Financial statements of

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

(see Note 1)

April 30, 2012

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

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Independent auditor's report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other matter

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

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

October 9, 2012

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Balance sheet

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

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

Approved by the Board of Governors

S.H. Cobbett ....Governor

....Secretary - General

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of revenue and expenses

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of changes in net assets

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of cash flows

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

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

Supplementary information

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

1. Status and nature of activities

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

McGill is a not-for-profit organization dedicated to providing post-secondary education and to conducting research and is exempt from tax under the provisions of the *Income Tax Act.* To maintain its charitable organization status, the University must respect an annual disbursement quota under the *Income Tax Act.* Failure to comply with this quota can result in revocation of its charitable registration status. As at April 30, 2012, the University met its disbursement quota.

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

2. Prior period adjustments

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

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

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

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

(tabular amounts in thousands of dollars)

2. Prior period adjustments (continued)

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

Balance sheet

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

Statement of revenue and expenses

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

3. Significant accounting policies

The financial statements are prepared in accordance with Canadian GAAP and include the following significant accounting policies.

Consolidation

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

3. Significant accounting policies (continued)

Revenue recognition

The University follows the deferral method of accounting for restricted contributions, which include gifts and bequests and grants. Under the deferral method, amounts that are restricted are recorded as deferred contributions and are recognized as revenue when the related expense is incurred. Where contributions relate to capital assets, the revenue is recognized on the same basis as the amortization of the asset acquired. Unrestricted contributions are recognized as revenue when received. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Pledged donations are not recognized until received.

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

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

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

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

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

Financial instruments

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

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

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

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

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

Derivative financial instruments

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

Foreign exchange

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

Cash and cash equivalents

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

Student loans

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

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Inventory

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was $20.0 million ($19.2 million in 2011).

Capital assets

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

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

Net assets

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

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

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

3. Significant accounting policies (continued)

Employee future benefits

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

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, being 12 years (2011 - 12 years).

Past-service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendments. The most recent actuarial evaluation for funding purposes filed was dated December 31, 2009.

Use of estimates

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

Future accounting changes – New accounting framework

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

(tabular amounts in thousands of dollars)

4. Receivables

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

5. Capital grants receivable

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

6. Loans receivable

Loans receivable bear interest at rates varying from 4.125% to 4.267%, with maturities up to ten years.

7. Capital assets

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

(tabular amounts in thousands of dollars)

8. Bank indebtedness

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

9. Deferred contributions

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

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

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

	2012	2011
Federal Grants	**213,189**	215,706
Provincial Grants	**61,884**	67,685
United States Grants	**4,512**	3,883
Other Grant Sponsors	**72,338**	61,805
Contracts	**25,220**	29,511
Gifts and Bequests	**33,614**	24,638
Endowment Income	**22,344**	21,504
Investment Income	**4,587**	4,509
	437,688	429,241

(tabular amounts in thousands of dollars)

10. Deferred capital contributions

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

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

11. Long-term debt

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

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

		2012	2011
		$	$
a)			
	2) Notes (ii)		
	3.794% matured June 16, 2011 (iii)	**-**	88
	4.288% matured December 1, 2011	**-**	19,188
	4.814% matured April 25, 2012	**-**	16,000
	2.257% due October 25, 2012	**54,011**	57,005
	4.952% due November 1, 2012	**26,634**	29,258
	4.355% due September 16, 2013	**72,651**	76,988
	4.607% due September 16, 2013	**29,400**	30,800
	3.240% due September 23, 2013	**34,281**	36,188
	3.320% due June 1, 2014	**12,144**	13,072
	3.690% due December 1, 2014	**22,725**	24,483
	3.839% due December 1, 2014	**32,680**	35,120
	4.267% due December 1, 2015 (iii)	**678**	830
	3.601% due June 2, 2016	**9,192**	10,000
	2.820% due June 2, 2016	**26,374**	28,000
	2.849% due December 1, 2016	**66,240**	69,000
	1.928% due April 25, 2017	**9,456**	-
	2.323% due December 1, 2017	**66,550**	-
	2.472% due December 1, 2017	**23,000**	-
	2.406% due December 1, 2018	**18,000**	-
	4.125% due August 24, 2020	**5,655**	6,122
	4.991% due June 1, 2034	**23,000**	24,000
	Total Notes:	**532,671**	476,142
	Total Government of Quebec debt	**575,454**	565,836
b)	McGill Senior Unsecured Debentures (iv), 6.15% Series “A,” due September 22, 2042	**150,000**	150,000
c)	Royal Bank loans (v), 5.81% due March 19, 2014	**1,056**	1,056
d)	Other	**292**	891
e)	Bond discounts and issuance costs	**(5,189)**	(5,376)
	Total long-term debt	**721,613**	712,407
	Current portion of long-term debt	**(132,400)**	(107,989)
	Long-term debt	**589,213**	604,418

