Financial statements of

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

(see Note 1)

April 30, 2011

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

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Independent auditor's report

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

We have audited the accompanying financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheet as at April 30, 2011, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Institution for the Advancement of Learning / McGill University as at April 30, 2011, and the statement of revenue and expenses, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Restated comparative information

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which explains that certain comparative information for the year ended May 31, 2010 has been restated.

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

October 7, 2011

[1] Chartered accountant auditor permit No. 22220

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY
Balance sheet
as at April 30, 2011
(in thousands of dollars)

	April 30, 2011	May 31, 2010
	$	$
Assets		
Current assets		
Cash and cash equivalents	**5,990**	4,248
Short-term investments (Note 16)	**64,725**	35,502
Receivables (Note 4)	**293,253**	245,472
Prepaid expenses and other assets	**3,638**	5,984
Inventory	**2,839**	2,422
	370,445	293,628
Marketable securities, at fair value (Note 16)	**950,725**	855,849
Grants receivable - operating	**1,361**	6,627
Grants and contracts related to research receivable	**78,305**	59,672
Capital grants receivable (Note 5)	**763,162**	634,885
Loans receivable (Note 6)	**1,966**	3,124
Capital assets (Note 7)	**1,132,508**	1,004,426
Total assets	**3,298,472**	2,858,211
Liabilities		
Current liabilities		
Bank indebtedness (Note 8)	**217,248**	175,768
Accounts payable and accrued liabilities	**160,854**	130,231
Unearned revenue	**19,929**	26,415
Current portion of long-term debt (Note 11)	**107,989**	50,796
	506,020	383,210
Deferred contributions (Note 9)	**130,550**	143,679
Deferred capital contributions (Note 10)	**744,009**	612,219
Long-term debt (Note 11)	**604,418**	609,110
Accrued pension liability (Note 12)	**50,590**	49,318
Post employment benefit obligation (Note 12)	**112,860**	108,318
	2,148,447	1,905,854
Commitments and contingent liabilities (Notes 18 and 19)		
Net assets (deficiency)		
Invested in capital assets	**505,555**	426,729
Externally restricted for endowment purposes (Note 13)	**920,766**	807,551
Internally restricted (Note 14)	**22,867**	51,500
Unrestricted	**(299,163)**	(333,423)
	1,150,025	952,357
Total liabilities and net assets	**3,298,472**	2,858,211

Approved by the Board of Governors

....Governor

....Governor

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of revenue and expenses

eleven-month period ended April 30, 2011
(in thousands of dollars)

	2011 (11 months)	2010 (12 months)
	$	$
Revenue		
Grants		
Canada	**227,634**	206,971
Quebec	**407,670**	431,369
United States	**5,682**	6,746
Other sources	**31,300**	16,702
Contracts	**10,472**	13,568
Tuition and fees	**203,835**	186,966
Sale of goods and services	**99,632**	104,024
Gifts and bequests	**37,327**	33,426
Investment and interest income	**48,801**	43,711
Total revenue	**1,072,353**	1,043,483
Expenses		
Salaries		
Academic	**246,169**	268,704
Administrative and support	**187,034**	197,749
Benefits	**92,125**	97,377
Student	**68,068**	67,872
Student aid	**51,521**	49,311
Total salaries	**644,917**	681,013
Non-salary		
Material, supplies and publications	**36,930**	38,733
Contributions to partner institutions	**37,854**	38,586
Contract services	**16,548**	13,949
Professional fees	**16,675**	16,474
Travel	**20,382**	21,887
Cost of goods sold and services rendered	**19,209**	21,478
Building occupancy costs	**15,310**	21,434
Energy	**19,749**	18,950
Other non-salary expenses	**35,534**	38,471
Hardware and software maintenance	**5,542**	4,139
Amortization of capital assets	**87,623**	89,961
Interest and bank charges	**31,715**	32,754
Total non-salary	**343,071**	356,816
Total expenses	**987,988**	1,037,829
Excess of revenue over expenses	**84,365**	5,654

