

Financial statements of

McGILL UNIVERSITY
(see Note 1)

May 31, 2005

MCGILL UNIVERSITY

Table of contents

Auditors' report..... 1

Balance sheet 2

Statement of revenue and expenses and changes in fund balances..... 3-4

Statement of cash flows 5

Notes to financial statement..... 6-20

Auditors' report

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

We have audited the balance sheet of McGill University as at May 31, 2005 and the statements of revenue and expenses and changes in fund balances and of cash flows for the year then ended. These financial statements are the responsibility of the University's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The University has prepared its financial statements in accordance with the recommendations in the *Cahier des définitions, des termes et des directives de présentation du rapport financier annuel pour les universités du Québec* (the "Cahier"), as they are applied in the annual financial report submitted to the ministère de l'Éducation, du Loisir et du Sport du Québec. These recommendations are consistent with Canadian generally accepted accounting principles with the principal exceptions relating to accrued vacation pay, employee future benefits and capital assets. Note 2 describes how the Cahier's recommendations differ from Canadian generally accepted accounting principles.

In our opinion, except for the effects of the accounting methods described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the University as at May 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélaïr
Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants

September 1, 2005

McGILL UNIVERSITY

Balance sheet

as at May 31, 2005

(in thousands of dollars)

	Operating Fund	Restricted Fund	Plant Fund	Endowment Fund	2005	Total 2004
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Cash and short-term investments	-	1,496	53,801	47,555	102,852	100,685
Receivables						
Operating	17,739	1,333	1,834	282	21,188	25,645
Student loans	-	3,579	-	-	3,579	3,349
Investment income	-	-	-	3,638	3,638	3,417
Government grants	43,871	213	-	-	44,084	40,367
Grants and contracts related to research	-	182,411	-	-	182,411	167,084
Pledges	20	6,974	-	-	6,994	8,832
Prepaid expenses	4,651	2,021	-	-	6,672	5,679
Inventory	2,012	-	-	-	2,012	2,157
Due from (to) other funds	59,414	94,787	(153,052)	(1,149)	-	-
	127,707	292,814	(97,417)	50,326	373,430	357,215
Marketable securities, at market value	-	15,770	23,960	711,963	751,693	753,878
Grants and contracts related to research receivable - long-term	-	120,617	-	-	120,617	145,087
Pledges receivable - long-term	21	15,080	-	-	15,101	15,480
Grant receivable (Note 8(c))	-	459	3,593	-	4,052	4,398
Capital assets (Note 3)	-	-	945,512	-	945,512	881,392
Staff mortgages	-	-	-	2,177	2,177	2,308
Total assets	127,728	444,740	875,648	764,466	2,212,582	2,159,758
Liabilities						
Current liabilities						
Bank indebtedness (Note 7)	103,031	-	-	-	103,031	45,249
Accounts payable and accrued liabilities	30,088	8,804	14,456	279	53,627	59,201
Unearned revenue	16,126	18	-	-	16,144	19,582
Provisions for specific purposes	2,867	-	-	-	2,867	4,816
Current portion of long-term debt (Note 8)	-	-	44,148	-	44,148	76,208
	152,112	8,822	58,604	279	219,817	205,056
Long-term debt (Note 8)	-	459	435,921	-	436,380	404,395
	152,112	9,281	494,525	279	656,197	609,451
Commitments and contingent liabilities (Notes 12 and 13)						
Fund balances						
Invested in capital assets	-	-	367,820	-	367,820	386,608
Externally restricted (Note 4)	-	435,459	12,125	738,460	1,186,044	1,157,029
Internally restricted (Note 5)	34,391	-	1,178	25,727	61,296	50,318
Unrestricted	(58,775)	-	-	-	(58,775)	(43,648)
	(24,384)	435,459	381,123	764,187	1,556,385	1,550,307
Total liabilities and fund balances	127,728	444,740	875,648	764,466	2,212,582	2,159,758

Approved by the Board of Governors

..... Governor

..... Governor

McGILL UNIVERSITY

Statement of revenue and expenses and changes in fund balances

year ended May 31, 2005

(in thousands of dollars)

