thesis (45-58 cr.)
Science	B.A.	(Applied); Chemistry; Non-Thesis (45 cr.)
	B.A. & Sc.	Earth, Atmosphere and Ocean Sciences; Major Concentration
	Ph.D.	Biology; Developmental Biology (0 cr.)

Source: Office of the Deputy Provost (Student Life and Learning)

Graduation

Degrees are awarded at two periods during the academic year: Fall and Spring Convocations. The following chart depicts the total number of degrees awarded for the two terms of the following academic years.

Graduation	2012-2013	2011-2012
Undergraduate	5,863	5,554
Masters	1,624	1,541
Doctoral	483	371
Certificates & Diplomas (Grad)	646	577
CE Non-credit Certificates	228	250
	8,844	8,293

Degrees Awarded, by Faculty	2012-2013	2011-2012
Agricultural & Environmental Sciences	489	402
Arts	1,977	1,820
Arts & Science (B.A. & Sc.)	124	93
School of Continuing Studies	1,089	1,055
Dentistry	72	67
Education	750	684
Engineering	858	821
Law	210	220
Medicine	970	944
Desautels Faculty of Management	820	798
Schulich School of Music	206	205
Religious Studies	10	11
Science	1,269	1,173
	8,844	8,293

Source: McGill Enrolment Services/ Planning and Institutional Analysis

International Students

In 2013, McGill welcomed over 8,800 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 2013
1. USA	2,198
2. France	1,317
3. China	1,045
4. India	404
5. Saudi Arabia	309
6. Iran	250
7. South Korea	246
8. Pakistan	235
9. United Kingdom	206
10. Germany	152
11. Japan	144
12. Turkey	134
13. Bangladesh	129
14. Mexico	121
15. Brazil	84
16. Australia	79
17. Italy	72
18. Switzerland	62
18. Taiwan	62
19. Egypt	61
19. Israel	61
19. Lebanon	61
20. Colombia	57
Sub-total:	7,489

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:

- Schulich School of Music - proposed student exchange agreements
- The Hague Royal Conservatory, The Hague, The Netherlands
- Guildhall School of Music & Drama, London, England, United Kingdom
- Queensland Conservatorium, Griffith University, Brisbane, Queensland, Australia
- Royal Northern College of Music (RNCM), Manchester, England, United Kingdom

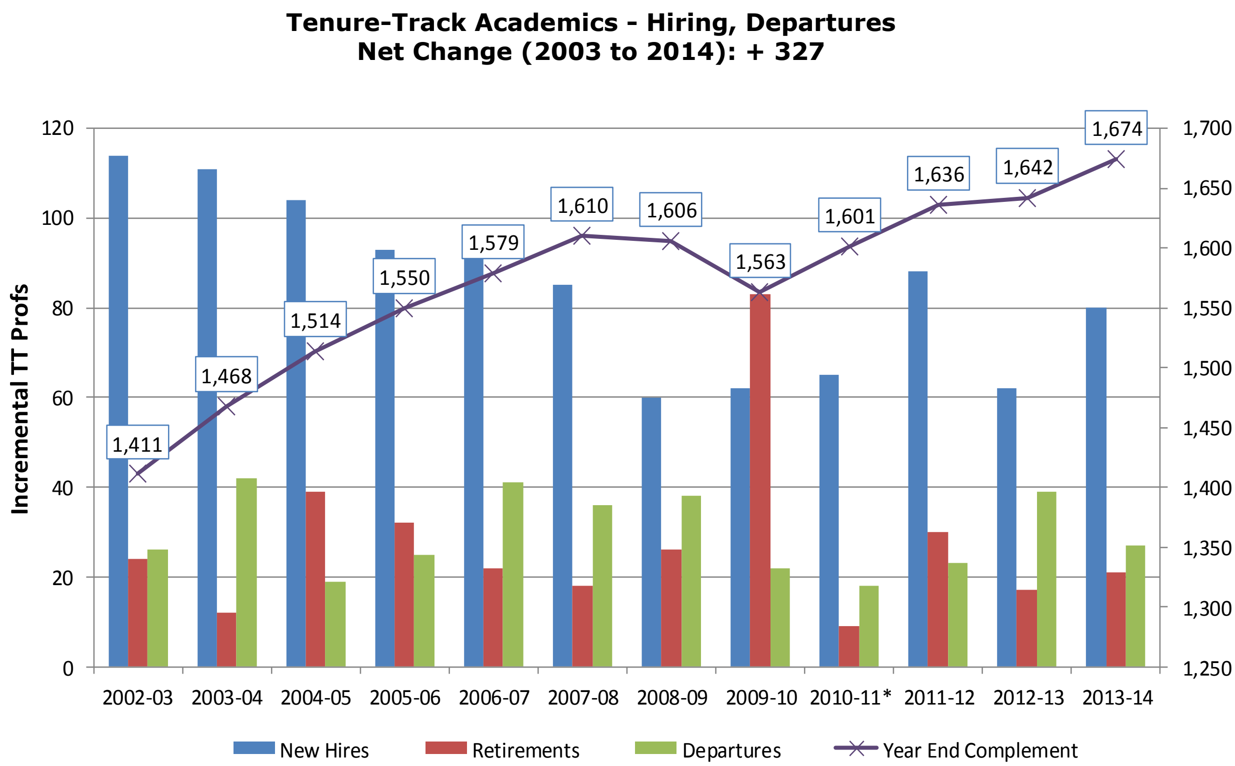
Student Mobility Partnership approved:

- Shantou University, Guangdong, China

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 1,674, 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 2014, a total of 85 new tenure-track academics were appointed, ranging from assistant to full professors across the various faculties. Five tenure-track librarians were also appointed, as outlined in the following table.

New Tenure-Track by Faculty/Unit	FY2014	FY2013
Agricultural & Environmental Sciences	4.0	4.5
Arts	13.0	14.0
Dentistry	0.5	-
Education	8.0	4.0
Engineering	11.0	5.0
Law	3.0	2.0
Desautels Faculty of Management	8.0	4.0
Medicine	16.5	21.0
MSE (multi-Faculty)	0.5	0.5
Schulich School of Music	2.0	3.0
Religious Studies	1.0	-
Science	12.5	4.0
Faculties	**80.0**	**62.0**
Librarians	5	2.0
	85.0	**64.0**

Source: McGill Office of Associate Provost (Budget & Resources)

Other Academic Staff (as at May 1st)	2014		
	Full-Time	Part-Time	Total
Research Associates & Assistants	388	68	456

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 2014 was no exception, as a number of them were recognized for their distinctive work and accomplishments as highlighted below:

Recipient	**Distinction**
Brenda Milner (Neurology & Neurosurgery)	• Balzan Prize • Kavli Prize
Alan Evans (Neurology & Neurosurgery)	• Margolese National Brain Disorders Prize • Top Discoveries of the Year (*Québec Sciénce* Magazine)
Guy Rouleau (Neurology & Neurosurgery)	Prix d'excellence (Collège des médecins du Québec)
Nahum Sonenberg (Rosalind and Morris Goodman Cancer Research Centre)	• Wolf Prize • McLaughlin Medal (Royal Society of Canada)
Graham A.C. Bell (Biology)	Foreign Honorary Members of the American Academy of Arts and Sciences
Ehab Abouheif (Biology)	Steacie Memorial Fellowship (NSERC)
Aashish Clerk (Physics)	Steacie Memorial Fellowship (NSERC)
Matt Dobbs (Physics)	• Herzberg Medal (Canadian Association of Physicists) • Dunlap Prize (Canadian Astronomical Society)
Fred Genesee (Psychology)	Adrien Pinard Award (Société Québécoise pour la Recherche en Psychologie)
Frances Aboud (Psychology)	Award for Distinguished Contributions to the International Advancement of Psychology (Canadian Psychological Association)
Roger Prichard (Parasitology)	Bayer Award for Excellence in Research, Teaching or Service in Veterinary Parasitology (World Association for Advancement of Veterinary Parasitology)
Charles Taylor (Philosophy)	Benjamin E. Lippincott Award (American Political Science Association)
Chris Buddle (Natural Resource Sciences)	Best Practices and Pedagogical Innovators Award
Mark Eisenberg (Medicine)	Canadian Academy of Health Sciences Fellowship
Laurence Kirmayer (Psychiatry)	Canadian Academy of Health Sciences Fellowship
Greg Matlashewski (Microbiology & Immunology)	Canadian Academy of Health Sciences Fellowship
Michael Pollak (Oncology)	• Canadian Academy of Health Sciences Fellowship • O. Harold Warwick Prize (Canadian Cancer Society)

Recipient	**Distinction**
Hosahalli Ramaswamy (Food Science & Agricultural Chemistry)	Canadian Institute of Food Science and Technology Fellowship
Suzanne Fortier (Principal & Vice-Chancellor)	Canadian Women Pioneers Awards (Status of Women Canada)
Catherine Potvin (Biology)	Canadian Women Pioneers Awards (Status of Women Canada)
Mark A. Wainberg (McGill AIDS Centre)	Top Canadian Achievements in Health Research Award (CIHR and the Canadian Medical Association Journal)
Marie Dagenais (Dentistry)	Distinguished Service Award Association of Canadian Faculties of Dentistry
Jeffrey Mogil (Psychology)	Frederick W.L. Kerr Basic Science Research Award American Pain Society (APS)
Richard King (Music Research)	GRAMMY, Best Engineered Album, Non-classical (The Recording Academy)
Robert Zatorre (Neurology & Neurosurgery)	Hugh Knowles Prize for Distinguished Achievement (Knowles Hearing Center)
Peter Enright (Farm Management & Technology)	Jim Beamish Award (Canadian Society of Bioengineering)
Arvind Sharma (Religious Studies)	Mahatma Gandhi Award for the Advancement of Religious Pluralism (Hindu American Foundation)
Derek G. Gray (Chemistry)	Marcus Wallenberg Prize (Marcus Wallenberg Foundation)
Vassilios Papadopoulos (Medicine)	Michel Sarrazin Award (Club de Recherches Cliniques du Québec)
Roussos Dimitrakopoulos (Mining & Materials Engineering)	Mineral Economics Award (American Institute of Mining, Metallurgical and Petroleum Engineers)
Frederick Andermann (Neurology & Neurosurgery)	National Order of Quebec (Government of Quebec)
Andrew Piper (Languages, Literatures & Cultures)	New Directions Fellowship (Andrew W. Mellon Foundation)
Michael Pollak (Oncology)	O. Harold Warwick Prize (Canadian Cancer Society)
Vicky Kaspi (Physics)	Peter G. Martin Award (Canadian Astronomical Society)
Michel Tremblay (Biochemistry)	• Prix du Québec (Government of Quebec) • Robert L. Noble Award (Canadian Cancer Society)
Phil Gold (Medicine)	Prix du Québec (Government of Quebec)

Recipient	Distinction
Ernesto Schiffrin (Medicine)	Robert Tigerstedt Award (American Society of Hypertension)
Isabelle Daunais (French Language and Literature)	Royal Society of Canada Fellowship
Elisabeth Gidengil (Political Science)	Royal Society of Canada Fellowship
Qutayba Hamid (Medicine)	Royal Society of Canada Fellowship
Daniel Levitin (Psychology)	Royal Society of Canada Fellowship
Prakash Panangaden (Computer Science)	Royal Society of Canada Fellowship
Bernard Robaire (Pharmacology & Therapeutics)	Royal Society of Canada Fellowship
Moshe Szyf (Pharmacology & Therapeutics)	Royal Society of Canada Fellowship
Thomas Szkopek (Electrical & Computer Engineering)	TechConnect Innovation Award (TechConnect)
Rowan Barrett (Biology)	Theodosius Dobzhansky Prize (Society for the Study of Evolution)
Céline Le Bourdais (Sociology)	Thérèse Gouin-Décarie Award (Acfas)
Lorenzo Ferri (Oncology)	Top Discoveries of the Year (*Québec Science* Magazine)
Yashar Hezaveh (Physics)	Top Discoveries of the Year (*Québec Science* Magazine)
Jens C. Pruessner (Psychiatry)	Top Discoveries of the Year (*Québec Science* Magazine)
George Thanassoulis (Medicine)	Top Discoveries of the Year (*Québec Science* Magazine)
Lynne McVey (Nursing)	Women of Distinction Awards (Women's Y Foundation)
Marianna Newkirk (Medicine)	Women of Distinction Awards (Women's Y Foundation)

Source: Communications Services (Communications & External Relations), 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 3,471 individuals work to support the academic and research mission of the University, as at May 1, 2014, highlighted below:

	2014		
	Full-Time	Part-Time	Total
Management	1,604	65	1,669
Clerical	799	51	850
Technical	369	38	407
Trades/Services	397	44	441
Library Assistants	84	-	84
Other (nurses, residences, Gault Estate)	19	1	20
	3,272	199	3,471

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, 2014

The reported revenue and expenditures represent twelve months of operations ended April 30, 2014.