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of changes in net assets

eleven-month period ended April 30, 2011
(in thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total 2011 (11 months)	Total 2010 (12 months)
	$	$	$	$	$	$	$
Net assets, as previously reported	**(313,423)**	**31,500**	**-**	**426,729**	**807,551**	**952,357**	873,290
Adjustment to prior period (Note 2)	**(20,000)**	**20,000**	**-**	**-**	**-**	**-**	-
Net assets (deficiency), beginning of year, as restated	**(333,423)**	**51,500**	**-**	**426,729**	**807,551**	**952,357**	873,290
Excess of revenue over expenses	**6,684**	**19,634**	**56,709**	**1,338**	**-**	**84,365**	5,654
Endowment contributions	**-**	**-**	**-**	**701**	**33,862**	**34,563**	38,966
Investment income items reported as direct (decrease) increase in net assets	**(3,064)**	**(3,223)**	**-**	**-**	**85,027**	**78,740**	34,447
Net change in internally restricted net assets	**73,535**	**(54,477)**	**(3,835)**	**(14,788)**	**(435)**	**-**	-
Net change in investment in capital assets	**(27,690)**	**-**	**(59,951)**	**87,641**	**-**	**-**	-
Other transfers	**(15,205)**	**9,433**	**7,077**	**3,934**	**(5,239)**	**-**	-
Net assets (deficiency), end of year	**(299,163)**	**22,867**	**-**	**505,555**	**920,766**	**1,150,025**	952,357

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of cash flows

eleven-month period ended April 30, 2011
(in thousands of dollars)

	2011	2010
	$	$
Operating activities		
Excess of revenue over expenses	**84,365**	5,654
Adjustments for:		
Amortization of capital assets	**87,623**	89,961
Amortization of bond discount	**263**	329
Amortization of deferred capital contributions (Note 10)	**(67,540)**	(67,877)
Gain on sale of marketable securities	**(6,994)**	(15,429)
Unrealized gain on marketable securities	**(87,079)**	(2,181)
	10,638	10,457
Net change in non-cash working capital items (Note 15)	**8,600**	14,354
Increase in government grant receivable	**(114,688)**	(101,234)
(Increase) decrease in grants and contracts related to research receivable	**(57,271)**	38,207
(Decrease) increase in deferred contributions	**(13,129)**	17,585
Increase in pension liability	**1,272**	4,643
Increase in post retirement benefit obligation	**9,017**	9,271
Post retirement benefit obligation payments	**(4,475)**	(4,163)
	(160,036)	(10,880)
Investing activities		
Change in short-term investments	**(29,223)**	64,176
Acquisition of capital assets	**(215,705)**	(188,101)
Change in marketable securities, net	**(803)**	(92,457)
Change in loans receivable	**1,158**	1,141
	(244,573)	(215,241)
Financing activities		
Change in bank indebtedness	**41,480**	10,680
Investment income reported as direct increase in net assets	**78,740**	34,447
Endowment contributions	**34,563**	38,966
Issuance of long-term debt	**97,000**	95,000
Repayment of long-term debt	**(44,762)**	(58,802)
Deferred capital contributions	**199,330**	95,202
	406,351	215,493
Net change in cash and cash equivalents	**1,742**	(10,628)
Cash and cash equivalents, beginning of year	**4,248**	14,876
Cash and cash equivalents, end of year	**5,990**	4,248
Supplementary information		
Interest paid	**11,531**	12,202

(tabular amounts in thousands of dollars)

1. Status and nature of activities

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

McGill is a not-for-profit organization dedicated to providing post-secondary education and to conducting research and is exempt from tax under the provisions of the *Income Tax Act.* To maintain its charitable organization status, the University must respect an annual disbursement quota under the *Income Tax Act.* Failure to comply with this quota can result in revocation of its charitable registration status. As at April 30, 2011, the University met its disbursement quota.

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

2. Restatement of comparative year

In fiscal 2010, as part of the financial reform to conform to Canadian generally accepted accounting principles ("GAAP") mandated by the Ministere de l'Education, du Loisir et du Sport du Quebec ("MELS") to the deferral method without funds, certain fund balances previously classified as restricted have been reclassified to unrestricted to reflect the nature of the fund balances.

The effect of this change is to increase the opening unrestricted fund deficit by $20 million, and increase the internally restricted fund balance by $20 million.

	As previously reported	Adjustment	As restated
	$	$	$
Opening Unrestricted Fund balance	(313,423)	(20,000)	(333,423)
Excess of revenue over expenses	6,229	-	6,229
Interfund transfers	28,031	-	28,031
Unrestricted Fund balance, end of year	(279,163)	(20,000)	(299,163)

(tabular amounts in thousands of dollars)

2. Restatement of comparative year (continued)

	As previously reported	Adjustment	As restated
	$	$	$
Opening Internally Restricted Fund balance	31,500	20,000	51,500
Excess of revenue over expenses	19,179	-	19,179
Interfund transfers	(47,812)	-	(47,812)
Internally Restricted Fund balance, end of year	2,867	20,000	22,867

3. Significant accounting policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for not-for-profit organizations and include the following significant accounting policies.

