Financial statements of

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

(see Note 1)

May 31, 2010

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

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Auditors' 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 balance sheet of The Royal Institution for the Advancement of Learning / McGill University (the "University") as at May 31, 2010 and the statements of revenue and expenses, changes in net assets and 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of The Royal Institution for the Advancement of Learning / McGill University as at May 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

September 10, 2010

[1] Chartered accountant auditor permit no 22220

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Balance sheet

as at May 31, 2010
(in thousands of dollars)

	2010	2009
	$	$ (Restated - Note 2)
Assets		
Current assets		
Short-term investments (Note 16)	**39,750**	114,554
Receivables (Note 4)	**245,472**	225,987
Prepaid expenses and other assets	**5,984**	5,908
Inventory	**2,422**	2,171
	293,628	348,620
Marketable securities, at fair value (Note 16)	**855,849**	745,782
Grants receivable - operating	**6,627**	6,627
Grants and contracts related to research receivable	**59,672**	97,375
Capital grants receivable (Note 5)	**634,885**	548,259
Loans receivable (Note 6)	**3,124**	4,265
Capital assets (Note 7)	**1,004,426**	906,286
Total assets	**2,858,211**	2,657,214
Liabilities		
Current liabilities		
Bank indebtedness (Note 8)	**175,768**	165,088
Accounts payable and accrued liabilities	**130,231**	118,173
Unearned revenue	**26,415**	18,411
Current portion of long-term debt (Note 11)	**50,796**	58,780
	383,210	360,452
Deferred contributions (Note 9)	**143,679**	126,094
Deferred capital contributions (Note 10)	**612,219**	584,894
Long-term debt (Note 11)	**609,110**	564,599
Accrued pension liability (Note 12)	**49,318**	44,675
Post retirement benefit obligation (Note 12)	**108,318**	103,210
	1,905,854	1,783,924
Commitments and contingent liabilities (Notes 18 and 19)		
Net assets		
Invested in capital assets	**426,729**	396,899
Externally restricted for endowment purposes (Note 13)	**807,551**	732,910
Internally restricted (Note 14)	**31,500**	44,714
Unrestricted	**(313,423)**	(301,233)
	952,357	873,290
Total liabilities and net assets	**2,858,211**	2,657,214

Approved by the Board of Governors

....Governor

....Governor

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of revenue and expenses

year ended May 31, 2010
(in thousands of dollars)

	2010	2009
	$	$ (Restated - Note 2)
Revenue		
Grants		
Canada	**173,369**	197,849
Quebec	**414,624**	394,368
United States	**6,396**	7,190
Other sources	**21,875**	24,167
Contracts	**11,148**	16,570
Tuition and fees	**186,966**	169,815
Sale of goods and services	**104,024**	100,497
Gifts and bequests	**36,707**	23,434
Investment and interest income	**44,748**	29,365
Other	**43,626**	26,710
Total revenue	**1,043,483**	989,965
Expenses		
Salaries		
Academic	**268,704**	252,828
Administrative and support	**197,749**	186,825
Benefits	**97,377**	88,538
Student	**67,872**	63,087
Student aid	**49,311**	41,890
Total salaries	**681,013**	633,168
Non-salary		
Material, supplies and publications	**38,733**	39,032
Contributions to partner institutions	**38,586**	43,126
Contract services	**13,949**	16,673
Professional fees	**16,474**	17,849
Travel	**21,887**	23,943
Cost of goods sold and services rendered	**21,478**	16,339
Building occupancy costs	**21,434**	20,554
Energy	**18,950**	22,805
Other non-salary expenses	**38,471**	44,626
Hardware and software maintenance	**4,139**	4,482
Amortization of capital assets	**89,961**	84,428
Interest and bank charges	**32,754**	36,478
Total non-salary	**356,816**	370,335
Total expenses	**1,037,829**	1,003,503
Excess (deficiency) of revenue over expenses	**5,654**	(13,538)