Background– Financial Reporting

Fiscal 2014	Full fiscal (12 month) year; including 12 month comparative amounts
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

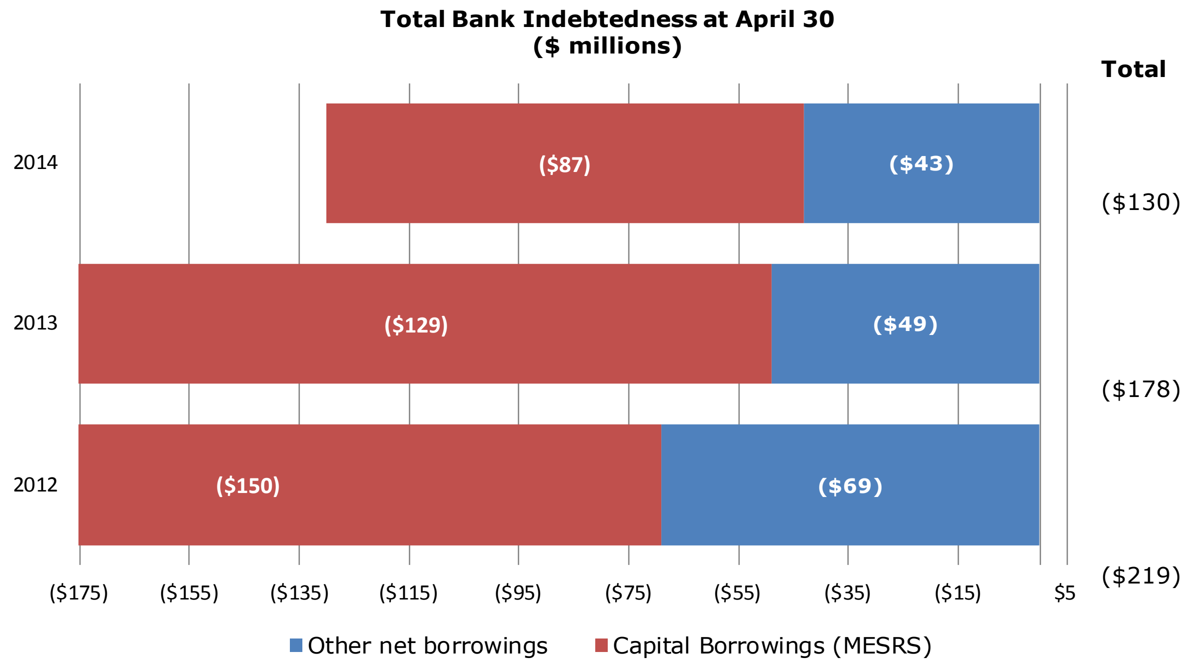
Generally Accepted Accounting Principles (GAAP)

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

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, 2014, McGill had a bank indebtedness of $129.9 million, as compared to $178.2 million one year earlier. Operating Bank indebtedness, net operating of cash and short-term investments excluding endowment investments of $76.0 million (2013: $28.3 million) held for operations, was $99.3 million (2013: $150.9 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 supérieur, de la Recherche, et de la Science* (MESRS) to McGill. As at April 30, 2014, the total capital borrowings owed from MESRS amounted to $87.2 million (2013: $129.2 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 MESRS. 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 MESRS. The timing of the issuance of long-term debt to reimburse the temporary borrowings is dictated by MESRS.



Source: McGill Financial Services

2. Total receivables

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

Short-term receivables total $352.6 million (2013: $411.9 million), including $156.6 million (2013: $166.5 million) relating to research grants and contracts and $94.2 million (2013: $159.7 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)	2014	2013
Operating	39.9	37.3
Student Loans	4.0	3.5
Investment Income	1.9	1.6
Government Grant	55.9	43.3
Capital Grant	94.2	159.7
Grants & Contracts Related to Research	156.6	166.5
Total:	352.6	411.9

The Government (MESRS) grant receivable of $55.9 million relates to the operating grant.

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

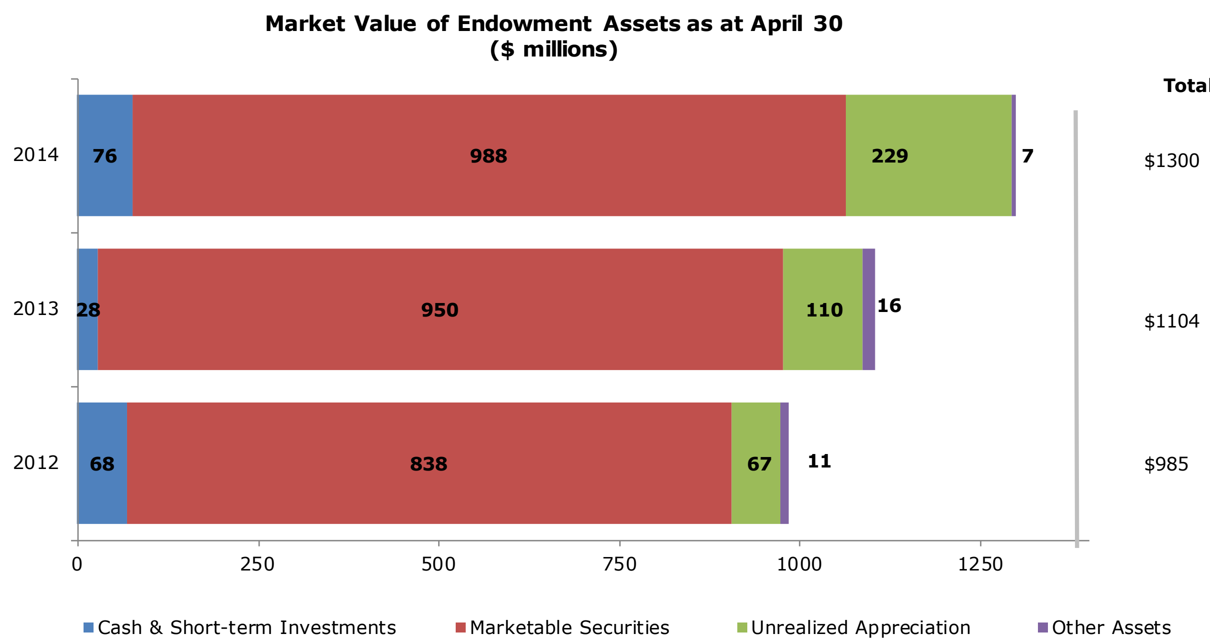
A total of $42.1 million (2013: $42.2 million) in research grants and contracts receivables exists at the end of the year. In conforming to GAAP, a receivable was recorded relating to current and prior year capital grants (MESRS) amounting to $736.1 million (2013: $657.1 million). This amount effectively includes $700.1 million associated with the long-term debt issued on behalf of MESRS (i.e. total debt, excluding $150 million of McGill Debentures).

Other loan receivables total $11.8 million (2013: $13.5 million) and include amounts owed by third parties relating to construction projects.

3. Marketable securities at market value (Financial Statements, Note 18)

Total marketable securities amount to $1,270.1 million (2013: $1,116.8 million) and includes $1,217.0 million (2013: $1,059.7 million) relating to endowment investments. In addition, $46.0 million (2013: $48.3 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 $7.1 million (2013: $8.8 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 $1,299.5 million (2013: $1,103.9 million), including the $1,217.0 million in marketable securities mentioned above (see Section Endowment Gifts, page 35). The following chart outlines the significant assets included in the $1,299.5 million.



Source: McGill Audited Financial Statements

Other assets, totaling $6.6 million (2013: $16.0 million) include accrued income, staff mortgages, and other receivables.

4. Capital assets (Financial Statements, Note 7)

Total capital assets amount to $1.306 billion (2013: $1.275 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 $140.7 million (2013: $159.2 million), of which $61.2 million (2013: $85.4 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 Douglas Hall residence ($7.7 million), Strathcona Anatomy & Dentistry ($6 million), McIntyre Medical Building ($4.4 million), the Bronfman Building ($3.9 million) and Redpath Library Building ($3.2 million) with others under $3 million each.

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

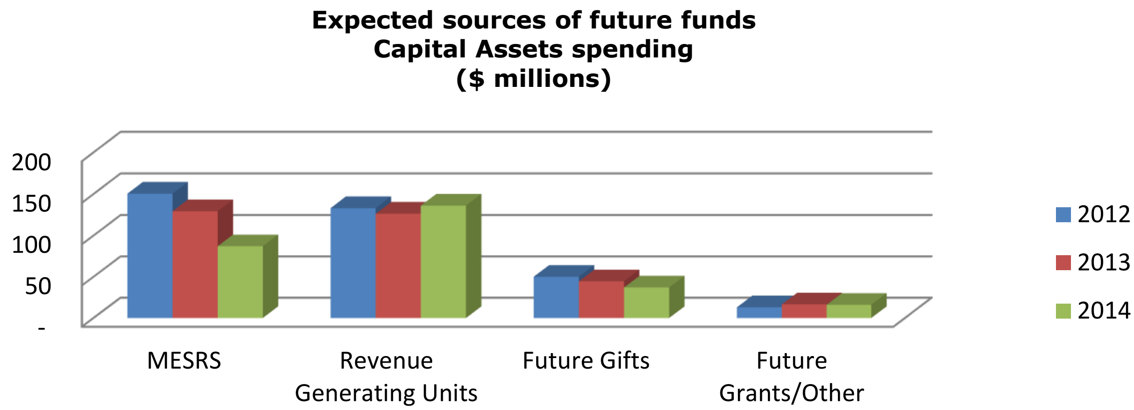
($ millions)	2014	2013	
Land and Land Improvements	0.7	1.2	0.5%
Buildings and Renovations	61.2	85.4	43.1%
Leasehold Improvements	7.6	-	5.3%
Equipment (Including Intangibles)	56.7	58.2	39.9%
Library Books	15.8	13.9	11.1%
Other Assets	0.1	0.5	0.1%
Total:	142.1	159.2	100.0%

The majority of the funding for these capital projects is from the Québec Government, the Federal Government, 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, 2014, temporary capital asset borrowings on behalf of MESRS amounted to $87.2 million (2013: $129.2 million) and related to approved outstanding capital and other specific capital grants. A total of $36.6 million (2013: $44.5 million), is expected from future donations on buildings such as the Life Sciences Complex, 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, 2014, a total of $137.5 million (2013: $126.3 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 $305.2 million (2013: $354.2 million), including accounts payable/accruals totaling $185.9 million (2013: $170.0 million). The increase in accruals includes an estimate relating to severances associated with the voluntary retirement program (i.e. signed agreements to June 2nd) as well as provisions for the potential future pay equity settlement which has yet to be finalized with respect to the years 2001 to 2014.