Consolidation

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

Revenue recognition

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

Interest and dividend revenue is recorded on an accrual basis. Realized gains and losses on sales of investments are recorded when securities are sold based on the cost. Unrealized gains and losses related to the change in market value are 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.

3. Significant accounting policies (continued)

Revenue recognition (continued)

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

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

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

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

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

Financial instruments

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

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

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

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

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

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

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Derivative financial instruments

Derivative financial instruments are recorded at their fair values and changes in the fair value are recorded in the statement of revenue and expenses in investment and interest income.

Foreign exchange

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term investments which mature within 90 days.

Student loans

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

Inventory

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was $19.2 million ($21.1 million in 2010).

Capital assets

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

3. Significant accounting policies (continued)

Long-term debt

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

Net assets

Balances invested in capital assets represent net assets that are not available for other purposes because they have been invested in capital assets.

Endowments must be used in accordance with the various purposes established by donors, with endowment principal maintained intact over time.

Internally restricted net assets are funds set aside for specific purposes as determined by the Board of Governors from time to time.

Employee future benefits

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits for eligible Plan members. The cost of providing pension benefits and post-employment 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 11 years (2010 - 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, 2010.

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Use of estimates

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

Future accounting changes – New accounting framework

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

4. Receivables

	2011	2010
	$	$
Operating	**43,367**	26,949
Staff mortgages	**4,401**	2,972
Student loans	**2,858**	2,877
Investment income	**2,111**	2,473
Government grant	**50,103**	58,426
Grants and contracts related to research	**190,413**	151,775
	293,253	245,472

5. Capital grants receivable

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

6. Loans receivable

Loans receivable bear interest at rates varying from 3.60% to 5.39%, with maturities up to ten years.

(tabular amounts in thousands of dollars)

7. Capital assets

	April 30, 2011			May 31, 2010		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
	$	**$**	**$**	$	$	$
Land	**28,706**	**-**	**28,706**	28,706	-	28,706
Land improvements	**31,685**	**6,113**	**25,572**	29,044	4,661	24,383
Buildings	**594,915**	**304,953**	**289,962**	594,387	297,009	297,378
Major renovations	**526,144**	**131,472**	**394,672**	441,030	115,965	325,065
Leasehold Improvements	**1,429**	**781**	**648**	1,821	843	978
Equipment	**413,964**	**222,582**	**191,382**	389,343	207,748	181,595
Rolling stock	**1,314**	**706**	**608**	1,317	766	551
Library materials	**137,574**	**75,327**	**62,247**	133,300	71,610	61,690
Intangible assets	**11,290**	**6,186**	**5,104**	7,527	4,239	3,288
	1,747,021	**748,120**	**998,901**	1,626,475	702,841	923,634
Assets under development	**133,607**	**-**	**133,607**	80,792	-	80,792
	1,880,628	**748,120**	**1,132,508**	1,707,267	702,841	1,004,426

8. Bank indebtedness

McGill's Board of Governors has approved maximum borrowings of $250 million under short-term credit facilities, of which $217 million has been used at April 30, 2011. A temporary increase of $50 million has been approved until January 31, 2012. Unsecured and uncommitted lines of credit, totalling $330 million, are available to McGill and are normally drawn through bankers' acceptances for periods of up to one year. The lines of credit bear interest at the prime rate, which averaged 2.96% for the period. Through the use of bankers' acceptances, the average cost of borrowing for the period was 1.24%. The rate in effect as at April 30, 2011 was 1.50%. Bankers' acceptances outstanding at year end bear interest at rates ranging from 1.30% to 1.82%.

(tabular amounts in thousands of dollars)

9. Deferred contributions

Deferred contributions represent the unspent portion of funds received for restricted purposes other than capital purchases which are included under deferred capital contributions in Note 10.