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of changes in net assets

year ended May 31, 2010
(in thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total 2010	Total 2009
	$	$	$	$	$	$	$
Net Assets, as previously reported	**(111,241)**	**58,422**	**484,815**	**475,135**	**732,910**	**1,640,041**	1,775,374
Adjustment to prior period (Note 2)	**(189,992)**	**(13,708)**	**(484,815)**	**(78,236)**	**-**	**(766,751)**	(776,667)
Net Assets, beginning of year, as restated	**(301,233)**	**44,714**	**-**	**396,899**	**732,910**	**873,290**	998,707
Excess (deficiency) of revenue over expense	**2,993**	**(9,745)**	**17,730**	**(5,324)**	**-**	**5,654**	(13,538)
Endowment contributions	**-**	**-**	**-**	**-**	**38,966**	**38,966**	46,906
Investment income items reported as direct increase (decrease) in net assets	**(2,348)**	**-**	**-**	**-**	**36,795**	**34,447**	(158,785)
Net change in internally restricted net assets	**15,447**	**(2,453)**	**-**	**(12,994)**	**-**	**-**	-
Net change in investment in capital assets	**(27,716)**	**-**	**(20,155)**	**47,871**	**-**	**-**	-
Other Transfers	**(566)**	**(1,016)**	**2,425**	**277**	**(1,120)**	**-**	-
Net assets, end of year	**(313,423)**	**31,500**	**-**	**426,729**	**807,551**	**952,357**	873,290

THE ROYAL INSTITUTION FOR THE ADVANCEMENT OF LEARNING / McGILL UNIVERSITY

Statement of cash flows

year ended May 31, 2010
(in thousands of dollars)

	2010	2009
	$	$ (Restated - Note 2)
Operating activities		
Excess (deficiency) of revenue over expenses	**5,654**	(13,538)
Adjustments for:		
Amortization of capital assets	**89,961**	84,428
Amortization of bond discount	**329**	381
Amortization of deferred capital contributions (Note 10)	**(67,877)**	(64,325)
(Gain) loss on sale of marketable securities	**(15,429)**	25,896
Unrealized (gain) loss on marketable securities	**(2,181)**	84,781
Net change in non-cash working capital items (Note 15)	**14,354**	30,846
Increase in government grant receivable	**(101,234)**	(11,021)
Decrease in grants and contracts related to research receivable	**38,207**	13,535
Deferred contributions	**17,585**	(21,560)
Increase in pension liability	**4,643**	-
Post retirement benefit obligation payments	**(4,163)**	(3,985)
Increase in post retirement benefit obligation	**9,271**	8,516
	(10,880)	133,954
Investing activities		
Change in short-term investments	**74,804**	(43,977)
Acquisition of capital assets	**(188,101)**	(162,149)
Change in marketable securities, net	**(92,457)**	29,049
Change in loans receivable	**1,141**	506
	(204,613)	(176,571)
Financing activities		
Change in bank indebtedness	**10,680**	85,771
Investment income reported as direct increase (decrease) in net assets	**34,447**	(158,786)
Endowment contributions	**38,966**	46,906
Issuance of long-term debt	**95,000**	82,509
Repayment of long-term debt	**(58,802)**	(74,804)
Deferred capital contributions	**95,202**	61,021
	215,493	42,617
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	-	-

Supplementary information

Interest paid	**12,202**	12,539

(tabular amounts in thousands of dollars)

1. Status and nature of activities

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

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

2. Changes in accounting policies

Prior period adjustments for changes in accounting policies

As of June 1, 2009, in accordance with the prescribed guidelines set out by Ministère de l’Éducation, du Loisir et du Sport du Québec (“MELS”), the University has retrospectively adopted the standards set out in the Canadian Institute of Chartered Accountants (“CICA”) Handbook and has prepared its financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) using the deferral method without funds. Previously, McGill followed 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 required by MELS.

The figures for 2009 have been restated and prepared on the same basis.