	2005					2004				
	Operating Fund	Restricted Fund	Plant Fund	Endowment Fund	Total	Total	Operating Fund	Restricted Fund	Plant Fund	Endowment Fund
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue										
Government of Québec										
Grant	241,280	7,924	15,202	-	264,406	245,204	218,922	7,989	18,293	-
Interest on MELS bonds	-	-	23,695	-	23,695	22,527	-	-	22,527	-
Government of Canada	13,585	-	3,412	-	16,997	14,495	13,414	-	1,081	-
Other government grants	-	-	4,013	-	4,013	-	-	-	-	-
Tuition fees	70,121	-	-	-	70,121	67,795	67,795	-	-	-
Sale of goods and services	64,323	-	2,729	-	67,052	58,869	58,869	-	-	-
Gifts and bequests	4,141	3,487	12,141	12,965	32,734	24,862	3,220	2,093	2,675	16,874
Net short-term interest income	7,983	-	3,119	-	11,102	11,602	6,867	-	4,735	-
Net investment income (Note 10)	7,157	9,269	4	-	16,430	18,767	8,353	10,414	-	-
	408,590	20,680	64,315	12,965	506,550	464,121	377,440	20,496	49,311	16,874
Services to the community (Note 10)	20,603	16,834	-	-	37,437	39,460	19,121	20,339	-	-
Student services										
Fees and sales of goods and services	12,158	-	-	-	12,158	11,541	11,541	-	-	-
Student aid										
Net investment income (Note 10)	-	8,353	-	-	8,353	10,469	-	10,469	-	-
Donations and grants	240	19,020	-	-	19,260	16,402	424	15,978	-	-
Government of Québec grant	1,950	-	-	-	1,950	1,812	1,812	-	-	-
	14,348	27,373	-	-	41,721	40,224	13,777	26,447	-	-
Ancillary services	46,210	200	-	-	46,410	43,218	42,996	222	-	-
Research										
Net investment income (Note 10)	-	5,307	-	-	5,307	7,241	-	7,241	-	-
Government grants										
Federal	-	106,943	-	-	106,943	114,611	-	114,611	-	-
Provincial	-	48,229	-	-	48,229	59,986	-	59,986	-	-
United States	-	7,099	-	-	7,099	8,460	-	8,460	-	-
Grants from other sources	-	115,177	-	-	115,177	155,782	-	155,782	-	-
	-	282,755	-	-	282,755	346,080	-	346,080	-	-
Total revenue	489,751	347,842	64,315	12,965	914,873	933,103	453,334	413,584	49,311	16,874

McGILL UNIVERSITY

Statement of revenue and expenses and changes in fund balances (continued)

year ended May 31, 2005

(in thousands of dollars)

	2005					2004				
	Operating Fund	Restricted Fund	Plant Fund	Endowment Fund	Total	Total	Operating Fund	Restricted Fund	Plant Fund	Endowment Fund
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue (from previous page)	489,751	347,842	64,315	12,965	914,873	933,103	453,334	413,584	49,311	16,874
Expenses										
Faculties	241,692	13,732	-	-	255,424	234,968	219,046	15,922	-	-
Academic services	53,869	6,513	-	-	60,382	62,418	56,903	5,515	-	-
Support services	120,526	1,201	-	-	121,727	107,529	106,558	971	-	-
Amortization and write-downs of capital assets	-	-	69,854	-	69,854	64,556	-	-	64,556	-
Capital assets	-	-	3,670	-	3,670	2,189	-	-	2,189	-
Loss on disposal of assets	-	-	-	-	-	162	-	-	162	-
Interest on long-term debt	-	-	32,920	-	32,920	31,831	-	-	31,831	-
Management fees	-	-	-	6,892	6,892	7,039	-	-	-	7,039
	416,087	21,446	106,444	6,892	550,869	510,692	382,507	22,408	98,738	7,039
Services to the community	19,738	14,682	-	-	34,420	34,603	19,696	14,907	-	-
Student services	16,455	29,148	-	-	45,603	42,731	15,961	26,770	-	-
Ancillary services	43,088	199	-	-	43,287	40,399	40,177	222	-	-
Research	-	260,443	-	-	260,443	251,836	-	251,836	-	-
Total expenses	495,368	325,918	106,444	6,892	934,622	880,261	458,341	316,143	98,738	7,039
(Deficiency) excess of revenue over expenses, before the undernoted item	(5,617)	21,924	(42,129)	6,073	(19,749)	52,842	(5,007)	97,441	(49,427)	9,835
Unrealized gains on marketable securities (Note 10)	929	1,321	6,473	-	8,723	72,243	7,897	64,346	-	-
(Deficiency) excess of revenue over expenses	(4,688)	23,245	(35,656)	6,073	(11,026)	125,085	2,890	161,787	(49,427)	9,835
Fund balance (deficit), beginning of year	(19,636)	415,606	396,618	757,719	1,550,307	1,328,778	(16,301)	312,849	352,579	679,651
Interfund transfers (Note 6)	(60)	(3,392)	3,057	395	-	-	(6,225)	(59,030)	(2,978)	68,233
Capital expenditures financed by other funds	-	-	17,104	-	17,104	96,444	-	-	96,444	-
Fund balance (deficit), end of year	(24,384)	435,459	381,123	764,187	1,556,385	1,550,307	(19,636)	415,606	396,618	757,719