	April 30, 2011	May 31, 2010
	$	$
Balance, beginning of year	**143,679**	126,094
Restricted funds received during the period	**115,820**	115,634
Gifts and bequests	**-**	4,105
Amortization of deferred revenue	**(128,949)**	(102,154)
Balance, end of year	**130,550**	143,679

10. Deferred capital contributions

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

	April 30, 2011	May 31, 2010
	$	$
Balance, beginning of year	**612,219**	584,894
Amortization of deferred capital contributions	**(67,540)**	(67,877)
Deferred capital contributions received	**199,330**	95,202
Balance, end of year	**744,009**	612,219

(tabular amounts in thousands of dollars)

11. Long-term debt

	April 30, 2011	May 31, 2010
	$	$
a)		
1) Bonds (i)		
6.20% Series "4C" due June 14, 2011	**13,981**	13,981
4.00% Series "12C" due November 24, 2011	**5,605**	5,605
5.75% Series "6C" due February 14, 2012	**3,858**	3,858
5.70% Series "7C" due February 15, 2012	**5,358**	5,358
4.10% Series "13C" due February 24, 2012	**8,837**	8,837
5.75% Series "8C" due February 28, 2012	**5,400**	5,400
5.80% Series "8C" due February 28, 2012	**3,872**	3,872
	46,911	46,911
4.05% Series "11C" due May 27, 2012	**8,571**	8,571
5.40% Series "9C" due September 12, 2012	**7,405**	7,405
5.30% Series "10C" due February 27, 2013	**10,451**	10,451
	26,427	26,427
4.50% Series "11C" due May 27, 2015	**4,703**	4,703
4.40% Series "13C" due February 24, 2016	**4,653**	4,653
4.50% Series "14C" due March 8, 2016	**7,000**	7,000
	11,653	11,653
Total Bonds:	**89,694**	89,694

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

		April 30, 2011	May 31, 2010
		$	$
a)			
	2) Notes (ii)		
	4.059% due December 1, 2010	**-**	24,445
	4.167% due December 1, 2010	**-**	4,200
	3.794% due June 16, 2011 (iii)	**88**	260
	4.288% due December 1, 2011	**19,188**	20,351
	4.814% due April 25, 2012	**16,000**	16,800
	2.257% due October 25, 2012	**57,005**	60,000
	4.952% due November 1, 2012	**29,258**	31,883
	4.355% due September 16, 2013	**76,988**	81,325
	4.607% due September 16, 2013	**30,800**	32,200
	3.240% due September 23, 2013	**36,188**	38,094
	3.320% due June 1, 2014	**13,072**	14,000
	3.690% due December 1, 2014	**24,483**	26,242
	3.839% due December 1, 2014	**35,120**	37,560
	4.267% due December 1, 2015 (iii)	**830**	976
	3.601% due June 2, 2016	**10,000**	10,000
	2.820% due June 2, 2016	**28,000**	-
	2.849% due December 1, 2016	**69,000**	-
	4.125% due August 24, 2020	**6,122**	-
	4.991% due June 1, 2034	**24,000**	25,000
	Total Notes:	**476,142**	423,336
	Total Government of Québec debt	**565,836**	513,030
b)	McGill Senior Unsecured Debentures (iv), 6.15% Series “A,” due September 22, 2042	**150,000**	150,000
c)	Royal Bank loans (v), 5.81% due March 19, 2014	**1,056**	1,998
d)	Other	**891**	517
e)	Bond discounts and issuance costs	**(5,376)**	(5,639)
	Total long-term debt	**712,407**	659,906
	Current portion of long-term debt	**(107,989)**	(50,796)
	Long-term debt	**604,418**	609,110

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

(i) These bonds are secured by an assignment of subsidies covering principal and interest granted to McGill by the Government of Québec under Orders-in-Council.

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

	Annual payment	Lump sum payment
	$	$
4.288% due December 1, 2011	**1,162**	**19,190**
4.814% due April 25, 2012	**800**	**16,000**
2.257% due October 25, 2012	**2,995**	**54,011**
4.952% due November 1, 2012	**2,624**	**26,633**
4.355% due September 16, 2013	**4,337**	**68,315**
4.607% due September 16, 2013	**1,400**	**28,000**
3.240% due September 23, 2013	**1,906**	**32,375**
3.320% due June 1, 2014	**928**	**10,287**
3.690% due December 1, 2014	**1,758**	**19,208**
3.839% due December 1, 2014	**2,440**	**27,800**
3.601% due June 2, 2016	**808**	**5,958**
4.991% due June 1, 2034	**1,000**	**-**

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

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

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

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

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

	$
2012	**107,989**
2013	**127,355**
2014	**141,298**
2015	**64,267**
2016	**23,360**