The adoption of these policies had the following effects on the financial statements of the University:

	Net assets June 1,		Operations year ended
	2009	2008	May 31, 2009
	$	$	$
Revenue recognition (a)	(714,839)	(742,439)	27,600
Capital assets (b)	(280,298)	(272,198)	(8,100)
Grants receivable (c)	548,259	542,997	5,262
Pledges (d)	(107,906)	(93,319)	(14,587)
Long-term debt (e)	(28,400)	(33,541)	5,141
Employee future benefits (f)	(183,567)	(178,167)	(5,400)
	(766,751)	(776,667)	9,916
Capital expenditures (b)			72,240
Endowment contributions (a)			(46,469)
Endowment investment income (a)			158,529
			194,216

2. Changes in accounting policies (continued)

(a) Revenue recognition

The University changed from the restricted fund method to the deferral method of accounting for restricted contributions, which include donations and grants.

Excluding the impact on endowment funds, this change resulted in a decrease in revenues of $9.2 million (increase of $27.6 million in 2009) and an increase in deferred contributions on the balance sheet to $755.9 million ($711 million in 2009). The cumulative effect on the opening net assets in 2009 was a decrease of $742.4 million. A corresponding grant receivable from MELS was also recorded as part of this change as described under *"Grants Receivable."*

The change also resulted in decreasing revenues in 2009 by $46.5 million for endowment contributions, which are now recorded as direct increases in net assets. Similarly, as described in Note 13, endowment investment income which was previously recognized in the operating and restricted funds and returned to the endowment fund via interfund transfers is now recorded as a direct change in net assets, which increased the excess of expenses over revenues by $158.5 million in 2009.

(b) Capital assets

As part of its financial reporting reform, MELS modified the capitalization thresholds, categorization, method, recording and amortization periods of capital assets. The combined impact of these changes was accounted for on a retrospective basis and resulted in an increase in amortization expense of $7.3 million to $90 million (increase of $8.1 million to $84.4 million in 2009). The cumulative change to the 2009 opening net book value of capital assets was a decrease of $272.2 million with an offsetting charge against the net assets.

In addition, previously MELS required that capital assets be recognized as assets of the Plant Fund and as an expense of the fund from which the transaction originated with an offsetting inter fund transfer. These amounts are now only capitalized and no longer expensed. This change resulted in a decrease in expenses of $72.2 million in 2009.

2. Changes in accounting policies (continued)

(c) Grants receivable

Previously, as part of MELS reporting guidelines, amounts receivable from MELS were recorded as a decrease to the net assets. Under GAAP, these amounts meet the criteria of an asset and have therefore been recorded as grants receivable. This change resulted in an increase in grants receivable of $630.9 million ($554.8 million in 2009). The cumulative effect on the opening net assets in 2009 was an increase of $543 million. An offsetting amount was also recorded relating to a corresponding deferred contribution. See *"revenue recognition"* for further details.

In addition, the long-term portion of grants receivable has been discounted to its present value using the lender's rate in effect at May 31, resulting in a discount of $3.1 million ($3.9 million in 2009) and an increase in the excess of revenues over expenses of $0.8 million ($2.2 million in 2009). Previously, grants receivable were not discounted to a present value as the assumption was that the market rate of interest for such receivables was 0%, dictated by MELS reporting guidelines.

(d) Pledges

Commencing in June 2009, pledges from fundraising and other donations are recorded in the period in which they are collected, with future pledges receivable being disclosed. Previously, pledges were recognized as revenue and a receivable when pledged. The result of this change was to decrease 2009 gifts and bequests revenue by $14.6 million and to decrease pledges receivable and opening 2009 net assets by $93.3 million.

(e) Long-term debt

Previously, as part of MELS reporting guidelines, long-term debt was recorded net of bond sinking fund contributions set aside by the Government of Quebec. Long-term debt is now presented at the full amount of all outstanding debt. The impact of this change resulted in an increase in long-term debt of $27.3 million (increase of $28.4 million in 2009). The cumulative impact on the 2009 opening net assets was a charge of $33.5 million.