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 $25.1 million (2013: $24.6 million) also forms part of this category and includes tuition fees paid for the Summer 2014 semester.

The short-term portion of the long-term debt, as described in Section 7 below, totals $94.2 million (2013: $159.7 million) and is expected to be re-financed by MESRS in fiscal 2015. MESRS has not yet confirmed refinancing for fiscal 2015.

6. Deferred contributions (Financial Statements, Notes 10 and 11)

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, 2014 amounted to $413.9 million (2013: $411.5 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, 2014 total was $825.1 million (2013: $811.0 million) and reflects increased funding for Capital Assets. These revenues will be recognized in the future as the underlying assets are amortized annually.

7. Long-term debt (Financial Statements, Note 12)

Total MESRS issued debt increased by a net $59.9 million (2013: net $69.0 million) as a result of new *Financement Québec Promissory Notes* (Notes) issued by MESRS totaling $219 million (2013: $192.0 million). This was in part used to repay matured bonds and repayment of previously issued notes totaling $159.1 million (2013: $131.1 million). Other bank debt repayments amounted to $0.5 million (2013: $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, 2014, 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 13)

In conformity with GAAP, compensation related liabilities have been recorded. These include pension obligations that have been confirmed by actuaries to total $29.3 million (2013: $41.9 million), and post-employment benefits of $120.4 million (2013: $118.8 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 $12.5 million. See Note 13 for further pension plan details.

9. Net Assets (Financial Statements, Note 14 and 15)

Net assets in a not for profit environment represents capital which is invested in assets and/or surpluses (deficits) pertaining to core missions. 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, 2014, McGill had a balance of $240.3 million (2013: $233.7 million) in Invested in Capital Assets, $1,248.0 million (2013: $1,054.8 million) associated with Externally Restricted balances associated with Endowments, $66.5 million (2013: $58.1 million) of Internally Restricted balances, of which $34.4 million (2013: $34.4 million) related to Endowments. Finally, a negative $303.8 million (2013: $(315.3) million) in Unrestricted Net Assets balances existed at April 30, 2014. Together, Unrestricted and Internally Restricted Net Assets (excluding Endowments) total $(271.7) million (2013: $(287.5) million) and represent the "accumulated deficit" of the University.

University's GAAP Operating Net Assets as at April 30, 2014 ($ million)

Unrestricted Net Assets	$ (303.8)
Internally Restricted Net Assets	$ 32.0
Net Assets (deficiency) -as at April 30, 2014 (i)	$ (271.8)

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

The fiscal 2014 Net Assets (deficiency balance has decreased as a result of the following factors:

($ millions)

Operating Surplus- Fiscal 2014	$3.2
GAAP adjustment- Pension liability	$12.5
Decrease in Accumulated Operating Deficit:	$15.7

The fiscal 2014 operating surplus of $15.7 million compares favourably to the original $10.7 million fiscal 2014 budgeted deficit, in large part due to revenues exceeding forecast by $34 million offset by a net increase in expenses and inter-fund transfers of $7.5 million, which includes the decrease in the pension obligation of $12.5 million due in part to favorable market performance. The above results include the absorption of the government's second year $19.2 million grant cut, as announced in February 2013. Overall non-salary expenses were somewhat curtailed during the year, offset by specific cost increases relating to pay equity and severances.

10. Statement of Changes in Net Assets

Endowment contributions totaled $41.0 million (2013: $40.0 million) and are now reflected as an increase in Net Assets as part of this statement, as compared to being included in the overall revenue in the past. A summary of total Endowment asset growth is included in the section "Endowment Gifts," page 36 of this report.

The Statement of Changes in Net Assets also includes net investment income earned from Endowment investments resulting in a gain of $145.4 million (2013: gain of $75.7 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 $14.2 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 ended April 30, 2014)

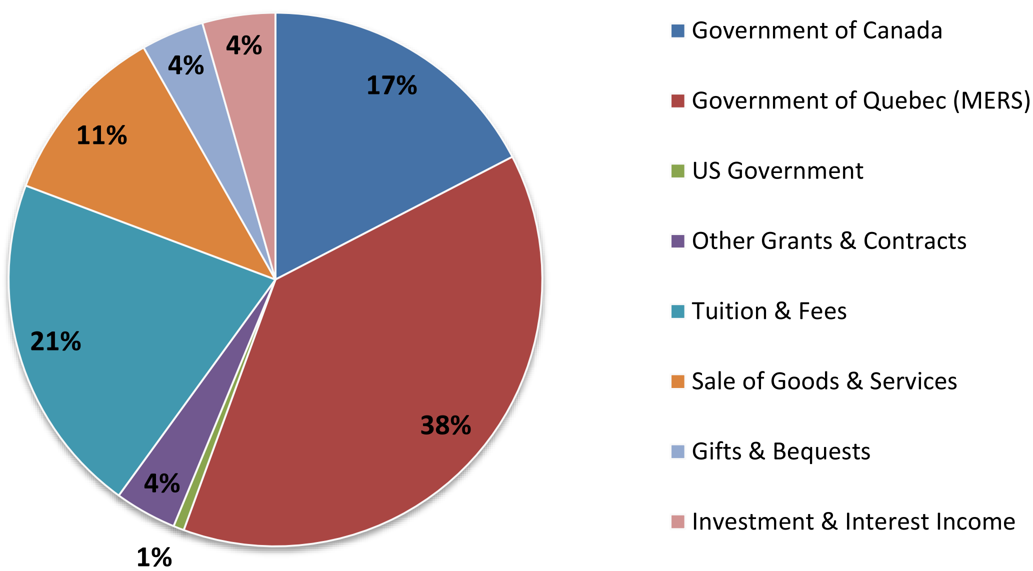
As a result of the newly adopted GAAP changes, the new presentation outlines the change in revenues and expenses for any particular year in the line item *Excess (deficiency) of revenue over expenses, before inter-fund transfer items* which are required to be considered in arriving at the change in Net 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 (2013: $1.16 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 representing the Operating, Restricted, Plant, and Endowment funds 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.

Revenues associated with future expenses (e.g. research or capital) are deferred on the Balance Sheet (see deferred contributions/deferred capital, page 23) 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. GAAP presentation rules require that *Gifts and bequests* for endowed purposes, totaling $41.0 million (2013: $40.0 million), be shown as part of the change in Net Assets (externally restricted for endowed purposes) and not as revenue.

The chart below summarizes all sources of revenues totalling $1.18 billion (2013: $1.16 billion), excluding endowment gifts of $40.4 million (2013: $38.5 million).

Total Combined Sources of Funding
$1.18 billion

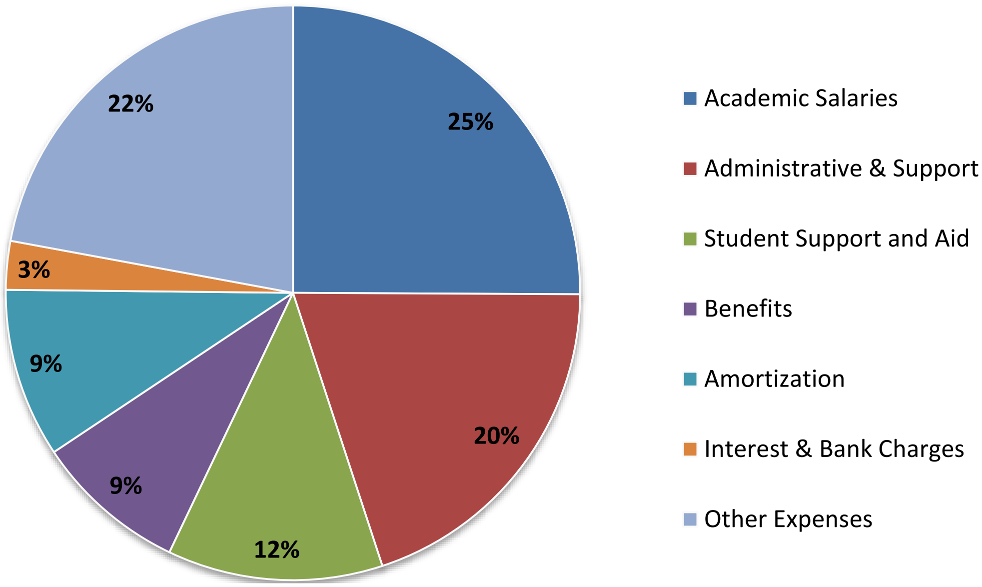


Source: McGill Audited Financial Statements

Total combined expenses incurred to support McGill's activities were $1.15 billion in 2014 (2013: $1.14 billion). 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 MESRS 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.

Total Combined Expenditures
$1.14 billion



Source: McGill Audited Financial Statements

SOURCES OF REVENUES (12 months in fiscal 2014)

1. Total Grant revenue - all sources

Grant revenue used to support the teaching and research mission of the University totaled $691 million in 2014 (2013: $708 million), which represents 58.5% (2013: 60.0%) 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.

	2014				
Purpose	Quebec	Canada	US	Other Sources	2014
Operating	353	-	-	-	353
Capital	58	17	-	-	75
Indirect Costs (Operating)	-	25	-	-	25
Research (Restricted) Grants	30	147	8	24	209
Other Restricted Grants	11	17	-	1	29
Total:	452	206	8	25	691

	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

a) Operating grants

These include amounts received from MESRS 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, MESRS 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 MESRS in fiscal 2014 total $31.9 million (2013: $28.7 million) and $51.1 million (2013: $49.6 million) for Canadian and International students, respectively. MESRS 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, MESRS also "claws-back" $8.6 million (2013: $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 increase in operating MESRS grants reflects the $13.1 million enrolment grant accrual and $8.8 million "tuition loss" compensation and other changes. The fiscal 2013 grant amount included $19.2 million of grant cut, net of $4.5 million "tuition loss" compensation.

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 2014 was $17.6 million (net of $7.2 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%; MESRS 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.

	2014	2013
Federal Grant	24,840	24,851
Amount Due to Hospitals	(7,219)	(7,978)
Total:	17,621	16,873

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 $16.2 million (2013: $16.6 million), classified as "Restricted Grants" (See Section e below), is highlighted below:

	2014	2013
Represented by:		
Direct Funded Research Grants	175,697	202,822
Infrastructure Grants	32,052	19,162
Subtotal:	207,749	221,984
Research Contracts	19,609	17,963
Total grants and contracts:	227,358	239,947

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 $16.2 million (2013: $16.6 million) while the provincial government awarded $2.2 million (2013: $1.9 million) for similar purposes. In addition, the provincial government funded other activities and programs, including $5.5 million (2013: $5.4 million) for teaching costs in the affiliated hospitals, and $4.2 million (2013: $4.2 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 $245.2 million (2013: $228.6 million), which accounts for 21.7% (2013: 20.4%) 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.

	2014	2013
Quebec	34.7	33.8
Canadian (i)	52.1	50.0
International (ii)	104.5	93.9
Non-Credit courses	4.4	4.4
Administrative fees	34	32.1
Student Services & Athletics	15.5	14.5
Total:	245.2	228.6

(i) Including $2.0 million (2013: $1.9 million) in fees exempt from Supplements
(ii) Including $3.8 million (2013: $3.3 million) in fees exempt from Supplements. Total also includes $43.0 million (2013: $36.8 million) of deregulated fees charged to undergraduate students.

The fiscal 2014 total compares to a budget of $239.8 million, which included increases in tuition fees of 2.6%. The variance to budget is partially attributed to increased tuition revenue for deregulated and self-funded tuition as well additional administrative and student fees.