McGILL UNIVERSITY

Statement of cash flows

year ended May 31, 2005

(in thousands of dollars)

	2005	2004
	\$	\$
Operating activities		
(Deficiency) excess of revenue over expenses *	(17,099)	115,250
Non-cash items		
Amortization and write-downs of capital assets	69,854	64,556
Gain on sale of marketable securities	(12,520)	(14,667)
Unrealized gains on marketable securities	(8,723)	(72,243)
Net change in non-cash working capital items	(11,521)	10,330
Increase (decrease) in grants and contracts receivable related to research	9,144	(137,636)
Decrease in pledges receivable	2,217	3,562
Increase (decrease) in grant receivable	346	(4,398)
	31,698	(35,246)
Investing activities		
Acquisition of capital assets	(133,974)	(144,367)
Disposal (acquisition) of marketable securities, net	23,428	(15,678)
Proceeds from staff mortgages, net	131	1,189
	(110,415)	(158,856)
Financing activities		
Net change in Endowment Fund balance	6,073	9,835
Net reduction of (contribution to) sinking fund	8,066	(13,851)
Issuance of long-term debt	90,000	55,773
Repayment of long-term debt	(98,141)	(4,065)
Capital expenditures financed by other funds	17,104	96,444
	23,102	144,136
Net decrease in cash and short-term investments	(55,615)	(49,966)
Cash position, beginning of year	55,436	105,402
Cash position, end of year	(179)	55,436
Cash position comprises:		
Cash and short-term investments - Restricted Fund	1,496	-
- Plant Fund	53,801	60,300
- Endowment Fund**	47,555	40,385
Bank indebtedness - Operating Fund	(103,031)	(45,249)
	(179)	55,436

* Endowment Fund results are included in financing activities.

** These assets are subject to external restriction.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(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 or 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”). These are the financial statements of McGill.

McGill is a not-for-profit organization dedicated to providing post-secondary education and to conducting research and is exempt from tax under provisions of the *Income Tax Act (Canada)*.

2. Significant accounting policies

McGill follows the accounting policies and practices required by the *Cahier des définitions, des termes et des directives de présentation du rapport financier annuel pour les universités du Québec* (the “Cahier”), as they are applied in the annual financial report submitted to the Ministère de l’Éducation, du Loisir et du Sport du Québec (“MELS”). These accounting policies, as applied to McGill, are in conformity with Canadian generally accepted accounting principles (“GAAP”) except for the following:

- In the course of operations, capital assets are purchased by the Operating and Restricted Funds. The MELS requires that these assets be recorded as expenses of the respective fund, and capitalized and amortized in the Plant Fund. During the year, the capital assets acquired in the operating and restricted funds totaled \$17,104,000 (\$96,444,000 in 2004).
- As required by the MELS, McGill accounts for vacation pay on a cash basis rather than on an accrual basis. Under the accrual method, the estimated vacation pay accrual would have been \$26,576,000 (\$24,887,000 in 2004), resulting in a decrease of \$1,689,000 in the excess of revenue over expenses for the year (\$1,082,000 in 2004).
- The Government of Québec contributes annually to a bond sinking fund on behalf of McGill. This fund is intended for repayment of bonds at maturity and consequently the MEQ requires that the amount be presented as a reduction of long-term debt.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

- Bond discounts are recorded as capital assets in accordance with MELS requirements rather than as a deferred charge.
- Employee future benefits and pension costs are expensed when paid, rather than accrued during the employee's service. The impractical nature of determining the calculation for disclosure purposes is such that the amount was not determined as of the date of this report.

