

Financial statements of

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

(see Note 1)

April 30, 2013 and April 30, 2012

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

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Independent auditor's report

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

We have audited the accompanying financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheets as at April 30, 2013, April 30, 2012 and May 1, 2011, and the statements of revenue and expenses, changes in net assets and cash flows for the years ended April 30, 2013 and April 30, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Institution for the Advancement of Learning / McGill University as at April 30, 2013, April 30, 2012 and May 1, 2011, and the results of its operations and its cash flows for the years ended April 30, 2013 and April 30, 2012, in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte s.e.n.c.r.l.

September 26, 2013

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Balance sheets

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

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

Approved by the Board of Governors

....., Governor

....., Secretary - General

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

**THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF
LEARNING / MCGILL UNIVERSITY**

Statements of revenue and expenses

years ended April 30, 2013 and April 30, 2012

(in thousands of dollars)

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

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

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

Statements of changes in net assets

years ended April 30, 2013 and April 30, 2012 and May 1, 2011

(in thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	\$	\$	\$	\$	\$	\$
Net assets (deficiency), May 1, 2011	(299,163)	55,244	-	174,487	920,766	851,334
Excess (deficiency) of revenue over expenses	26,438	37,315	(2,615)	(28,509)	-	32,629
Endowment contributions and gifts in kind	-	-	-	2,327	40,088	42,415
Investment income items reported as						
direct increase (decrease) in net assets	760	551	(6,411)	-	(19,323)	(24,423)
Net change in internally restricted net assets	29,214	(39,432)	4,993	5,709	(484)	-
Investment in capital assets	(44,759)	-	(13,186)	57,945	-	-
Other transfers	(14,372)	-	17,219	985	(3,832)	-
Net assets (deficiency), April 30, 2012	(301,882)	53,678	-	212,944	937,215	901,955
Excess (deficiency) of revenue over expenses	43,957	27,766	18,874	(55,224)	-	35,373
Endowment contributions and gifts in kind	-	-	-	1,576	38,468	40,044
Investment income items reported as						
direct (decrease) increase in net assets	(2,539)	(2,333)	(6,119)	-	86,694	75,703
Net change in internally restricted net assets	10,458	(33,580)	(3,291)	27,205	(792)	-
Investment in capital assets	(42,943)	-	(22,012)	64,955	-	-
Other transfers	(22,347)	12,593	12,548	4,006	(6,800)	-
Net assets (deficiency), April 30, 2013	(315,296)	58,124	-	255,462	1,054,785	1,053,075

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Statements of cash flows

years ended April 30, 2013 and April 30, 2012

(in thousands of dollars)

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(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.

2. Adoption of a new accounting framework

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

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

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

3. Significant accounting policies

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

Consolidation

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

Revenue recognition

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

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

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

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

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments

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

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

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

Foreign exchange

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

Cash and cash equivalents

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Student loans

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

Inventory

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

Capital assets

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

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

Net assets

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

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Employee future benefits

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

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, being 12 years (2012 - 12 years).

Past-service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendments. The most recent actuarial evaluation for funding purposes filed was dated December 31, 2012.

Use of estimates

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

4. Receivables

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

5. Capital grants receivable

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

6. Loans receivable

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

**THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF
LEARNING / MCGILL UNIVERSITY**

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

7. Capital assets

	April 30, 2013		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
	\$	\$	\$
Land	28,706	-	28,706
Land improvements	35,155	9,569	25,586
Buildings	630,687	322,553	308,134
Major renovations	762,491	178,683	583,808
Leasehold improvements	6,065	3,440	2,625
Equipment	525,067	325,984	199,083
Rolling stock	2,116	1,360	756
Library materials	166,462	103,290	63,172
Intangible assets	15,237	13,224	2,013
	2,171,986	958,103	1,213,883
Assets under development	60,816	-	60,816
	2,232,802	958,103	1,274,699
	April 30, 2012		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
	\$	\$	\$
Land	28,706	-	28,706
Land improvements	33,964	7,812	26,152
Buildings	596,836	313,656	283,180
Major renovations	674,206	153,580	520,626
Leasehold improvements	6,065	2,315	3,750
Equipment	471,499	273,966	197,533
Rolling stock	1,769	1,016	753
Library materials	152,517	90,578	61,939
Intangible assets	13,584	10,046	3,538
	1,979,146	852,969	1,126,177
Assets under development	95,208	-	95,208
	2,074,354	852,969	1,221,385

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

7. Capital assets (continued)

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

8. Bank indebtedness

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

**THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF
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Notes to the financial statements

April 30, 2013 and April 30, 2012

(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.

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

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

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

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

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(tabular amounts in thousands of dollars)

11. Long-term debt

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

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April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

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

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(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
	\$	\$
4.355%, due September 16, 2013	4,337	68,313
4.607%, due September 16, 2013	1,400	28,000
3.240%, due September 23, 2013	1,906	32,375
3.320%, due June 1, 2014	928	10,288
3.690%, due December 1, 2014	1,758	19,208
3.839%, due December 1, 2014	2,441	27,800
3.601%, due June 2, 2016	808	5,960
2.820%, due June 2, 2016	1,626	19,870
2.849%, due December 1, 2016	2,760	55,200
1.928%, due April 25, 2017	994	5,480
2.323%, due December 1, 2017	2,662	53,240
2.472%, due December 1, 2017	1,415	15,925
2.213%, due June 1, 2018	10,812	132,940
2.112%, due June 1, 2018	582	2,090
2.406%, due December 1, 2018	1,110	12,450
4.125%, due August 24, 2020	554	4,570
3.013%, due September 28, 2022	811	8,459
4.991%, due June 1, 2034	1,000	1,000

- (iii) These notes are secured by a grant receivable from the Ministère du Développement économique de l'innovation et de l'Exportation ("MDEIE"). Semi-annual payments of capital and interest are paid by MDEIE, on McGill's behalf, to Financement Québec.
- (iv) In September 2002, McGill issued \$150 million of unsecured debentures. Unlike MESRST bonds, McGill will be required to repay these obligations from resources generated by McGill. Semi-annual interest payments are paid by McGill.
- (v) The Royal Bank loans are secured by grants receivable from the Ministère des Affaires Municipales des Régions et de l'Occupation du Territoire ("MAMROT"). Semi-annual payments of capital and interest are paid by McGill and reimbursed by MAMROT.