(f) Employee future benefits

The University applied the CICA Handbook, section 3461, *Employee Future Benefits*, on a retrospective basis, to account for its employee future benefit plans and pension costs resulting in accruals for employee future benefits over the period that the services are rendered by the employee. Previously, these amounts were recorded on a cash basis. This also includes accruals for vacation pay, banked overtime, and all other employee benefits. This change resulted in an increase in expenses of $9.6 million ($5.4 million in 2009). In addition, this change resulted in an accrued pension liability of $49.3 million ($44.7 million in 2009) and a post retirement obligation of $108.3 million ($103.2 million in 2009). Accounts payable and accrued liabilities decreased by $0.1 million (increase of $0.9 million in 2009). The cumulative effect on the 2009 opening net assets was a charge of $178.2 million.

2. Changes in accounting policies (continued)

New accounting standards

Effective June 1, 2009, the University adopted the following recommendations of CICA Handbook.

The University adopted the recommendations of CICA Handbook Section Section *1000, Financial Statement Concepts*, that clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the Balance Sheet. The adoption of this Section had no impact on the financial statements.

The University adopted the recommendations of CICA Handbook Section *1540, Cash Flow Statement.* This Section has been amended to include not-for-profit organizations within its scope. The adoption of this Section resulted in the reclassification of certain items on the statement of cash flows.

The University adopted the recommendations of CICA Handbook Section *4400, Financial Statement Presentation.* This Section has been amended in order to eliminate the requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit a not-for-profit organization to present such an amount as a category of internally restricted net assets when it chooses to do so. It also clarifies that revenues and expenses must be recognized and presented on a gross basis when a not-for-profit organization is acting as a principal in transactions. The application of this standard did not have a significant impact on the financial statements.

The University adopted the recommendations of CICA Handbook Section *4460, Financial Statement Disclosures of Related Party Transactions.* This Section establishes the disclosure standards for related party transactions. The adoption of this Section had no impact on the financial statements.

3. Significant accounting policies

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

Consolidation

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

3. Significant accounting policies (continued)

Revenue recognition

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

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

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

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

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

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

Financial instruments

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

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

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

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

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

Derivative financial instruments

Derivative financial instruments are used as a substitute for more traditional investments. Derivative financial instruments are recorded at their fair values and changes in the fair value are recorded in the statement of revenue and expenses in investment and interest income.

Foreign exchange

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

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 $21.1 million ($20.5 million in 2009).

3. Significant accounting policies (continued)

Capital assets

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

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

Long-term debt

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

Net assets

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

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

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

Employee future benefits

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

(tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

Employee future benefits (continued)

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 (2009 - 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. On June 1, 2009, the University adopted retrospectively the accounting standard on employee future benefits. The most recent actuarial evaluation for funding purposes filed was dated December 31, 2009.

Use of estimates

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

4. Receivables

Receivables consist of the following:

	2010	2009
	$	$
Operating	**29,921**	23,735
Student loans	**2,877**	3,374
Investment income	**2,473**	2,781
Government grant	**58,426**	43,818
Grants and contracts related to research	**151,775**	152,279
	245,472	225,987

(tabular amounts in thousands of dollars)

5. Capital grants receivable

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

6. Loans receivable

Loans receivable bear interest at rates varying from 3.75% to 6.85%, with maturities up to ten years.