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 $130.7 million (2013: $129.7 million) in revenues, are those generated (from third parties) primarily by ancillary type services, including residences, food services, the Bookstore, and others, totaling $89.3 million (2013: $89.8 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 $52.2 million (2013: $60.9 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 $145.4 million in fiscal 2014 (2013: $75.7 million).

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 17.7% (2013: 12.2%) growth in the fund. Of the total, 3.7% (2013: 4.0%) was generated from new endowment gifts received in the year. See page 35.

Also, as at April 30, 2014, the accumulated unspent investment income, held as part of Endowment Assets amounted to $123.3 million (2013: $97.5 million) and represents 2.8 years (2013: 2.4 years) of current annual distributions.

5. Other sources of revenue

The remaining sources of revenue include research contracts $19.7 million (2013: $18.0 million) and gifts and bequests $45.0 million (2013: $35.4 million), excluding endowment gifts (see Statement of Net Assets).

EXPENSES REQUIRED TO FULFILL THE UNIVERSITY'S MISSION

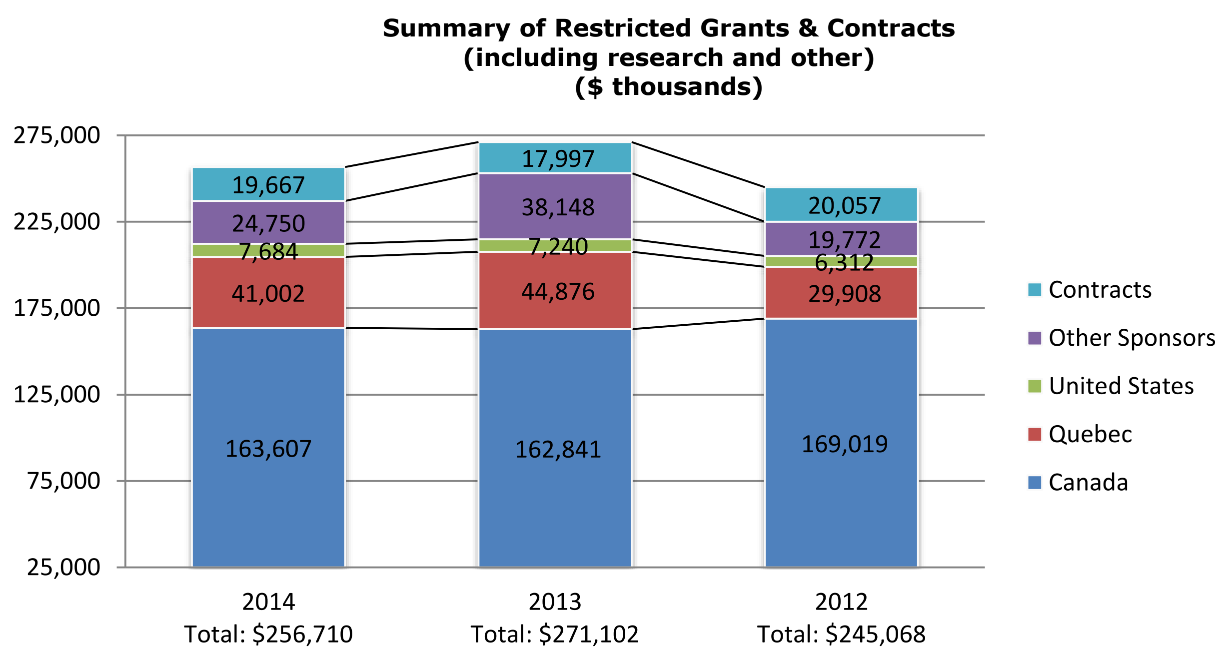
Total Compensation and student support amounted to $756.0 million (2013: $744.2 million). This represents 65.8% (2013: 65.0%) of total expenditures, excluding inter-fund transfers.

Other non-salary expenses, excluding inter-fund transfers, totaled $393.3 million (2013: $400.3 million), comprising of many various expense types, including *Materials, supplies, and publications* $39.8 million (2013: $43.6 million), *Building and Energy costs* totaling $43.8 million (2013: $40.0 million), *Amortization costs* of $109.0 million (2013: $105.9 million), *Interest and bank charges* of $31.3 million (2013: $32.5 million), and other expenditures. See *Statement of Revenue and Expenses* for further details.

RESEARCH AND RESTRICTED ACTIVITIES

Direct funded research totaled $175.7 million (2013: $202.8 million). A further $32.1 million (2013: $19.2 million) was generated in infrastructure grants and $19.7 million (2013: $18.0 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 $204.6 million (2013: $207.7 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)	2014	2013
Federal Government:		
Tri Agencies/Council	$ 117.3	$ 122.9
Canada Research Chairs	$ 21.0	$ 19.8
CFI	$ 17.4	$ 9.0
Other	$ 1.4	$ 6.1
	$ 157.1	$ 157.8
Quebec Government:		
FRSQ/FQNT/FQRSC	$ 25.4	$ 21.5
CFI	$ 10.9	$ 4.4
Other	$ 6.3	$ 7.8
	$ 42.6	$ 33.7
Canadian Foundations & Associations	$ 15.8	$ 16.8
Contracts	$ 15.5	$ 10.6
Other	$ 19.7	$ 13.1
	$ 51.0	$ 40.5
Total:	$ 250.7	$ 232.0

OTHER RESTRICTED FUNDS

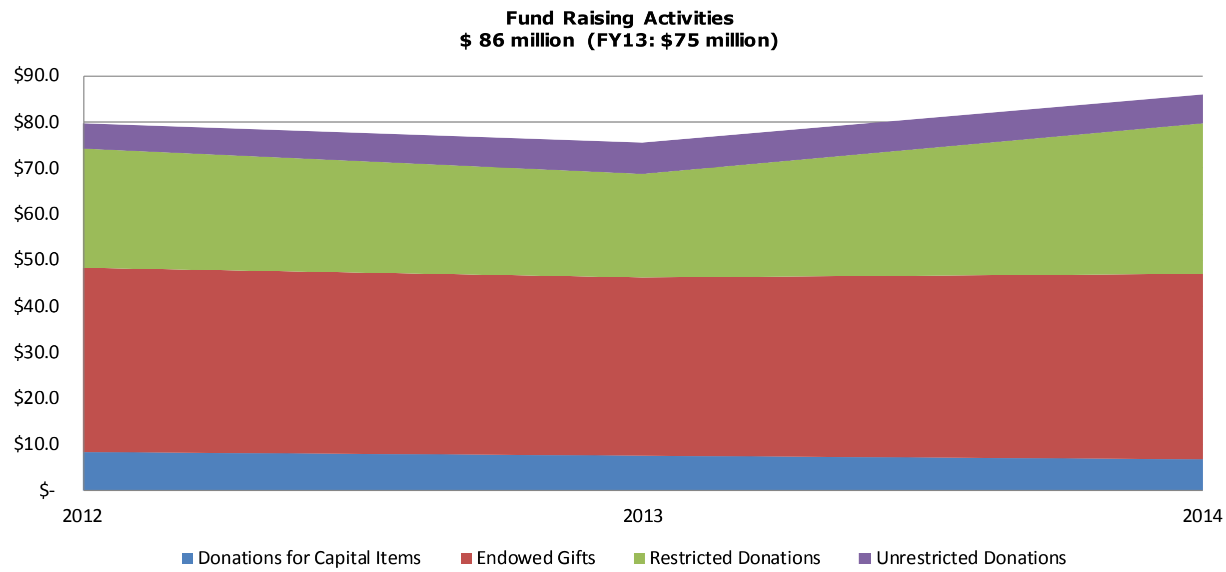
In addition to restricted grants and contracts recognized and included on the previous page, total research and other restricted funding is supplemented by other sources of revenues, including investment income of $40.1 million (2013: $46.6 million), restricted gifts of $32.7 million (2013: $22.5 million), and other sources totaling $6.8 million (2013: $8.8 million). Total sources of revenues available for restricted and research purposes amounted to $336.4 million (2013: $349.0 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 decreased to $321.2 million from a level of $330.1 million in the prior year, prior to inter-fund transfers relating to capital assets of $13.4 million (2013: $19.9 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 $86.0 million (2013: $75.4 million) was received, including gifts in kind. The following chart illustrates all gifts and bequests revenue including endowment gifts of $41.0 million (prior year: $40.0 million) presented in the Statement of Changes in Net Assets over the last three years:



Source: McGill Financial Services

The Annual Report on Private Giving provides comprehensive details of the total gifts and bequests. Campaign McGill, which closed April 2013, generated a total of slightly above $1 billion. For Fiscal 14-15, annual inflow of gifts and bequests is expected to exceed $70 million, with projected annual increases thereafter of $5 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 2014, $44.3 million (2013: $ 40.8 million) was distributed, based on an MIP unit rate of $13.12 (prior year: $12.75).

Overall, the endowment investment returns improved from 2013 levels due to better market conditions. The table below outlines the overall growth in McGill's Endowment Assets, net of $17.1 million (prior year: $14.8 million) of endowment accounts payables.

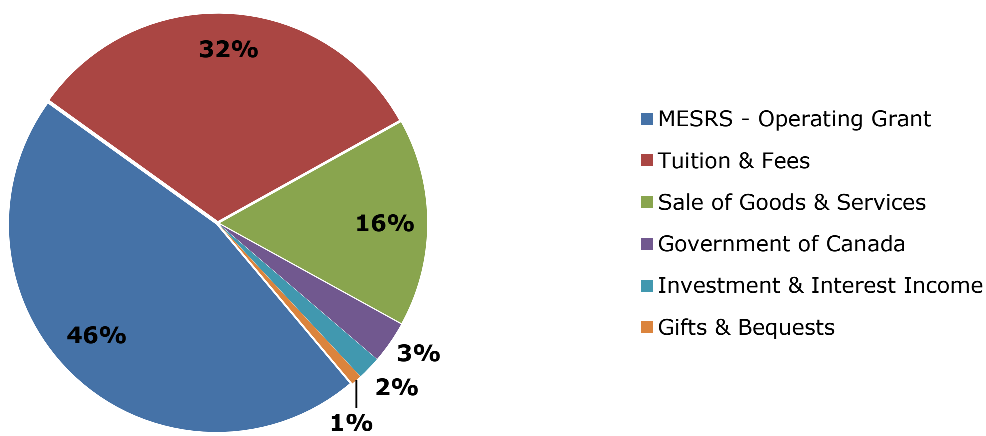
($ millions)	2014		2013	
Opening Book Value	979.3		903.8	
Unrealized Market Value	109.9		67.0	
Opening Net Assets- Market Value	1,089.2		970.8	
New Gifts Received	40.4	3.7%	38.5	4.0%
Net Income (Loss) Realized	72.1	6.6%	71.6	7.4%
Net Income Distributed (Net of capitalizations)	(38.6)	(4.0%)	(34.5)	(3.6%)
Transfers from (to) Other Funds	0.2	0.0%	-	0.0%
Realized Increase in Assets	74.1	6.8%	75.6	7.8%
Change in Unrealized Market Values	119.1	10.9%	42.9	4.4%
Total Increase in Fund Value	193.2	17.7%	118.4	12.2%
Closing Book Value	1,053.4	82.1%	979.3	89.9%
Unrealized Market Value	229.0	17.9%	109.9	10.1%
Closing Net Assets- Market Value	1,282.4		1,089.2	

Source: McGill Financial Services

OPERATING HIGHLIGHTS (fiscal year ended April 30, 2014)

The following chart highlights the various sources of Operating (Unrestricted) Fund revenue on a GAAP basis for the year-ended April 30, 2014:

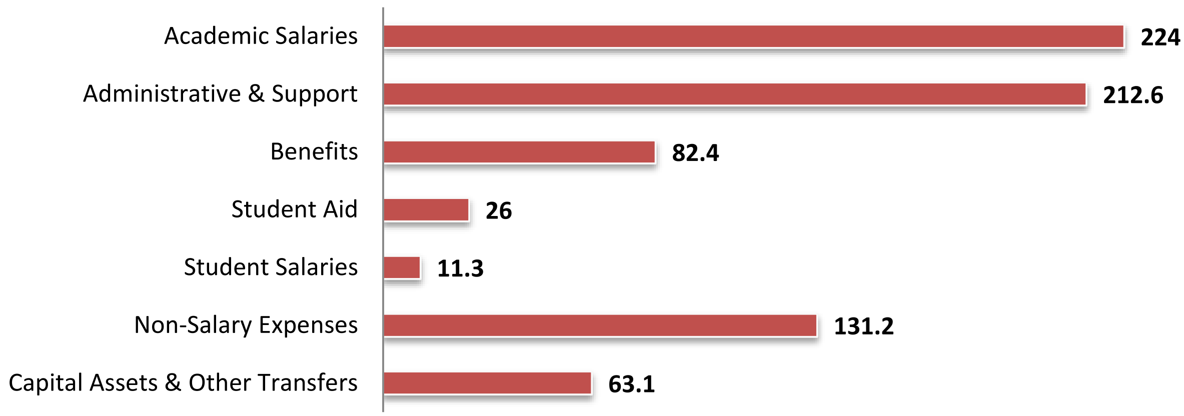
Sources of Operating (Unrestricted) Revenues
$766.4 million



Source: McGill Financial Services

The University's spending is varied and consists of many different types of expenditures. Total operating type of expenditures amounted to $750.1 million (2013: $736.8 million) on a GAAP basis, including inter-fund transfers of $63.1 million (2013: $57.8 million) relating to Capital Asset additions and other transfers. Below is a summary of the types of all expenses incurred, including inter-fund transfers; salaries, benefits, and student support.