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(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:

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

12. Employee future benefits

Pension plans

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

The University measures its accrued benefit obligations and the fair value of Plan assets for accounting purposes as at April 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2012, and the next required valuation will be as of December 31, 2015.

Other plans and arrangements

McGill has a commitment to a specific group of employees who accepted early retirement settlements in 1996. These settlements entitled the employees to receive annual retirement allowance payments over their lifetime. The present value of these commitments as at April 30, 2013, is estimated at \$2.0 million (\$2.0 million as at April 30, 2012, and as at May 1, 2011). These amounts are recorded as accrued liabilities. See also Note 19.

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Post-employment obligations

The University provides post-employment benefits other than pension benefits to eligible retired employees, including health and dental care. The present value of these commitments as at April 30, 2013 is estimated at \$118.8 million (\$118.6 million as at April 30, 2012, and \$112.9 million as at May 1, 2011). These amounts are recorded as liabilities.

Pension plan defined contribution plan

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

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

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

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

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

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

The significant assumptions used are as follows:

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

Post-employment benefit obligation - unfunded benefits

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

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

13. Externally restricted for endowment purposes

	2013	April 30, 2012	May 1, 2011
	\$	\$	\$
Faculty endowments	446,067	412,603	391,139
Student aid	354,051	315,663	302,130
Research endowments	96,611	92,891	89,993
Emerging priorities	18,316	14,138	12,261
Library endowments	22,911	22,097	22,419
Student services	6,243	5,258	4,818
Annuities	2,197	1,961	2,010
Accumulated income	108,389	72,604	95,996
	1,054,785	937,215	920,766

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

Notes to the financial statements

April 30, 2013 and April 30, 2012

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13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends and realized and unrealized gains and losses, is recorded in the statements of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (4.25% in 2012) of the average fair value of the endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that the actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

14. Internally restricted net assets

	April 30,	May 1,
	2013	2011
	\$	\$
Self-financing teaching and research	11,125	6,876
Professor start-up funds	10,648	8,647
Other	36,351	39,721
	58,124	55,244

15. Investment and interest income

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

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / MCGILL UNIVERSITY

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16. Net change in non-cash working capital items

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

17. Financial instruments

Financial risks

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

The University has foreign currency risk arising from its foreign denominated marketable securities. As at April 30, 2013, McGill's foreign denominated marketable securities had a fair value of CAN\$743 million (April 30, 2012 – CAN\$587; May 1, 2011 – CAN\$575 million), including US\$508 million (CAN\$512 million) (April 30, 2012 – US\$395 million (CAN\$390 million); May 1, 2011 – US\$367 million (CAN\$348 million)).

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

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

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17. Financial instruments (continued)

Financial risks

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

Derivatives

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of EURO\$23.5 million as at April 30, 2013, with a forward rate of 1.34376 that matured on June 12, 2013 (EURO\$18.4 million as at April 30, 2012, with a forward rate of 1.30069 that matured on June 15, 2012). As at April 30, 2013, the fair value of these contracts approximated an unrealized gain of \$0.4 million which was included in marketable securities (April 30, 2012 - an unrealized loss of \$0.1 million). There were no forward contracts outstanding as at May 1, 2011.

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

The US Dollar denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable in exchange for a fixed amount of proceeds. As at April 30, 2013, the fair value of the swap is \$20.0 million (April 30, 2012 - \$19.8 million; May 1, 2011 - \$19.3 million).

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

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17. Financial instruments (continued)

Derivatives (continued)

The University entered into a swap agreement for the purchase of natural gas maturing at various dates until April 1, 2014. The fair value of commodity financial swaps is determined using the discounted value of expected cash flows. Expected future cash flows are determined using forward prices or rates in effect on the valuation date of the underlying financial index under the contractual term of the instrument. These cash flows are then discounted using a curve that reflects the credit risk of McGill or the counterparty, as applicable. The fair value of the swap is \$0.3 million lower than the fixed price contracted (April 30, 2012 - \$1.4 million lower; May 1, 2011 - \$0.6 million lower) resulting in a change in fair value gain of \$1.1 million in the year (loss of \$0.8 million in 2012). The resulting liability has been recorded in the balance sheets within the accounts payable and accrued liabilities.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

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

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

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18. Pledges

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

19. Commitments

Operating leases

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

	\$
2014	4,318
2015	2,866
2016	1,713
2017	1,219
2018	321
Thereafter	196
	<u>10,633</u>

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling \$49.1 million. These commitments are expected to be met in the normal course of operations.

Private equity and private real estate funding commitments

As part of its investment activities, McGill places some of its endowment investments through private equity and private real estate funds. McGill is committed to invest an additional \$56.7 million within the next four years in accordance with its arrangements with these funds.

Retirement program

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

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Notes to the financial statements

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20. Contingent liabilities

Litigation

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

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