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

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

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

	Annual payment	Lump sum payment
	$	**$**
2.257% due October 25, 2012	**2,995**	**54,011**
4.952% due November 1, 2012	**2,624**	**26,634**
4.355% due September 16, 2013	**4,337**	**68,314**
4.607% due September 16, 2013	**1,400**	**28,000**
3.240% due September 23, 2013	**1,906**	**32,375**
3.320% due June 1, 2014	**928**	**10,288**
3.690% due December 1, 2014	**1,758**	**19,209**
3.839% due December 1, 2014	**2,440**	**27,800**
3.601% due June 2, 2016	**808**	**5,960**
2.820% due June 2, 2016	**1,626**	**19,870**
2.849% due December 1, 2016	**2,760**	**55,200**
1.928% due April 25, 2017	**994**	**5,480**
2.323% due December 1, 2017	**2,662**	**53,240**
2.472% due December 1, 2017	**1,415**	**15,925**
2.406% due December 1, 2018	**1,110**	**12,450**
4.125% due August 24, 2020	**532**	**867**
4.991% due June 1, 2034	**1,000**	**1,000**

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

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

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

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

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

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

12. Employee future benefits

Pension plans

The University has a defined contribution pension plan (the "Plan"), which has a defined benefit component that provides a minimum level of pension benefits for eligible Plan members. Employee contributions are accumulated together with employer contributions and invested in the Plan's Accumulation Fund. Upon an employee's retirement, the accumulated amount is available for the purchase of a retirement annuity to be underwritten by a provider of the retiree's choice, including, if elected, an annuity provided by McGill. If an employee elects an annuity provided by McGill, the accumulated amount of the employee's holdings in the Accumulation Fund is transferred to the Plan's Pensioner Fund where it is available to fund annuity payments made by the Plan, which then creates a defined benefit obligation for the University. Under certain circumstances, employees in the Accumulation Fund are also eligible for an enhancement to their accumulated amount. Commencing January 1, 2011, employees are no longer able to elect to obtain a McGill annuity upon retirement.

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

Other plans and arrangements

McGill has a commitment to a specific group of employees who accepted early retirement settlements in 1996. These settlements entitled the employees to receive annual retirement allowance payments over their lifetime. The present value of these commitments as at April 30, 2012 is estimated at $2.0 million ($2.0 million in 2011). These amounts are recorded as accrued liabilities.

Post-employment obligations

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

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Pension plan defined contribution plan

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

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

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

Accrued pension liability

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

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

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

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

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

The significant assumptions used are as follows:

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

Post-employment benefit obligation - unfunded benefits

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

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

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

13. Externally restricted for endowment purposes

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

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

(tabular amounts in thousands of dollars)

13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends, and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (4.25% in 2011) of the average fair value of the Endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

14. Internally restricted net assets

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

15. Net change in non-cash working capital items

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

16. Financial instruments

Financial risks

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

The University has foreign currency risk arising from its foreign denominated marketable securities. As at April 30, 2012, McGill's foreign denominated marketable securities had a fair value of CAN$587 million (April 30, 2011 – CAN$575 million), including US$395 million (CAN$390 million) (April 30, 2011 – US$367 million (CAN$348 million)).

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

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

Fair value

At April 30, 2012, the carrying values of receivables and accounts payable and accrued liabilities approximate their fair values. Marketable securities are presented at fair value. The fair value of long-term grants receivable, capital grants receivable and grants and contracts related to research receivable cannot be determined due to the uncertain timing of collection.

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

The fair value of long-term debt, based on rates currently available to McGill for debt with similar terms and maturities, is $779.2 million at April 30, 2012 (April 30, 2011 – $755.1 million).

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

(tabular amounts in thousands of dollars)

16. Financial instruments (continued)

Fair value (continued)

In October 2003, McGill entered into an agreement with RBC Dominion Securities ("RBCDS") whereby it invested in a US$13 million denominated bond maturing in 2029. Under this agreement, the bond principal and the semi-annual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill $85.7 million Canadian dollars in 2029. The fair value of the bond and the swap agreement is $46.9 million and is included in marketable securities.

The US Dollar denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable, in exchange for a fixed amount of proceeds. As at April 30, 2012, the fair value of the swap is $19.8 million (April 30, 2011 – $19.3 million).

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

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

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

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

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

(tabular amounts in thousands of dollars)

17. Pledges

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

18. Commitments

Operating leases:

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

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

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $55.8 million. These commitments are expected to be met in the normal course of operations.

Private equity and private real estate funding commitments

As part of its investment activities, McGill places some of its endowment investments through private equity and private real estate funds. McGill is committed to invest an additional $48.6 million within the next four years in accordance with its arrangements with these funds.

19. Contingent liabilities

Litigation

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the *Civil Code of Quebec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing at April 30, 2012, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

19. Contingent liabilities (continued)

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

20. Comparative figures

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