Had the above items been accounted for as at May 31, 2005, the total excess (deficiency) of revenue over expenses would have increased by \$15,415,000 to an excess of \$4,389,000 (\$95,362,000 and \$220,447,000, respectively in 2004). This amount does not include the effect of accounting for employee future benefits which has not been quantified.

Other significant accounting policies

Fund accounting

McGill follows the restricted fund method of accounting for contributions. This method involves the recording of assets, liabilities, revenue and expenses of distinct activities in separate funds.

The Operating Fund records all teaching, administrative and support activities, together with all unrestricted resources provided to McGill.

The Restricted Fund records resources which are subject to restrictions set by the external provider of the funds.

The Plant Fund records the assets, liabilities, revenue and expenses related to capital property owned and managed by McGill.

The Endowment Fund records gifts received for endowment purposes. Investment income on resources of the Endowment Fund is reported in the Operating, Restricted or Plant Fund depending on the nature of the restriction, if any, imposed by contributors of endowment funds.

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, for values of marketable securities, estimated useful lives of capital assets, and provisions for contingencies.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Other significant accounting policies (continued)

Revenue recognition

Unrestricted contributions are recognized as revenue of the Operating Fund. Restricted contributions are recognized as revenue of the appropriate restricted fund in the year received, or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. The majority of the pledges receivable are scheduled for receipt within the next five years.

Investment income earned on restricted Endowment Fund assets is recognized as revenue of the appropriate restricted fund. Such income earned on unrestricted Endowment Fund assets is recognized as revenue of the Operating Fund. Income earned on unexpended Plant Fund balances is recognized as revenue of the Plant Fund.

Interest and dividend revenue is recorded on an accrual basis. Realized gains or 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 disclosed as a distinct line on the statement of revenues and expenses.

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

Government of Québec operating grants are recorded in the financial year for which they are granted. The Government of Québec grants are based on second prior year student enrollment information. The grant amount is adjusted to reflect actual figures in future years based on then current calculation methods. Due to the uncertainty of the treatment of deregulated students by the Government of Québec and the calculation method to be used, the amount of the future grant cannot be reasonably estimated and as such has not been recorded by the University.

Consolidation

The net results of not-for-profit organizations affiliated with McGill are not reported in these financial statements.

Contributed services

These financial statements do not report the value of contributed volunteer hours and small gifts-in-kind, as the fair value thereof is not practicably determinable.

Cash and short-term investments

For the purposes of the statement of cash flows, short-term investments is defined as highly liquid investments with short-term maturities.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Other significant accounting policies (continued)

Marketable securities

Marketable securities are classified as held for trading and are recorded at market value. Changes in market value in the period are recorded in the statement of revenue and expenses.

Realized gains and losses representing sale price less original cost are presented as part of net investment income, and unrealized gains and losses are presented as a distinct line on the statement of revenue and expenses. In 2004, as permitted by the MELS, McGill began recording marketable securities at market value. Until the introduction of CICA Handbook Section 3855, "Financial instruments - Recognition and measurement", the marketable securities under GAAP would have been recorded at cost. The implementation and early adoption of this standard applied by McGill has eliminated a difference between MELS accounting policies and GAAP previously reported in 2004.

Student loans

Student loans are due within one year after graduation and do not bear interest. A provision is recorded for estimated uncollectible amounts.

Inventory

Inventory, including books and supplies, is valued at the lower of cost and net realizable value.

Capital assets

Capital assets are recorded at cost. Constructed assets normally include interest capitalized during construction, based on the current cost of borrowing. 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.

Capital assets also include equipment purchased from operating funds, where the cost is to be charged against revenue in accordance with amortization schedules or other arrangements which provide for full recovery of costs over the estimated useful lives of such assets. Interest is charged on the amount outstanding based on the external cost of borrowing at the time of purchase. In exceptional cases of particular need, the internal recovery of interest costs may be waived or reduced.

Amortization of capital assets is recorded as an expense in the Plant Fund. Amortization of assets under development commences when development is completed. The amortization rate and method is prescribed by the MELS based on the estimated useful lives of various asset categories as follows:

Land improvements	Straight-line	20 years
Buildings	Declining balance	2% per year
Leasehold improvements	Straight-line	Term of lease
Equipment	Straight-line	5 to 8 years
Library materials	Straight-line	40 years
Bond discounts	Straight-line	Term of bond

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

Other significant accounting policies (continued)

Capitalization of investment income

As outlined above (revenue recognition), all investment income is attributed to a specific fund in its totality.