12. Employee future benefits

Pension plans

The University has a defined contribution pension plan (the "Plan"), which has a defined benefit component that provides a minimum level of pension benefits for eligible Plan members. Employee contributions are accumulated together with employer contributions and invested in the Plan's Accumulation Fund. Upon an employee's retirement, the accumulated amount is available for the purchase of a retirement annuity to be underwritten by a provider of the retiree's choice, including, if elected, an annuity provided by McGill. If an employee elects an annuity provided by McGill, the accumulated amount of the employee's holdings in the Accumulation Fund is transferred to the Plan's Pensioner Fund where it is available to fund annuity payments made by the Plan, which then creates a defined benefit obligation for the University. Under certain circumstances, employees in the Accumulation Fund are also eligible for an enhancement to their accumulated amount.

The University measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at May 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2010 and the next required valuation will be as of December 31, 2012.

Other plans and arrangements

McGill has a commitment to a specific group of employees who accepted early retirement settlements in 1996. These settlements entitled the employees to receive annual retirement allowance payments over their lifetime. The present value of these commitments as at April 30, 2011 is estimated at $2.0 million ($2.3 million in 2010). These amounts are recorded as accrued liabilities.

Post-employment obligations

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

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Pension plan defined contribution plan

The University has a defined contribution pension plan offered to basically all employees. The University contributes to the Plan up to a maximum of 10% of the employees' basic earnings, depending on the age of the employee.

The significant information about the University's defined contribution plan is as follows:

	2011	2010
	(11 months)	(12 months)
	$	$
Cash payments recognized	**31,048**	31,953
Benefit costs	**22,128**	23,653

Accrued pension liability

	2011	2010
	(11 months)	(12 months)
	$	$
Defined benefit cost		
Current service cost	**1,571**	1,847
Interest cost on accrued benefit obligation	**3,145**	2,982
	4,716	4,829

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

	April 30, 2011	May 31, 2010
	$	$
Accrued pension liability	**(327,798)**	(317,252)
Fair value of plan assets	**270,859**	252,500
Plan deficit	**(56,939)**	(64,752)
Unamortized net actuarial loss	**6,349**	15,434
Obligation for defined benefits	**(50,590)**	(49,318)

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

	April 30, 2011	May 31 2010
	%	%
Cash equivalents	**2.9**	6.6
Real estate	**14.4**	14.5
Equity	**23.2**	20,2
Fixed income	**55.4**	55.0
Other	**4.1**	3.7

The significant assumptions used are as follows:

	April 30, 2011	May 31 2010
	%	%
Discount rate	**4.75**	5.25
Expected long-term rate of return on plan assets	**5.25**	6.25
Price inflation allowance	**2.25**	2.25

Post-employment benefit obligation - unfunded benefits

	April 30, 2011	May 31 2010
	$	$
Balance, beginning of year	**108,318**	103,210
Current service cost	**2,817**	2,836
Interest cost on accrued benefit obligation	**6,489**	6,397
Benefit paid	**(4,475)**	(4,163)
Net actuarial loss	**49**	178
Past service costs	**(338)**	(140)
Balance, end of year	**112,860**	108,318

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

	2011	2010
	%	%
Accrued benefit obligation as of at year end		
Discount rate	**5.0**	5.5
Rate of compensation increase - Academics	**4.5**	4.5
- Non-Academics	**3.5**	3.5
Health care cost trend rates		
Current trend rate	**8.0**	8.0
Ultimate trend rate	**5.0**	5.0
Year of ultimate trend rate	**2016**	2016

13. Externally restricted for endowment purposes

	April 30, 2011	May 31 2010
	$	$
Faculty endowments	**391,139**	331,263
Student aid	**302,130**	263,433
Research endowments	**89,993**	80,130
Emerging priorities	**12,261**	21,300
Library endowments	**22,419**	20,588
Student services	**4,818**	5,746
Annuities	**2,010**	2,304
Accumulated income	**95,996**	82,787
	920,766	807,551

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

(tabular amounts in thousands of dollars)

13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends, and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (4.25% in 2010) of the average fair value of the Endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

14. Internally restricted net assets

	April 30, 2011	May 31 2010
	$	$
Self-financing teaching and research	**6,876**	26,975
Professor start-up funds	**8,647**	6,956
Other	**7,344**	17,569
	22,867	51,500

15. Net change in non-cash working capital items

	2011	2010
	(11 months)	(12 months)
	$	$
Receivables	**(17,466)**	(5,381)
Prepaid expenses and other assets	**2,346**	(76)
Inventory	**(417)**	(251)
Accounts payable and accrued liabilities	**30,623**	12,058
Unearned revenue	**(6,486)**	8,004
	8,600	14,354

16. Financial instruments

Financial risks

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

The University has foreign currency risk arising from its foreign denominated marketable securities. As at April 30, 2011, McGill's foreign denominated marketable securities had a fair value of CAN$575 million (May 31, 2010 – CAN$476 million), including US$367 million (CAN$348 million) (May 31, 2010 US$272 million (CAN$285 million)).