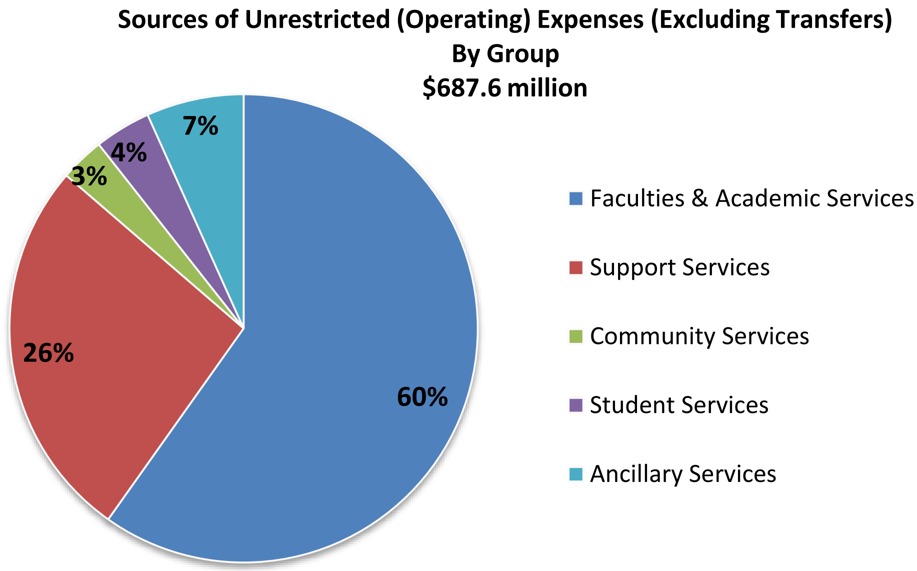
Sources of Unrestricted (Operating) Expenses (Including Transfers)
By Type
($750.6 million)



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 86.0% of total spending. The remaining units are considered self-financing, of which ancillary operations (e.g. the Bookstore, residences, parking, etc.) represent 13.0% 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 2014 ended with a net operating surplus of $15.7 million (2013: deficit of $13.1 million). The surplus surpassed our expectations of a budgeted deficit of $10.4 million for fiscal 2014 and the $10.7 million deficit forecasted for the 2014 fiscal year included in the 2015 Budget Report approved by the Board in April 2014. This operating surplus of $15.7 million includes a GAAP adjustment related to Pension Obligation (reduction of $12.5 million) in arriving at the net surplus of $15.7 million for fiscal 2014.

Overall, some operating revenues also differed from the year-end forecasts included in the 2015 Budget Report, including the following significant items below:

- MESRS grant was $6.0 million higher than forecast due to enrolment accruals as well as an additional matching of donations envelope of $3.7 million. The forecast reflected $8.8 million in tuition compensation.
- Tuition and fees exceeded forecast by $6.3 million, and $16.6 million greater than the prior year.
- Overall, the University generated $11.5 million more of 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 $1.5 million more than forecasted.
- Short-term interest income and investment income totalled combined, $8.7 million more than budgeted, due to an overall 17.7% growth in endowment assets.

The fiscal 2014 operating expenses are affected by 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 $556.4 million as compared to a forecast of $547.8 million. The variance, in large part, being affected by a reversal of pension benefit liability of $12.5 million offset by increases in pay equity accrual of $11.5 million, post-employment accrual of $1.7 million and increase in academic salaries of $6.4 million and administrative and support salaries of $5.2 million. Also included in the total is $37.3 million of student salaries and aid (excluding related benefits), as compared to $36.3 million in the prior year.

2. Total academic, administrative, and support salaries and benefits totaled $519.0 million (2013: $502.5 million) and represent 75.5% (2013: 74.0%) 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 2014 by $15.1 million. Overall, non-salary operating expenses decreased by $9.1 million over the total of $140.4 million in fiscal 2013 (approximately 6.5% increase).

3. DEFERRED MAINTENANCE – CAMPUS RENEWAL

For the past few years, McGill's total deferred maintenance (DM) inventory has been reported to be $835 million at the University's two campuses. This estimate is based on a 2007 survey and cannot be considered a reliable measure of the University's current DM inventory. A more in-depth study recently initiated under the auspices of the *Bureau de coopération interuniversitaire* (BCI), formerly *Conférence des recteurs et des principaux des universités du Québec (*CREPUQ), is expected to be completed by June, 2015 at which time a more accurate, up-to-date estimate will be available.

In addition, a recent modification of the *Loi sur le bâtiment* now requires mandatory building inspections of all buildings over ten years old and having a height over five storeys. Under the terms of this regulation, at least 60 buildings at McGill must be inspected by construction professionals before the end of 2017, of which the 38 oldest buildings must be inspected by the end of 2015. These technical inspections will further refine and update current information on McGill's DM inventory.

As previously reported, in 2007 the Government of Québec announced a 15-year capital funding plan which resulted in a total allocation of just over $70 million to McGill in the three years between 2008 and 2011, specifically targeted to address deferred maintenance. Exceptionally, a one-time infusion secured through the Federal Government's Knowledge Infrastructure Program (KIP) added of $72 million to the available funds in 2009-10. The 2011-12 Québec allocation was approximately $27.6 million and the projected allocation for 2012-13 is $28.1 million. Allocations are expected to remain at this level for the coming five years.

Other potential sources of funding for campus renewal include the $19.6 million annual capital grant from the Ministère de l'Enseignement supérieur, de la Recherche et de la Science (MESRS, formerly MESRST), as well as funding from the Canada Foundation for Innovation, energy conservation funding, 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 ("Lot 1") for immediate execution beginning in 2008. All these projects have now been completed. A total amount of $96.2 million was disbursed on Lot 1 (including all three KIP projects) between 2008 and 2011.

Lots 2 and 3, originally scheduled for implementation in 2011-2014 and 2014-2017 respectively, consisted of an additional 344 projects at a total estimated cost of $645 million. These are no longer distinguished according to Lot. To date, 55 of these projects have been completed at a total estimated cost of $120 million. Another 234 projects are in various stages of estimate, design and execution. An additional 36 of these projects are currently on hold, the most significant of which is a high priority project to replace the windows and masonry of the Strathcona Anatomy and Dentistry (SAD) building.

A major project slated for initiation in the coming year is the complete redevelopment of Wilson Hall, estimated at $51 million. 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 the *Société québecoise des infrastructures* (SQI, formerly "Infrastructure Québec") of the "*dossier de présentation Stratégique*". The approval process is currently in its final stages and construction is expected to begin in 2015, with a target completion date of 2017.

In addition to the above deferred maintenance projects, Residences and Student Housing prioritized $40 million of projects in 2011 to be completed by 2016, and to be funded by existing Bond proceeds. The stage of completion of this global scope of work is estimated at approximately 52% and current spending indicate these projects will be completed within forecasted spending levels.

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 losing ground in its efforts to decrease its deferred maintenance inventory to an acceptable industry level. While current and projected projects will help address the backlog of deferred maintenance projects, increasing numbers of DM projects are being placed on hold. A recently updated list of postponed essential DM projects indicates a total of 79 postponed projects with a total estimated cost of roughly $245 million. These costs are expected to increase as deterioration of the buildings continues. The SAD project, for example, originally assessed at $35 million, is now potentially an $80 million project due principally to the building's increasing rate of deterioration. New issues, particularly associated with the exterior walls of the University's heritage buildings, will continue to arise annually as legally mandated inspections proceed. Once identified, the law requires that these issues be brought to the attention of the Régie du bâtiment, which will likely require the University to take remedial action. A recent example is the Macdonald Stewart Library building, for which an estimated $17 to $27 million will be required in total.

Appropriate measures have been taken to protect the public until such time as funding can be secured to address these issues. Meanwhile, campus infrastructure continues to decay at an accelerating rate. This, coupled with the constrained amount of available capital funding, is resulting in a growing backlog of DM projects on hold.

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. Appropriate funding is essential to the preservation McGill's unique physical assets.

4. OUTLOOK

Strategic planning and multi-year resource allocation are 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 return to a balanced budget in the latter years of the 5-year plan, assuming expectations prevail. 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. MESRS is still requesting balanced budgets from universities, as the prospect of new investments on their part in fiscal 2015 will not materialize. In addition, the limited tuition increases to a reduced inflation factor further impact the challenge of achieving a balanced budget. 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 November 2013. Moody's Investors Services reaffirmed McGill's debt rating at Aa2 in February 2014.

Moody's confirmed an Aa2, Stable rating in February 2014, following the previous re-affirmation of the downgraded rating to Aa2 Stable in July 2012. Moody's confirmed that the University continues to hold flagship status in the Province of Québec and a dominant national and international market presence. Continued pressure from provincial funding adjustments and instability in tuition setting parameters are adverse factors. 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, although somewhat restricted.
- Low debt burden supported by provincial debt service subsidies.

Standard & Poor's confirmed an AA- rating and a continued stable outlook in November 2013, citing that McGill has:

- Excellent student demand and research profile.
- Provincial support that is considered good and consistent (Province of Québec rated at A+).
- McGill has a moderate debt load relative to that of peers, especially when including post-employment liabilities.
- Less diversified revenue sources compared to peers, with tight budgetary conditions due to limited tuition flexibility and provincial funding cuts constrain the ratings.

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 MESRS, 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 and promised reinvestment in the Education sector. As announced in the current year, MESRS promised re-investments in fiscal 2015 and beyond will not materialize. 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

Cristiane Tinmouth, CPA, CA
Interim Assistant Vice-Principal, Financial Services

October 2014

PART II

Audited Financial Statements

Financial statements of

The Royal Institution for the Advancement of Learning / McGill University

April 30, 2014

Deloitte.

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Canada

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Independent auditor's report

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

We have audited the accompanying financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheet as at April 30, 2014, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 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, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Restated comparative information

Without modifying our opinion, we draw attention to Note 2 to the financial statement, which explains that certain comparative information for the year ended April 30, 2013, has been restated.