A portion of investment income earned on endowment fund assets is reinvested, through interfund transfers, to maintain the purchasing power of the original capital. Although this policy is an internal restriction, the amounts so capitalized are added to the externally restricted balances for reporting purposes.

3. Capital assets

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	\$	\$	\$	\$	\$	\$
Land	8,110	-	8,110	8,110	-	8,110
Land improvements	3,221	1,055	2,166	3,221	894	2,327
Buildings	762,204	204,711	557,493	732,617	193,333	539,284
Leasehold improvements	304	152	152	-	-	-
Equipment	339,898	169,181	170,717	303,892	139,487	164,405
Library materials	177,960	32,763	145,197	163,940	28,314	135,626
Bond discounts	12,771	4,936	7,835	13,248	4,858	8,390
	1,304,468	412,798	891,670	1,225,028	366,886	858,142
Assets under development	53,842	-	53,842	23,250	-	23,250
	1,358,310	412,798	945,512	1,248,278	366,886	881,392

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

4. Externally restricted fund balances

	2005				2004
	Restricted Fund	Plant Fund	Endowment Fund	Total	Total
	\$	\$	\$	\$	\$
Research	371,677	-	79,441	451,118	443,809
Faculties	9,012	-	204,881	213,893	200,929
Academic services	2,105	-	21,843	23,948	26,114
Support services	7,614	12,125	6,436	26,175	27,317
Community services	22,993	-	12,033	35,026	26,990
Student services	22,058	-	165,292	187,350	174,244
Accumulated income (i)	-	-	248,534	248,534	257,626
	435,459	12,125	738,460	1,186,044	1,157,029

(i) This income is presented as externally restricted, however, as stated in Note 2 the accumulated reinvested income is subject to internal restrictions imposed by the Board of Governors.

5. Internally restricted fund balances

	2005				2004
	Operating Fund	Plant Fund	Endowment Fund	Total	Total
	\$	\$	\$	\$	\$
Faculties	9,969	-	22,437	32,406	30,512
Academic services	2,932	-	2,267	5,199	5,329
Support services	9,154	1,178	4	10,336	2,166
Community services	8,457	-	958	9,415	8,222
Student services	3,879	-	61	3,940	3,965
Ancillary services	-	-	-	-	124
	34,391	1,178	25,727	61,296	50,318

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

6. Interfund transfers

	2005			
	Operating Fund	Restricted Fund	Plant Fund	Endowment Fund
	\$	\$	\$	\$
Overdistributed income (a)	2,047	12,903	2	(14,952)
Net capitalization of income (b)	132	(9,172)	322	8,718
Unrealized gains on endowment investments	(929)	(5,856)	(2)	6,787
Other transfers (c)	(1,310)	(1,267)	2,735	(158)
	(60)	(3,392)	3,057	395

	2004			
	Operating Fund	Restricted Fund	Plant Fund	Endowment Fund
	\$	\$	\$	\$
Overdistributed income (a)	1,076	8,489	-	(9,565)
Net capitalization of income (b)	(1,882)	(5,743)	-	7,625
Unrealized losses on endowment investments	(7,897)	(62,302)	-	70,199
Other transfers (c)	2,478	526	(2,978)	(26)
	(6,225)	(59,030)	(2,978)	68,233

- (a) Represents the de-investment of accumulated net investment income, where the actual investment income realized is less than the amount agreed to be distributed under the endowment fund distribution plan.
- (b) Represents the re-investment of unspent current investment income.
- (c) Other transfers include transfers of internally restricted funds and authorized transfers of externally restricted funds.

7. Bank indebtedness

The University has unsecured lines of credit available varying from \$155 million to \$195 million. As at May 31, 2005, \$120 million was drawn on these facilities. The lines of credit bear interest at prime and the average prime rate for the year was 4.08%. The University is able to lower its borrowing costs by “locking in” using bankers’ acceptances for periods ranging up to one year. The amount of indebtedness reported on the balance sheet is net of accounts with cash on hand.