7. Capital assets

	2010			2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	**$**	**$**	$	$	$
Land	**28,706**	**-**	**28,706**	25,844	-	25,844
Land improvements	**29,044**	**4,661**	**24,383**	8,050	3,209	4,841
Buildings	**1,035,417**	**412,974**	**622,443**	970,682	389,984	580,698
Leasehold Improvements	**1,821**	**843**	**978**	627	390	237
Equipment	**390,660**	**208,514**	**182,146**	372,907	189,460	183,447
Library materials	**133,300**	**71,610**	**61,690**	129,239	66,209	63,030
Intangible assets	**7,527**	**4,239**	**3,288**	5,829	3,871	1,958
	1,626,475	**702,841**	**923,634**	1,513,178	653,123	860,055
Assets under development	**80,792**	**-**	**80,792**	46,231	-	46,231
	1,707,267	**702,841**	**1,004,426**	1,559,409	653,123	906,286

8. Bank indebtedness

McGill's Board of Governors has approved maximum borrowings of $250 million under short-term credit facilities, of which $176 million has been used at May 31, 2010. Unsecured and uncommitted lines of credit, totalling $370 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 0.90% for the year. The rate in effect as at May 31, 2010 was 0.92%. Bankers' acceptances outstanding at year-end bear interest at rates ranging from 0.42% to 1.62%.

(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.

	2010	2009
	$	$
Balance, beginning of year	**126,094**	147,654
Net increase (decrease) in deferred contributions	**17,585**	(21,560)
Balance, end of year	**143,679**	126,094

10. Deferred capital contributions

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

	2010	2009
	$	$
Balance, beginning of year	**584,894**	588,198
Amortization of deferred capital contributions	**(67,877)**	(64,325)
Deferred capital contributions received	**95,202**	61,021
Balance, end of year	**612,219**	584,894

(tabular amounts in thousands of dollars)

11. Long-term debt

a)

1) Bonds (i)

	2010	2009
	$	$
5.50% Series "1C" due June 4, 2009	**-**	2,100
6.65% Series "2C" due November 26, 2009	**-**	6,575
4.00% Series "14C" due March 8, 2010	**-**	10,000
	-	18,675
6.20% Series "4C" due June 14, 2011	**13,981**	13,981
4.00% Series "12C" due November 24, 2011	**5,605**	5,605
5.75% Series "6C" due February 14, 2012	**3,858**	3,858
5.70% Series "7C" due February 15, 2012	**5,358**	5,358
4.10% Series "13C" due February 24, 2012	**8,837**	8,837
5.75% Series "8C" due February 28, 2012	**5,400**	5,400
5.80% Series "8C" due February 28, 2012	**3,872**	3,872
4.05% Series "11C" due May 27, 2012	**8,571**	8,571
	55,482	55,482
5.40% Series "9C" due September 12, 2012	**7,405**	7,405
5.30% Series "10C" due February 27, 2013	**10,451**	10,451
	17,856	17,856
4.50% Series "11C" due May 27, 2015	**4,703**	4,703
4.40% Series "13C" due February 24, 2016	**4,653**	4,653
4.50% Series "14C" due March 8, 2016	**7,000**	7,000
	11,653	11,653
Total Bonds:	**89,694**	108,369

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

		2010	2009
		$	$
a)			
	2) Notes (ii)		
	3.849% due December 1, 2009	**-**	21,260
	4.059% due December 1, 2010	**24,445**	25,833
	4.167% due December 1, 2010	**4,200**	4,400
	3.794% due June 16, 2011 (iii)	**260**	426
	4.288% due December 1, 2011	**20,351**	21,514
	4.814% due April 25, 2012	**16,800**	17,600
	2.257% due October 25, 2012	**60,000**	-
	4.952% due November 1, 2012	**31,883**	34,505
	4.355% due September 16, 2013	**81,325**	85,663
	4.607% due September 16, 2013	**32,200**	33,600
	3.240% due September 23, 2013	**38,094**	40,000
	3.320% due June 1, 2014	**14,000**	14,000
	3.690% due December 1, 2014	**26,242**	28,000
	3.839% due December 1, 2014	**37,560**	40,000
	4.267% due December 1, 2015 (iii)	**976**	1,116
	3.601% due June 2, 2016	**10,000**	-
	4.991% due June 1, 2034	**25,000**	-
	Total Notes:	**423,336**	367,917
	Total Government of Québec debt	**513,030**	476,286
b)	McGill Senior Debentures (iv), 6.15% Series "A", due September 22, 2042	**150,000**	150,000
c)	Royal Bank loans (v), 5.81% due March 19, 2014	**1,998**	2,432
d)	Other	**517**	629
e)	Bond discounts and issuance costs	**(5,639)**	(5,968)
	Total long-term debt	**659,906**	623,379
	Current portion of long-term debt	**(50,796)**	(58,780)
	Long-term debt	**609,110**	564,599