Deloitte LLP[1]

October 2, 2014

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of revenue and expenses

Year ended April 30, 2014

(In thousands of dollars)

	Notes	2014	2013
		$	$ (Restated – Note 2)
Revenue			
Grants			
Federal		**205,687**	205,705
Provincial		**451,634**	434,394
United States		**7,684**	7,240
Other sources		**24,750**	38,148
Contracts		**19,667**	17,997
Tuition and fees		**245,241**	228,623
Sale of goods and services		**129,170**	128 347
Gifts and bequests		**45,018**	35,417
Foreign exchange gain		**1,500**	1,328
Investment and interest income	16	**52,218**	60,916
		1,182,569	1,158,115
Expenses			
Salaries			
Academic		**287,161**	285,482
Administrative and support		**231,922**	227,123
Benefits		**98,125**	94,816
Student aid		**101,068**	100,962
Student		**37,698**	35,815
		755,974	744,198
Non-salary			
Material, supplies and publications		**39,846**	43,554
Contributions to partner institutions		**36,655**	39,978
Contract services		**22,918**	23,761
Professional fees		**19,092**	21,630
Travel		**25,052**	25,176
Cost of goods sold		**18,188**	19,156
Building occupancy costs		**24,783**	21,981
Energy		**19,061**	18,036
Other non-salary expenses		**39,933**	41,619
Hardware and software maintenance		**7,502**	7,081
Amortization of capital assets		**108,999**	105,850
Interest		**30,174**	31,243
Bank charges		**1,100**	1,240
		393,303	400,305
		1,149,277	1,144,503
Excess of revenue over expenses		**33,292**	13,612

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of changes in net assets

Year ended April 30, 2014
(In thousands of dollars)

	Notes	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
		$	$	$	$ (Restated – Note 2)	$	$ (Restated – Note 2)
Net assets (deficiency), May 1, 2012		(301,882)	53,678	—	212,944	937,215	901,955
Excess (deficiency) of revenue over expenses		43,957	27,766	18,874	(76,985)*	—	13,612*
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	—	233,701	1,054,785	1,031,314
Excess (deficiency) of revenue over expenses		**70,414**	**12,811**	**15,184**	**(65,117)**	—	**33,292**
Endowment contributions and gifts in kind		—	—	—	**521**	**40,443**	**40,964**
Investment income items reported as direct (decrease) increase in net assets		**(4,586)**	**(3,984)**	**(5,584)**	—	**159,508**	**145,354**
Net change in internally restricted net assets		**5,778**	**(6,073)**	**(4,133)**	**4,457**	**(29)**	—
Investment in capital assets		**(51,221)**	—	**(15,294)**	**66,515**	—	—
Other transfers		**(8,840)**	**5,577**	**9,827**	**177**	**(6,741)**	—
Net assets (deficiency), April 30, 2014		**(303,751)**	**66,455**	—	**240,254**	**1,247,966**	**1,250,924**

* Includes the adjustment to prior period, see Note 2

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

The Royal Institution for the Advancement of Learning / McGill University

Balance sheet

As at April 30, 2014

(In thousands of dollars)

	Notes	2014	2013
		$	$ (Restated – Note 2)
Assets			
Current assets			
Cash and cash equivalents		27,747	19,450
Short-term investments	18	78,789	36,117
Receivables	4	352,631	411,900
Prepaid expenses		3,161	3,930
Inventory		1,836	2,088
		464,164	473,485
Marketable securities	18	1,270,073	1,116,812
Grants and contracts related to research receivable		42,097	42,229
Capital grants receivable	5	736,149	657,108
Loans receivable	6	11,829	13,529
Capital assets	7	1,306,416	1,274,699
		3,830,728	3,577,862
Liabilities			
Current liabilities			
Bank indebtedness	8	129,870	178,163
Accounts payable and accrued liabilities	9	185,888	169,986
Unearned revenue		25,102	24,603
Current portion of long-term debt	12	94,211	159,657
		435,071	532,409
Deferred contributions	10	413,946	411,508
Deferred capital contributions	11	825,113	810,982
Long-term debt	12	755,933	630,967
Accrued pension liability	13	29,301	41,899
Post-employment benefit obligation	13	120,440	118,783
		2,579,804	2,546,548
Commitments and contingent liabilities	20 and 21		
Net assets (deficiency)			
Invested in capital assets		240,254	233,701
Externally restricted for endowment purposes	14	1,247,966	1,054,785
Internally restricted	15	66,455	58,124
Unrestricted		(303,751)	(315,296)
		1,250,924	1,031,314
		3,830,728	3,577,862

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

Approved by the Board of Governors

______________________, Governor

______________________, Secretary – General

The Royal Institution for the Advancement of Learning / McGill University

Statement of cash flows

Year ended April 30, 2014

(In thousands of dollars)

	Notes	2014	2013
		$	$ (Restated – Note 2)
Operating activities			
Excess of revenue over expenses		33,292	13,612
Adjustments for			
Amortization of capital assets		108,999	105,850
Amortization of bond discount		204	204
Amortization of deferred contributions	10	(369,164)	(380,149)
Amortization of deferred capital contributions	11	(61,655)	(63,355)
Change in unrealized fair value of investments		6,569	2,635
Change in fair value of derivative financial instruments		(2,400)	1,395
		(284,155)	(319,808)
Net change in non-cash working capital items	17	14,018	(2,712)
Increase in government grant receivable		(26,163)	(37,277)
Decrease in grants and contracts related to research receivable		9,927	39,209
Increase in deferred contributions		371,602	353,969
Decrease in pension liability		(12,598)	(7,280)
Increase in post-retirement benefit obligation		6,866	5,064
Post-retirement benefit obligation payments		(5,209)	(4,839)
		74,288	26,326
Investing activities			
(Increase) decrease in short-term investments		(42,672)	48,361
Acquisition of capital assets		(140,716)	(159,164)
Purchase of marketable securities		(907,524)	(1,025,493)
Proceeds from sale of marketable securities		750,094	857,604
Change in loans receivable		1,700	(7,204)
		(339,118)	(285,896)
Financing activities			
Change in bank indebtedness		(48,293)	(41,016)
Investment income reported as direct increase in net assets		145,354	75,703
Endowment contributions		40,964	40,044
Issuance of long-term debt		219,000	201,234
Repayment of long-term debt		(159,684)	(132,427)
Deferred capital contributions		75,786	97,825
		273,127	241,363
Net change in cash and cash equivalents		8,297	(18,207)
Cash and cash equivalents, beginning of year		19,450	37,657
Cash and cash equivalents, end of year		27,747	19,450

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. Prior-period adjustment

In the preparation of its 2014 financial statements, McGill discovered an error in the amortization period of deferred capital contributions – MESRS in 2013. The correction of the amortization period in the prior period results in a decrease in provincial grant revenue, a decrease in excess of revenue over expenses, a decrease in net assets invested in capital assets and an increase in deferred capital contributions in the amount of $21.8 million.

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.

3. Significant accounting policies (continued)

Revenue recognition (continued)

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. The value of gifts in kind in 2014 is $521 ($1,576 in 2013).

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

Financial instruments

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 statement 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 statement of revenue and expenses 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 statement 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 statement of revenue and expenses.

Cash and cash equivalents

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

(In thousands of dollars)

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 $18.2 million ($19.2 million in 2013).

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.

(In thousands of dollars)

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 (2013 – 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, and provisions for contingencies, pay equity and employee future benefits. Actual results may ultimately differ from these estimates.

4. Receivables

	2014	2013
	$	$
Operating, net of provision for doubtful accounts of $2,229 (April 30, 2013 – $2,270)	**39,907**	37,308
Student loans, net of provision for doubtful accounts of $410 (April 30, 2013 – $340)	**4,029**	3,506
Investment income	**1,931**	1,649
Government grant	**55,913**	43,345
Grants and contracts related to research	**156,640**	166,435
Capital grants receivable – short term	**94,211**	159,657
	352,631	411,900

(In thousands of dollars)

5. Capital grants receivable

Capital grants receivable relate to capital grants approved by the Ministère de l'Enseignement Supérieur, Recherche, et Science (MESRS), formerly Ministere de l'Enseignement Superieure, Recherche, Science et Techonologie (MESRST), but funded through long-term debt issued in McGill's name or not yet funded. These amounts are due immediately; however, only a portion of 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% (2013 – 3.013% to 4.267%), with maturities up to 9 years.

7. Capital assets

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	28,706	—	28,706	28,706
Land improvements	35,875	11,363	24,512	25,586
Buildings	631,406	331,969	299,437	308,134
Major renovations	849,355	206,629	642,726	583,808
Leasehold improvements	4,716	2,738	1,978	2,625
Equipment	490,703	289,371	201,332	199,083
Rolling stock	1,762	1,252	510	756
Library materials	153,016	88,122	64,894	63,172
Intangible assets	15,417	10,730	4,687	2,013
	2,210,956	942,174	1,268,782	1,213,883
Assets under development	37,634	—	37,634	60,816
	2,248,590	942,174	1,306,416	1,274,699

8. Bank indebtedness

As required by MESRS, McGill's Board of Governors has approved maximum borrowings of $300 million ($300 million as at April 30, 2013), under short-term credit facilities, of which $130 million has been used as at April 30, 2014 (April 30, 2013 – $178 million). Unsecured and uncommitted lines of credit, totalling $350 million (April 30, 2013 – $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 (April 30, 2013 – 3.00%). Through the use of bankers' acceptances, the average cost of borrowing for the year was 1.47% (April 30, 2013 – 1.49%). The rate in effect as at April 30, 2014, was 1.39% (1.50% as at April 30, 2013). Bankers' acceptances outstanding at year-end bear interest at rates ranging from 1.30% to 1.58% (1.29% to 1.68% as at April 30, 2013).

(In thousands of dollars)

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $2,046,478 ($9,431,255 as at April 30, 2013), of government remittances.

10. 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 11.

	2014	2013
	$	$
Balance, beginning of year	411,508	437,688
Restricted funds received during the year	337,375	319,163
Gifts and bequests	34,227	34,806
Amortization of deferred contributions	(369,164)	(380,149)
Balance, end of year	413,946	411,508

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

	2014	2013
	$	$
Federal grants	201,909	207,596
Provincial grants	55,562	51,007
United States grants	3,571	4,344
Other grant sponsors	61,655	58,589
Contracts	14,855	18,190
Gifts and bequests	56,445	52,354
Endowment income	15,169	14,918
Investment income	4,780	4,510
	413,946	411,508

(In thousands of dollars)

11. Deferred capital contributions

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

	2014	2013
		(Restated – Note 2)
	$	$
Balance, beginning of year	**810,982**	776,512
Deferred capital contributions received	**75,786**	97,825
Amortization of deferred capital contributions	**(61,655)**	(63,355)
Balance, end of year	**825,113**	810,982
Represented by		
Net deferred contributions – MESRS	**410,275**	392,155
Net deferred contributions – Other provincial	**134,456**	135,316
Net deferred contributions – Federal	**127,794**	128,362
Net deferred contributions – Other	**152,588**	155,149
Balance, end of year	**825,113**	810,982

12. Long-term debt

	2014	2013
	$	$
a)		
1) Bonds (i)		
4.50% Series "11C," due May 27, 2015	**4,703**	4,703
4.40% Series "13C," due February 24, 2016	**4,653**	4,653
4.50% Series "14C," due March 8, 2016	**7,000**	7,000
	16,356	16,356

(In thousands of dollars)