The University manages its cash centrally in the operating fund. Correspondingly, receipts and disbursements of other funds are recorded as amounts due to or from the operating fund. The amounts are non-interest bearing and have no fixed terms of repayment, however they are primarily working capital in nature and, accordingly, are classified as short-term.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

8. Long-term debt

	<u>2005</u>	<u>2004</u>
	\$	\$
a) Government of Québec debt, net		
1) MELS Bonds (i)		
5.00% Series "1C" due June 4, 2004	-	8,781
5.00% Series "1C" due June 4, 2004	-	7,900
4.90% Series "4C" due June 14, 2004	-	3,964
5.00% Series "4C" due June 14, 2004	-	6,462
9.10% Series "1A" due June 30, 2004	-	15,325
5.15% Series "5C" due July 27, 2004	-	8,477
6.30% Series "2C" due November 26, 2004	-	17,709
12.25% Series "JJ" due March 6, 2005	-	11,700
10% Series "2A" due March 8, 2005	-	5,753
6.15% Series "3C" due March 28, 2005	-	10,377
3.75% Series "9C" due September 12, 2005	5,685	5,685
8.85% Series "1B" due September 15, 2005	3,892	3,892
11% Series "KK" due December 20, 2005	6,120	6,120
4.20% Series "6C" due February 14, 2006	3,360	3,360
5.75% Series "6B" due February 15, 2006	2,000	2,000
4.10% Series "7C" due February 15, 2006	3,603	3,603
3.55% Series "10C" due February 27, 2006	5,885	5,885
4.40% Series "8C" due February 28, 2006	4,795	4,795
8.0% Series "2B" due April 12, 2006	4,245	4,245
8.15% Series "2B" due April 12, 2006	4,356	4,356
5.35% Series "4C" due June 14, 2006	10,593	10,593
5.55% Series "5C" due July 27, 2006	11,523	11,523
7.90% Series "3B" due August 2, 2006	3,122	3,122
8.00% Series "3B" due August 2, 2006	6,843	6,843
10.25% Series "LL" due November 12, 2006	1,000	1,000
4.75% Series "8C" due February 28, 2007	8,700	8,700
11.50% Series "1" due January 29, 2008	4,525	4,525
5.00% Series "6C" due February 14, 2008	12,782	12,782
4.95% Series "7C" due February 15, 2008	6,039	6,039
5.05% Series "8C" due February 28, 2008	15,900	15,900
5.10% Series "8C" due February 28, 2008	11,333	11,333
5.80% Series "6B" due March 13, 2008	6,218	6,218
3.15% Series "11C" due May 27, 2008	6,726	-
4.70% Series "9C" due September 12, 2008	6,910	6,910
13.25% Series "II" due January 12, 2009	3,000	3,000
4.55% Series "10C" due February 27, 2009	7,973	7,973

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

8. Long-term debt (continued)

	2005	2004
	\$	\$
1) MELS Bonds (i) (continued)		
10.75% Series "3" due May 30, 2009	7,000	7,000
5.50% Series "1C" due June 4, 2009	2,100	2,100
6.65% Series "2C" due November 26, 2009	6,575	6,575
6.20% Series "4C" due June 14, 2011	13,981	13,981
5.75% Series "6C" due February 14, 2012	3,858	3,858
5.70% Series "7C" due February 15, 2012	5,358	5,358
5.75% Series "8C" due February 28, 2012	5,400	5,400
5.80% Series "8C" due February 28, 2012	3,872	3,872
4.05% Series "11C" due May 27, 2012	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
4.50% Series "11C" due May 27, 2015	4,703	-
	246,402	322,850
2) Financement Québec Notes (ii)		
4.516% due December 1, 2008	24,340	25,691
3.849% due December 1, 2009	25,309	25,309
4.288% due December 1, 2011	25,000	-
4.9515% due November 1, 2012	45,000	-
	119,649	51,000
Accumulated contributions to sinking fund (iii)	(40,263)	(48,329)
Total Government of Québec debt, net	325,788	325,521
b) McGill University Senior Debentures (iv),		
6.15% Series "A", due September 22, 2042	150,000	150,000
c) Royal Bank loans (v),		
5.81%, due February 2014	3,939	4,266
5.17%, due June 2008	459	459
d) Other	342	357
Total long-term debt	480,528	480,603
Current portion of long-term debt	(44,148)	(76,208)
Long-term debt	436,380	404,395

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

8. Long-term debt (continued)

- (i) Debt issued by the Government of Québec is secured by an assignment of subsidies covering principal and interest granted to McGill by the Government of Québec under Orders-in-Council. Future subsidies which secure repayment of outstanding bonds and related interest as well as approved Orders-in-Council not yet utilized by McGill are not recorded. The amount of future subsidies totals \$464 million (\$401 million in 2004).