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

McGill is exposed to credit risk from its debtors. A significant portion of McGill's receivables are due from governments which are believed to be at low risk of default. For the remaining receivables, the concentration of risk is minimized because of McGill's large and diverse base of counter-parties and investments.

Fair value

At April 30, 2011, the carrying values of receivables and accounts payable and accrued liabilities approximate their fair values. Marketable securities are presented at fair value. The fair value of long-term grants receivable, capital grants receivable and grants and contracts related to research receivable cannot be determined due to the uncertain timing of collection.

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

The fair value of long-term debt, based on rates currently available to McGill for debt with similar terms and maturities, is $755.1 million at April 30, 2011 ($694 million as at May 31, 2010).

As approved by the Investment Committee of the Board, McGill has no forward contracts outstanding as at April 30, 2011. At May 31, 2010, US$285 million of contracts existed with a forward rate of 1.013, that matured on July 23, 2010. As at May 31, 2010, the fair value of these contracts approximated an unrealized loss of $10.4 million and was included in marketable securities.

16. Financial instruments (continued)

Fair value (continued)

In October 2003, McGill entered into an agreement with RBC Dominion Securities ("RBCDS") whereby it invested in a US$13 million denominated bond maturing in 2029. Under this agreement, the bond principal and the semi-annual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill $85.7 million Canadian dollars in 2029. The fair value of the bond and the swap agreement is $36.8 million and is included in marketable securities.

The US Dollar denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable, in exchange for a fixed amount of proceeds. As at April 30, 2011, the fair value of the swap is $19.3 million ($17.4 million as at May 31, 2010).

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 an agreement for the purchase of gas maturing at various dates until April 1, 2014. The fair value of commodity financial swaps is determined using the discounted value of expected cash flows. Expected future cash flows are determined using forward prices or rates in effect on the valuation date of the underlying financial index under the contractual term of the instrument. These cash flows are then discounted using a curve that reflects the credit risk of McGill or the counterparty, as applicable. The fair value of the swap is $0.6 million lower than the fixed price contracted and this loss has been recorded in expenses for the period. The resulting liability has been recorded on the balance sheet within the accounts payable and accrued liabilities.

As at April 30, 2011, McGill held securities classified as MAV notes. These securities were carried as marketable securities and had a market value of $6.1 million, as estimated by management, based on the present value of future cash flows expected. As a result of changes to the market conditions for this type of security, the net realizable value of these securities may differ materially from their carrying value.

(tabular amounts in thousands of dollars)

16. Financial instruments (continued)

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

	April 30, 2011	May 31, 2010
	%	%
Canadian Equity	**21**	20
US Equity	**13**	13
Non North American Equity	**23**	17
Canadian Fixed Income	**16**	16
US Fixed Income	**-**	1
Hedge Funds	**17**	19
Alternate strategies, including private equity and other	**10**	14
	100	100

Short-term investments consist of highly-liquid fixed income securities maturing within one year and bearing interest at rates ranging from 1.00% to 1.03%.

17. Pledges

Outstanding donation pledges at April 30, 2011 amounted to $121 million ($111 million as at May 2010). These have not been recognized in the financial statements.

18. Commitments

	$
2012	**3,746**
2013	**3,214**
2014	**1,931**
2015	**1,334**
2016	**1,346**
Thereafter	**864**
	12,435

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

18. Commitments (continued)

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $79.2 million. These commitments are expected to be met in the normal course of operations.

Private equity and private real estate funding commitments

As part of its investment activities, McGill places some of its endowment investments through private equity and private real estate funds. McGill is committed to invest an additional $65 million within the next four years in accordance with its arrangements with these funds.

19. Contingent liabilities

Litigation

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the *Civil Code of Quebec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing at April 30, 2011, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

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

20. Comparative figures

Certain comparative figures for the year ended May 31, 2010 have been reclassified in order to conform to the presentation adopted in the current year.