12. Long-term debt (continued)

	2014	2013
	$	$
a) (Continued)		
2) Notes (ii)		
4.355% matured on September 16, 2013	—	68,313
4.607% matured on September 16, 2013	—	28,000
3.240% matured on September 23, 2013	—	32,375
3.320%, due June 1, 2014	10,287	11,216
3.690%, due December 1, 2014	19,208	20,966
3.839%, due December 1, 2014	27,801	30,241
4.267%, due December 1, 2015 (iii)	353	519
3.601%, due June 2, 2016	7,575	8,383
2.820%, due June 2, 2016	23,121	24,747
2.849%, due December 1, 2016	61,226	63,480
1.928%, due April 25, 2017	7,468	8,462
2.323%, due December 1, 2017	60,720	63,888
2.472%, due December 1, 2017	20,170	21,585
2.213%, due June 1, 2018	176,188	187,000
2.112%, due June 1, 2018	4,418	5,000
2.406%, due December 1, 2018	16,890	18,000
2.413%, due May 29, 2019	219,000	—
4.125%, due August 24, 2020	4,570	5,123
3.013%, due September 28, 2022	8,489	9,300
4.991%, due June 1, 2034	21,000	22,000
Total notes	688,484	628,598
Total Government of Quebec debt	704,840	644,954
b) McGill Senior Unsecured Debentures (iv), 6.15% Series "A," mature on September 22, 2042	150,000	150,000
c) Royal Bank loans, 5.81%, matured on March 19, 2014	—	543
d) Other	150	177
e) Bond discounts and issuance costs	(4,846)	(5,050)
Total long-term debt	850,144	790,624
Current portion of long-term debt	(94,211)	(159,657)
	755,933	630,967

(In thousands of dollars)

12. 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
	$	$
3.320%, due June 1, 2014	928	9,359
3.690%, due December 1, 2014	1,758	17,450
3.839%, due December 1, 2014	2,441	25,360
3.601%, due June 2, 2016	808	5,959
2.820%, due June 2, 2016	1,626	19,869
2.849%, due December 1, 2016	2,760	55,706
1.928%, due April 25, 2017	994	5,480
2.323%, due December 1, 2017	2,662	52,734
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
2.413%, due May 29, 2019	11,562	161,190
4.125%, due August 24, 2020	576*	—
3.013%, due September 28, 2022	835*	—
4.991%, due June 1, 2034	1,000	1,000

* Annual payments vary from year to year.

(iii) These notes are secured by a grant receivable from the Ministère de l'Économie de l'Innovation et des Exportations ("MEIE"). Semi annual payments of capital and interest are paid by MEIE, on McGill's behalf, to Financement Québec.

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

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

	$
2015	94,211
2016	53,357
2017	117,190
2018	95,822
2019	161,682

(In thousands of dollars)

13. 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. Prior to January 1, 2011, employees were able to obtain a McGill annuity upon retirement.

The University measures its accrued benefit obligations and fair value of the 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 at December 31, 2012, and the next required valuation will be as at December 31, 2015.

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, 2014, is estimated at $120.4 million ($118.8 million as at April 30, 2013). 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:

	2014	2013
	$	$
Cash payments recognized	**44,893**	37,615
Benefit costs	**21,397**	24,333
Accrued pension liability		
Defined benefit cost		
Current service cost	**2,476**	943
Interest cost on accrued benefit obligation	**3,107**	1,315
	5,583	2,258

(In thousands of dollars)

13. Employee future benefits (continued)

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

	2014	2013
	$	$
Accrued pension liability	**(330,429)**	(355,045)
Fair value of Plan assets	**238,158**	242,000
Plan deficit	**(92,271)**	(113,045)
Unamortized net actuarial loss	**62,970**	71,146
Obligation for defined benefits	**(29,301)**	(41,899)

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

	2014	2013
	%	%
Cash equivalents	**2.0**	6.2
Real estate	**12.4**	17.2
Equity	**33.0**	26.2
Fixed income	**52.6**	50.3
Other	**—**	0.1

Pension plan defined contribution plan (continued)

The significant assumptions used are as follows:

	2014	2013
	%	%
Discount rate	**3.50**	3.00
Expected long-term rate of return on Plan assets	**4.75**	4.75
Price inflation allowance	**3.00**	3.00

Post-employment benefit obligation – unfunded benefits

	2014	2013
	$	$
Balance, beginning of year	**118,783**	118,558
Current service cost	**2,336**	1,674
Interest cost on accrued benefit obligation	**5,333**	5,194
Benefit paid	**(5,209)**	(4,839)
Net actuarial loss	**2,605**	1,604
Past service costs	**(3,408)**	(3,408)
Balance, end of year	**120,440**	118,783

(In thousands of dollars)

13. Employee future benefits (continued)

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

	2014	2013
	%	%
Accrued benefit obligation as at year-end		
Discount rate	**4.5**	4.0
Rate of compensation increase – Academics	**4.5**	4.5
Rate of compensation increase – Non-academics	**3.5**	3.5
Health care cost trend rates		
Current trend rate	**8.0**	8.0
Ultimate trend rate	**5.0**	5.0
Year of ultimate trend rate	**2016**	2016

14. Externally restricted for endowment purposes

	2014	2013
	$	$
Faculty endowments	**521,692**	446,067
Student aid	**410,407**	354,051
Research endowments	**109,232**	96,611
Emerging priorities	**20,486**	18,316
Library endowments	**25,477**	22,911
Student services	**7,801**	6,243
Annuities	**2,722**	2,197
Accumulated income	**150,149**	108,389
	1,247,966	1,054,785

Endowments consist of externally restricted donations received by the University. The endowment principal is required to be maintained intact over time subject to the University's capital preservation investment and disbursement policy. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they are provided.

Investment income on endowments, which comprises interest, dividends and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (2013 – 4.25%) 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.

(In thousands of dollars)

15. Internally restricted net assets

	2014	2013
	$	$
Self-financing teaching and research	**17,638**	11,125
Professor start-up funds	**10,633**	10,648
Other	**38,184**	36,351
	66,455	58,124

16. Investment and interest income

	2014	2013
	$	$
Change in unrealized fair value of investments	**6,569**	2,635
Change in fair value of derivative financial instruments	**(2,400)**	1,395
Investment and interest income	**48,049**	56,886
	52,218	60,916

17. Net change in non-cash working capital items

	2014	2013
	$	$
Receivables	**(3,404)**	(1,656)
Prepaid expenses	**769**	(415)
Inventory	**252**	351
Accounts payable and accrued liabilities	**15,902**	(3,144)
Unearned revenue	**499**	2,152
	14,018	(2,712)

18. 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, 2014, McGill's foreign-denominated marketable securities had a fair value of CAN$903 million (April 30, 2013 – CAN$743), the most significant of which were US$ denominated marketable securities of CAN$617 million (April 30, 2013 – CAN$512 million).

18. Financial instruments (continued)

Financial risks (continued)

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

McGill is exposed to credit risk from its debtors. A significant portion of McGill's receivables 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.

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, 2014, the most significant financial liabilities are bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Derivatives

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of EURO$33.0 million with a forward rate of 1.52333 and US$255.5 million with a forward rate of 1.11107 as at April 30, 2014, that matured on June 11, 2014 (EURO$23.5 million with a forward rate of 1.34376 that matured on June 12, 2013, and US$105 million with a forward fate of 1.02820 that matured on July 31, 2013, as at April 30, 2013). As at April 30, 2014, the fair value of these contracts approximated an unrealized gain of $3.2 million which was recorded in marketable securities (April 30, 2013 - an unrealized gain of $2.5 million).

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 semi annual 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 $46.0 million (2013 – $48.4 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, 2014, the fair value of the swap is $25.9 million (2013 – $28.2 million).

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

The University entered into a swap agreement for the purchase of natural gas maturing at various dates until June 30, 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 $0.03 million lower than the fixed price contracted (2013 – $0.3 million lower) resulting in a change in fair value gain of $0.27 million in the year (gain of $1.1 million in 2013). The resulting liability has been recorded in the balance sheet within the accounts payable and accrued liabilities.

(In thousands of dollars)

18. Financial instruments (continued)

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2014	2013
	%	%
Canadian equity	10	12
U.S. equity	17	19
Non-North American equity	23	21
Canadian fixed income	13	16
U.S. fixed income	4	—
Hedge funds	19	18
Alternate strategies, including private equity and other	14	14
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest at rates ranging from 0.97% to 1.00% (2013 – 0.99% to 1.04%).

19. Pledges

Outstanding donation pledges as at April 30, 2014, amounted to $141.6 million (April 30, 2013 - $173.4 million). These have not been recognized in the financial statements.

20. Commitments

Operating leases

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

	$
2015	5,379
2016	5,171
2017	3,660
2018	2,288
2019	2,033
Thereafter	4,505
	23,036

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $56.9 million. These commitments are expected to be met in the normal course of operations.

20. Commitments (continued)

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 $92.4 million within the next four years in accordance with its arrangements with these funds.

Retirement program

McGill initiated a voluntary retirement program in fiscal 2013 to qualifying employees which expired on June 2, 2013. Signed agreements during the year amounted to $11.4 million, and $1.5 million is recorded as accounts payable and accrued liabilities. The total liability related to these contracts is expected to be paid during the next fiscal year.

21. 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, 2014, 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

Report on the Financial State of the University

Year ended April 30, 2014

Presentation to Senate

December 3, 2014

Opening Remarks

- In the summer, the Quebec Government announced significant budget reduction measures affecting our FY15 funding
- Additional cuts announced on November 12
- Expected “Réinvestissement” eliminated following change of government in April 2014
- Continued challenges with respect to deferred maintenance of buildings and IT infrastructure
- Government expects that all universities achieve a balanced budget for FY15

Operating Highlights (p.2&3)
FY 2014

1. Enrolment

		Increase
Fall 2013	39,349	1.47%
Fall 2012	38,779	2.50%
Fall 2011	37,835	3.57%

2. Tenure Track Academics

- TT Academics approx. 1,674 at year end 2014
- net change of + 327 between 2002 to 2014

Fiscal 2013-14
Budget to Actual - Revenues
(Operating Fund)

(In thousands of dollars)	2014			
	Actual	Budget	Variance	
Revenue			$	%
Government Sources				
Canada	24,840	24,851	(11)	-0.04%
Quebec	352,738	335,297	17,441	5.20%
Tuition & Fees	245,241	239,828	5,413	2.26%
Sales of Goods & Services	123,386	109,943	13,443	12.23%
Gifts & Bequests	6,216	5,394	822	15.24%
Short-Term Interest	3,084	3,614	(530)	-14.67%
Investment Income	10,878	2,462	8,416	341.84%
Total Revenues:	**766,383**	**721,389**	**44,994**	**6.24%**