Capital expenditures of \$98 million will be financed by bonds to be issued at future dates as determined by the Government of Québec.

- (ii) As with MELS bonds, Financement Québec notes are secured by the Government of Québec, however as opposed to sinking fund contributions, regular 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
4.516% due December 1, 2008	1,351	20,287
3.849% due December 1, 2009	1,012	21,261
4.288% due December 1, 2011	1,162	19,190
4.9515% due November 1, 2012	2,624	26,632

- (iii) In 1994, the Government of Québec established a sinking fund to set aside amounts in order to repay outstanding bonds issued by certain universities. During the year, the MELS contributed \$13,851,000 to this fund (\$13,851,000 in 2004) and applied \$21,917,000 towards repaid bonds (\$nil in 2004).
- (iv) In September 2002, McGill University issued \$150 million of unsecured debentures. Unlike MELS bonds, McGill will be required to repay these obligations from resources generated by the University (see Note 14). Semi-annual interest payments are paid by the University.
- (v) The Royal Bank loans are secured by grants receivable from the Ministère des Affaires municipales et des Régions ("MAMR") and the Ministère de la Culture et des Communications ("MCC"), of \$4.3 million and \$0.5 million, respectively. Semi-annual payments of capital and interest are paid by the University and reimbursed by both MAMR and MCC.

Repayments of principal due in each of the next five years (net of the accumulated contributions to the sinking fund allocated by year) are as follows:

	\$
2006	44,148
2007	40,922
2008	59,800
2009	44,338
2010	32,314

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

9. Employee future benefits

Pension plans

The majority of McGill University's employees are members of a defined contribution pension plan (the "Plan"). Employee contributions are accumulated together with employer contributions and invested in the Plan's Accumulation Fund. At retirement age, 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. For the University's pensions subject to defined benefits, the actuarial obligations on a going concern basis of \$1,082,781,000 at July 31, 2004 under this plan are virtually fully funded by plan assets having a market value of \$1,082,206,000 at July 31, 2004, with any shortfall based on the actuarial valuation to be paid by the University.

An actuarial valuation, carried out July 31, 2004 by Eckler Partners Ltd. using the solvency method, confirmed a funding deficit of approximately \$7.8 million. The regulatory body requires an annual contribution of \$2.75 million (capital and interest) until December 31, 2005 and \$1.75 million thereafter until October 31, 2008 in order to fully absorb the deficiency. The total current year contribution of \$20.3 million has been recorded as the pension expense for this fiscal year (\$20.8 million in 2004).

The next such valuation is required no later than December 31, 2006.

Other plans and arrangements

The University has a commitment to a specific group of employees who accepted early retirement settlement in 1996. These settlements entitled the employees to receive annual retirement allowance payments over their lifetime. The present value of these commitments as at May 31, 2005 is estimated at \$3.0 million.

10. Net investment income from endowments

The realized net investment income earned on resources held for endowment is reported in the following funds:

	2005	2004
	\$	\$
Operating Fund	3,770	3,650
Restricted Fund	23,745	28,795
Plant Fund	5	-
	27,520	32,445

These amounts are included in the statement of revenue and expenses in the following revenue line items: net investment income, services to the community, student services net investment income, and research net investment income.

The unrealized gains on marketable securities is included in the statement of revenue and expenses as a separate line item. The total unrealized gains on marketable securities of \$8,723,000 include \$2,250,000 related to resources held for endowment (\$72,243,000 and \$70,199,000 unrealized losses in 2004, respectively).

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

11. Financial Instruments

Financial risks

The University 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 the University's diversification of their investment portfolio.

The University has foreign currency risk arising from its foreign denominated cash accounts, and its holdings of foreign equities and bonds.

The University has interest rate risk from the impact of interest rate changes on the University's cash flows and financial position.

The University is exposed to credit risk from its debtors. A significant portion of the University'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 the University's large and diverse base of counter-parties and investments.

Fair values

At May 31, 2005, the carrying values of cash and short-term investments, receivables, grants and contracts related to research receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair values.

As disclosed in Note 2, marketable securities are presented at market value.

Pledges receivable are not considered to be financial assets due to the fact that they do not arise from contractually binding arrangements. In addition, due to the nature of the asset, it is not practicable to assess its fair value.