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

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

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

	Annual payment	Lump sum payment
	$	$
4.059% due December 1, 2010	1,389	24,444
4.167% due December 1, 2010	200	4,200
4.288% due December 1, 2011	1,162	19,190
4.814% due April 25, 2012	800	16,000
2.257% due October 25, 2012	2,995	54,620
4.952% due November 1, 2012	2,624	26,633
4.355% due September 16, 2013	4,337	68,315
4.607% due September 16, 2013	1,400	28,000
3.240% due September 23, 2013	1,906	32,375
3.320% due June 1, 2014	928	10,287
3.690% due December 1, 2014	1,758	19,208
3.839% due December 1, 2014	2,440	27,800
3.601% due June 2, 2016	808	6,065
4.991% due June 1, 2034	1,000	-

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

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

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

(tabular amounts in thousands of dollars)

11. Long-term debt (continued)

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

	$
2011	**50,796**
2012	**111,704**
2013	**113,866**
2014	**136,358**
2015	**64,008**

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. Under certain circumstances, employees in the Accumulation Fund are also eligible for an enhancement to their accumulated amount.

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

Other plans and arrangements

McGill has a commitment to a specific group of employees who accepted early retirement settlements in 1996. These settlements entitled the employees to receive annual retirement allowance payments over their lifetime. The present value of these commitments as at May 31, 2010 is estimated at $2.3 million ($2.3 million in 2009). These amounts are recorded as accrued liabilities.

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Pension plan defined contribution plan

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

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

	2010	2009
	$	$
Benefit costs	**31,953**	22,740
Cash payments recognized	**23,653**	22,740

Accrued pension liability

	2010
	$
Defined benefit cost	
Current service cost	**1,847**
Interest cost on accrued benefit obligation	**2,982**
	4,829

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

	2010
	$
Accrued pension liability	**(317,252)**
Fair value of plan assets	**252,500**
Plan deficit	**(64,752)**
Unamortized net actuarial loss	**15,434**
Obligation for defined benefits	**(49,318)**

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

	2010
	%
Cash equivalents	**6.6**
Real estate	**14.5**
Equity	**20.2**
Fixed income	**55.0**
Other	**3.7**

The significant assumptions used are as follows:

	2010
	%
Discount rate	**5.25**
Expected long-term rate of return on plan assets	**6.25**
Price inflation allowance	**2.25**

Post-retirement benefit obligation - unfunded benefits

	2010	2009
	$	$
Balance, beginning of year	**103,210**	98,679
Current service cost	**2,836**	2,328
Interest cost on accrued benefit obligation	**6,397**	6,188
Benefit paid	**(4,163)**	(3,985)
Net actuarial loss	**178**	-
Past service costs	**(140)**	-
Balance, end of year	**108,318**	103,210

(tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

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

	2010	2009
	%	%
Accrued benefit obligation as of May 31		
Discount rate	**5.5**	5.75
Rate of compensation increase - Academics	**4.5**	4.5
- Non-Academics	**3.5**	3.5
Health care cost trend rates		
Current trend rate	**8.0**	8.0
Ultimate trend rate	**5.0**	5.0
Year of ultimate trend rate	**2016**	2016