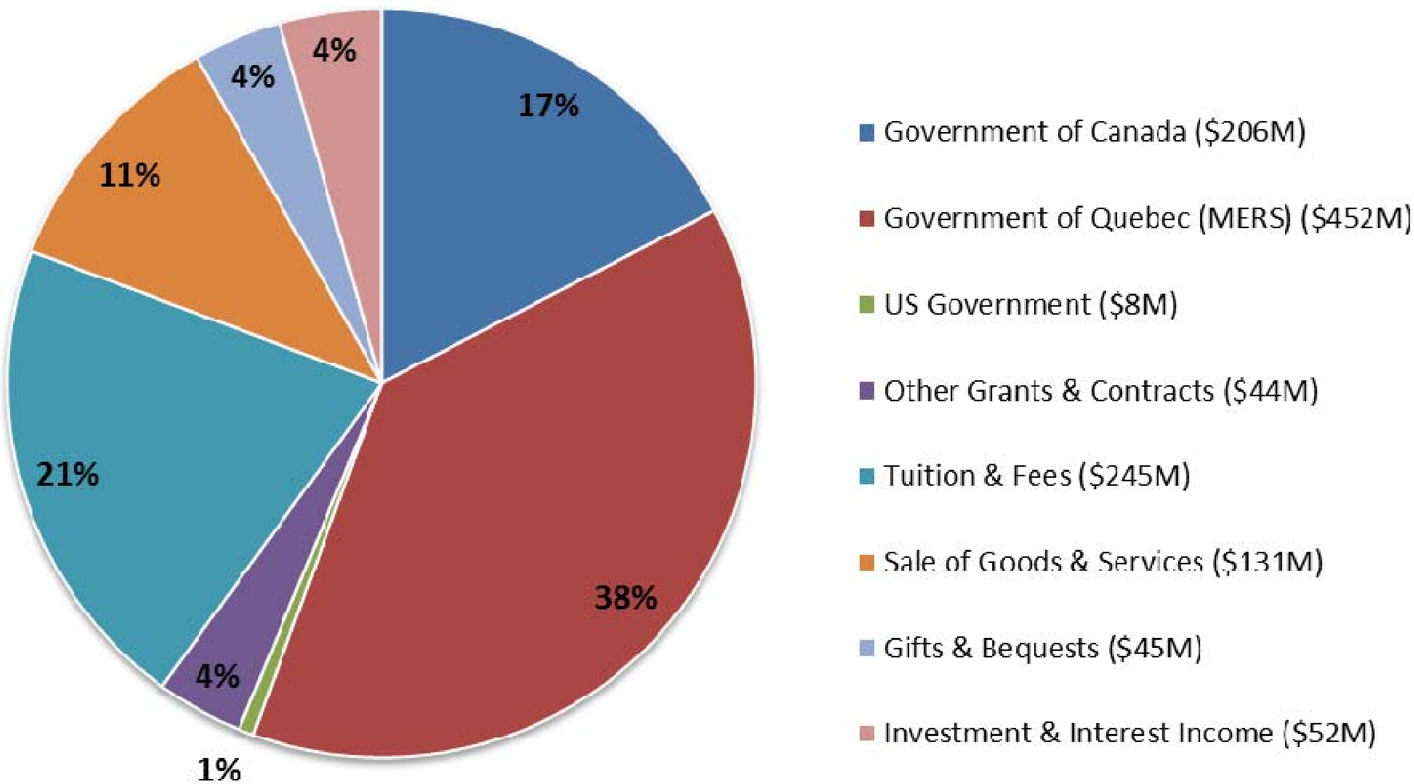
Fiscal 2013-14
Budget to Actual – Expenses (Operating Fund)

(In thousands of dollars)	2014			
	Actual	Budget	Variance	
Expenses				
Salaries:				
Academic	224,018	216,611	7,407	3.42%
Administrative & Support	212,640	195,296	17,344	8.88%
Student	11,314	9,380	1,934	20.62%
Student Aid	26,023	26,800	(777)	-2.90%
Benefits	82,367	99,637	(17,270)	-17.33%
Total Salaries:	556,362	547,724	8,638	1.58%
Non-Salary:				
Materials & Supplies & Publications	13,736	12,962	774	5.97%
Contributions to Partner Institutions	8,964	8,277	687	8.30%
Contract Services	12,996	10,945	2,051	18.74%
Professional Fees	9,362	9,997	(635)	-6.35%
Travel	8,156	7,750	406	5.24%
Cost of Goods Sold & Services Rendered	18,188	19,546	(1,358)	-6.95%
Building Occupancy Costs	21,892	16,482	5,410	32.82%
Energy	18,589	18,970	(381)	-2.01%
Other Non-Salary Expenses	8,792	18,831	(10,039)	-53.31%
Hardware & Software Maintenance	7,105	5,982	1,123	18.77%
Interest & Bank Charges	3,442	6,728	(3,286)	-48.84%
Total Non-Salary:	131,222	136,470	(5,248)	-3.85%
Total Expenses:	**687,584**	**684,194**	**3,390**	**0.50%**

Fiscal 2013-14
Budget to Actual – Transfers (Operating Fund)

(In thousands of dollars)	2014			
	Actual	Budget	Variance	
Surplus Before Interfund Transfers	78,799	37,195	41,604	111.85%
Interfund Transfers				
Internal Loan Repayment	(22,366)	-	(22,366)	
Capital Purchase	(28,855)	-	(28,855)	
Book-to-Market Adjustment	(6,462)	-	(6,462)	
Endowment Income	(1,991)	-	(1,991)	
Inter-fund Transfers	(3,262)	(47,556)	44,294	
Net Capitalization & Decapitalization of Investment Income	(118)	-	(118)	
TOTAL INTERFUND TRANSFERS	**(63,054)**	**(47,556)**	**(15,498)**	32.59%
Decrease (Increase) in Accumulated Deficit	**15,745**	**(10,361)**	**26,106**	

Total Combined Sources of Funding FY14
$1.18 billion



Total Grant revenue – all sources (P.29)

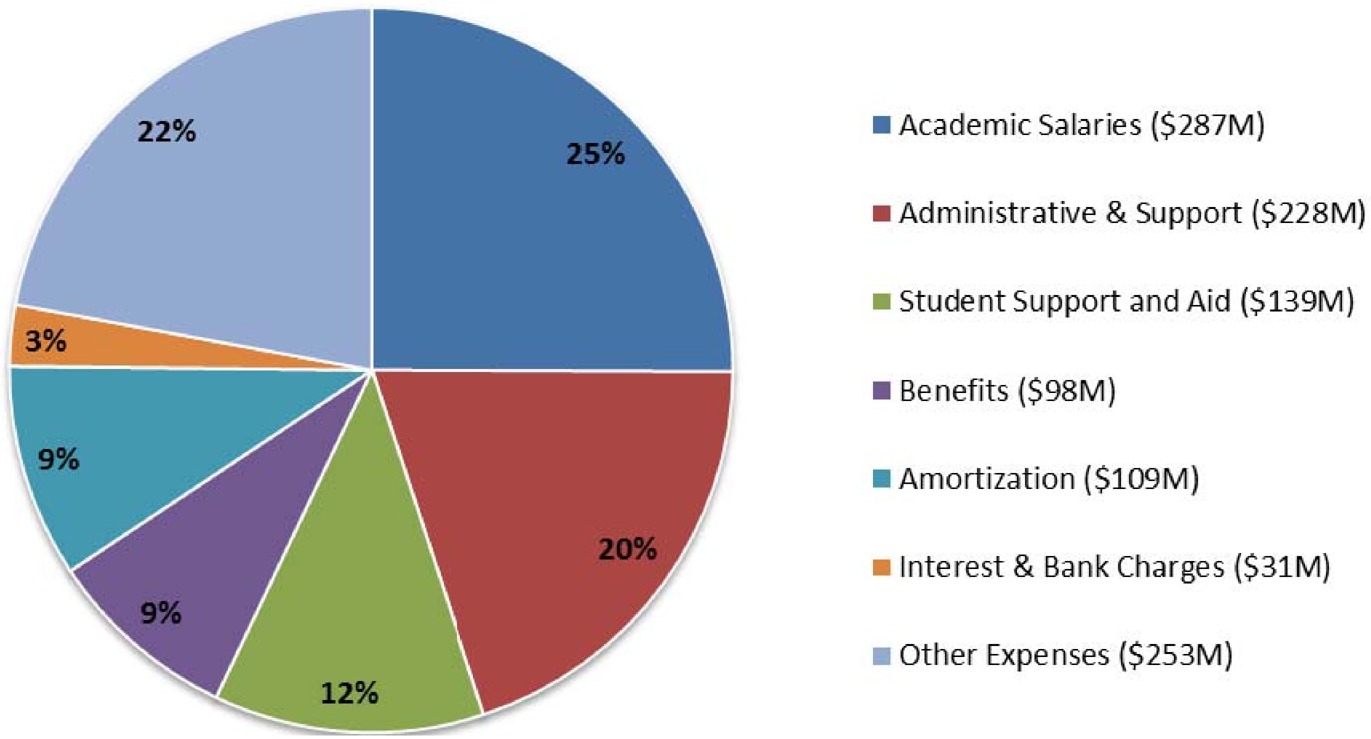
Purpose	Quebec	Canada	US	Other Sources	2014
	2014				
Operating	353	-	-	-	353
Capital	58	17	-	-	75
Indirect Costs (Operating)	-	25	-	-	25
Research (Restricted) Grants	30	147	8	24	209
Other Restricted Grants	11	17	-	1	29
Total:	452	206	8	25	691

Purpose	Quebec	Canada	US	Other Sources	2013
	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

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

	2014	2013
Represented by:		
Direct Funded Research Grants	175,697	202,822
Infrastructure Grants	32,052	19,162
Subtotal:	207,749	221,984
Research Contracts	19,609	17,963
Total grants and contracts:	227,358	239,947

Total Combined Expenditures FY14
$1.14 billion



Pension Liability
As at April 30, 2014

	2014	2013
	$	$
Accrued pension liability	**(330,429)**	(355,045)
Fair value of Plan assets	**238,158**	242,000
Plan deficit	**(92,271)**	(113,045)
Unamortized net actuarial loss	**62,970**	71,146
Obligation for defined benefits	**(29,301)**	(41,899)

(*) Adoption of GAAP section 3462 for FY15 will no longer recognize unamortized actuarial losses. These will be recorded as expenses in the Statement of Revenue and Expenses, effectively increasing the Unrestricted (Operating) accumulated deficit.

Other Financial Highlights

1. Pay Equity exercise to redress salary gaps
   - Management's best estimate @ April 30, 2014: $19.5M, including $15.5M for 2001 and 2005 maintenance and $4M accrual 2010 to 2014
   - Settlement for 2001 and 2005 exercise paid in February 2014 amounting to $21.8M
2. Voluntary Retirement Program
   - Payments made in FY14 amount to $13M, of which $3.2M accrued as at April 30, 2014
   - Remaining $1.6M to be paid in FY 15

Reseau Accumulated GAAP Deficits April 2013

$ en millions

Établissement	Déficit cumule - fonctionnement
Université Bishop's	31,9 $
Université Concordia	130,4 $
Université Laval	407,0 $
Université McGill	287,5 $
Université de Montréal	430,8 $
HEC Montréal	-14,6 $
École Polytechnique	75,1 $
Université de Sherbrooke	203,3 $
Université du Québec	1,064,9 $
TOTAL	2,616,3 $

Source : BCI

Indicators / Trends

Encouraging:

- McGill 21st in world university rankings, in spite of financial situation
- Enrollment continues to increase – 1.47% increase in FY14
- McGill continues to invest in student aid
- S&P maintained our bond rating of AA-, one notch above Quebec (A+)
- Moody's confirmed an Aa2, Stable rating in February 2014

Indicators / Trends (Continued)

<u>Challenges:</u>

- Government pressure to achieve balanced budget, in spite of restricted latitude on tuition fee increases
- Continued compensation pressures, including pension and pay equity costs
- Investment shortfall in IT and telephony
- Federal indirect cost funding at $0.20 per dollar not sufficient to absorb actual costs, which are closer to $0.60 per dollar
- Regulatory oversight / new government reporting continues to be costly on system

Deferred Maintenance (DM)

- 2007 BCI (formerly CREPUQ) DM study estimate at $650M being updated – expected completion June 2015
- In addition, Residence buildings and housing estimated at $185M for total DM of $835M
- MESRS funding insufficient to deter DM from increasing
  - funding approximately $27M over next 5 years
  - Annual capital grant $19.6M
  - On 25 year life, approximately $33M required annually, excluding any catch up
- Redevelopment of Wilson Hall slated for initiation in FY15
  - Quebec government announced contribution of $35M in FY12;
  - an additional $16M required from DM funds

Future Developments / Outlook

- Government deficit for 2014-15 estimated at $5.8 billion and cooperative effort required to restore balanced budget

- Plan for reality:
  - Capital requirements (new buildings and major renovations) still not fully funded by MESRS; continued pressure on operating funds
  - Achieving a balanced budget will be difficult

- Liquidity situation stable; credit facilities not expected to tighten but uncertainty re. MESRS funding

Questions and comments