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

The fair value of long-term debt, excluding reductions for the sinking fund and based on rates currently available to the University for debt with similar terms and maturities, is \$543,615,000 at May 31, 2005 (\$547,958,000 in 2004).

The University holds derivative financial instruments related to the marketable securities purchased to eventually redeem the \$150 million of debentures. The instruments are recorded at their fair values. See Note 14 for details.

McGill has forward contracts outstanding as at May 31, 2005 to sell US\$100 million with an average forward rate of 1.25 maturing on August 2, 2005. As at May 31, 2005, the fair value of these contracts approximated the carrying amount of nil.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

11. Financial Instruments (continued)

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

	Endowment Fund	Restricted Fund	Plant Fund
	%	%	%
Canadian Equity	15	15	-
Foreign Equity	55	55	-
Canadian Fixed Income	29	29	100
Foreign Fixed Income	1	1	-

12. Commitments

Year ending May 31	Minimum lease payments (a)
	\$
2006	1,548
2007	1,345
2008	1,037
2009	416
2010	325
Thereafter	323
	4,994

The amounts represent future minimum lease payments under existing operating leases in excess of one year.

Construction in progress

The University has undertaken the construction of several new buildings, and as a result has commitments totalling \$24.8 million. These commitments are expected to be met in the normal course of operations.

13. Contingent liabilities

Litigation

In February 2002, an action was instituted against McGill in the amount of \$12.85 million for bodily injuries. The plaintiff alleged the University was negligent because it did not properly maintain the ventilation system in a laboratory causing the plaintiff to develop leukemia. Two other proceedings alleging substantially the same causes of action were also instituted against the University in March and May 2002, totaling \$2.5 million. As of September 1, 2005, McGill has not yet filed a defense to any of the actions as no plea has been filed in these proceedings. McGill's insurers have taken a position that the claims are excluded under a clause of the applicable insurance policies. McGill considers that this matter is unresolved at this time. The outcome of any proceedings, and impact thereof, cannot be reasonably determined at this time. Consequently, these financial statements do not include any effect of potential outcomes.

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the Civil Code. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing at May 31, 2005, 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 is provided for in the provision for specific purposes.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

14. Supplementary information

Included in the assets, liabilities, and fund balance of the Plant Fund are items related to ancillary service activities financed by the proceeds of the September 2002 issuance of McGill debentures (Note 8). Details of these items are as follows:

	2005	2004
	\$	\$
Assets		
Cash and short-term investments (i)	53,801	60,300
Marketable securities, at market (ii)	23,956	17,485
Due from other funds (iii)	4,125	34
Capital assets		
Land	1,730	1,730
Buildings	66,061	67,526
Equipment	942	653
Bond discounts (iv)	6,225	6,391
Total assets	156,840	154,119
Liabilities		
Interest payable	1,540	1,611
Long-term debt	150,000	150,000
Total liabilities	151,540	151,611
Fund balance		
Invested in capital assets	12,803	10,374
Internally restricted (v)	(7,503)	(7,866)
Total fund balance	5,300	2,508
Total liabilities and fund balance	156,840	154,119

- (i) Represents cash, bankers' acceptances, and treasury bills held for the purpose of future investment in revenue generating properties.
- (ii) In October 2003, the University 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 \$24.0 million presented includes the market value of the bond and the swap agreement.
- 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 long-term debt.
- (iii) The amounts relate to interfund transactions conducted in the normal course of business. Cash settlement is expected in June 2005, which will effectively increase the overall unspent cash balance relating to the McGill debentures.

McGILL UNIVERSITY
Notes to the financial statements
year ended May 31, 2005
(tabular amounts in thousands of dollars)

14. Supplementary information (continued)

- (iv) Includes bond issue costs of \$6,667,000, which will be amortized on a straight-line basis over the 40 year lives of the bonds. The annual amortization is approximately \$166,000.
- (v) The fund balance, currently in a deficit position, will increase over the years as a result of net surpluses generated from revenue generating activities. These activities have been financed by the McGill unsecured debenture. All future surpluses will be internally restricted in order to generate a sinking fund which is intended to be used to contribute towards the repayment of the debentures maturing in September 2042, and other potential purchases of revenue generating assets.

15. Comparative amounts

Certain comparative amounts for the year ended May 31, 2004 have been reclassified in order to conform to the presentation adopted in the current year.