13. Externally restricted for endowment purposes

	2010	2009
	$	$
Faculty endowments	**331,263**	306,374
Student aid	**263,433**	238,689
Research endowments	**80,130**	78,311
Emerging priorities	**21,300**	27,434
Library endowments	**20,588**	20,269
Student services	**5,746**	4,233
Annuities	**2,304**	2,385
Accumulated income	**82,787**	55,215
	807,551	732,910

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

(tabular amounts in thousands of dollars)

13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends, and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (5.0% in 2009) of the average fair value of the Endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

14. Internally restricted net assets

	2010	2009
	$	$
Self-financing teaching and research	**16,017**	19,950
Professor start-up funds	**7,534**	6,054
Other	**7,949**	18,710
	31,500	44,714

15. Net change in non-cash working capital items

	2010	2009
	$	$
Increase in receivables	**(5,381)**	(223)
(Increase) decrease in prepaid expenses and other assets	**(76)**	1,734
(Increase) decrease in inventory	**(251)**	59
Increase in accounts payable and accrued liabilities	**12,058**	27,418
Increase in unearned revenue	**8,004**	1,858
	14,354	30,846

16. Financial instruments

Financial risks

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

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

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

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

Fair value

At May 31, 2010, the carrying values of short-term investments, receivables, bank indebtedness and accounts payable and accrued liabilities approximate their fair values. Marketable securities are presented at fair value. The fair value of long-term grants receivable, capital grants receivable and grants and contracts related to research receivable cannot be determined due to the uncertain timing of collection.

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

The fair value of long-term debt, based on rates currently available to McGill for debt with similar terms and maturities, is $694 million at May 31, 2010 ($663 million in 2009).

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding as at May 31, 2010 to sell US$285 million of assets held for endowment purposes, with an average forward rate of 1.013, maturing on July 23, 2010. At May 31, 2009, US$200 million of contracts existed with a forward rate of 1.214, maturing on July 24, 2009. As at May 31, 2010, the fair value of these contracts approximated an unrealized loss of $10.4 million ($23.8 million unrealized gain in 2009) and is included in marketable securities.

(tabular amounts in thousands of dollars)

16. Financial instruments (continued)

Fair value (continued)

In October 2003, McGill entered into an agreement with RBC Dominion Securities ("RBCDS") whereby it invested in a US$13 million denominated bond maturing in 2029. Under this agreement, the bond principal and the semi-annual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill $85.7 million Canadian dollars in 2029. The fair value of the bond and the swap agreement is $34.8 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 May 31, 2010, the fair value of the swap is $17.4 million ($14.4 million in 2009).

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.

As at May 31, 2010, McGill held securities classified as non-bank asset-backed commercial paper. These securities were carried as marketable securities and had a market value of $5.3 million, as estimated by management, based on the present value of future cash flows expected. As a result of changes to the market conditions for this type of security, the net realizable value of these securities may differ materially from their carrying value.

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

	2010	2009
	%	%
Canadian Equity	**20**	19
US Equity	**13**	10
Non North American Equity	**17**	16
Canadian Fixed Income	**16**	25
US Fixed Income	**1**	1
Hedge Funds	**19**	18
Alternate strategies, including private equity and other	**14**	11
	100	100

Short-term investments consist of highly-liquid fixed income securities maturing within one year and bearing interest at rates ranging from 0.22% to 0.29%.

(tabular amounts in thousands of dollars)

17. Pledges

Outstanding donation pledges at May 31, 2010 amounted to $111 million ($120 million in 2009). These have not been recognized in the financial statements.

18. Commitments

	$
2011	**2,797**
2012	**2,140**
2013	**1,930**
2014	**1,747**
2015	**1,093**
Thereafter	**2,730**
	12,437

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

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $71.7 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 $45.1 million within the next four years in accordance with its arrangements with these funds.

19. Contingent liabilities

Litigation

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the Civil Code of Quebec. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing at May 31, 2010, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

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

20. Comparative figures

Certain comparative figures for the year ended May 31, 2009 have been reclassified in order to conform to the presentation adopted in the current year.