Report of the Audit Committee

GD19-04

Board of Governors Meeting of October 3, 2019

Secretariat
845 Sherbrooke St. West, room 313
Montreal, QC, H3A 0G4
Tel: (514) 398-3948 | Fax: (514) 398-4758

The following items arise from the Audit Committee meeting of September 23, 2019. They are presented to the Board of Governors for its consideration.

I. FOR ACTION BY THE BOARD OF GOVERNORS

1. Financial Report to the Board of Governors 2018-2019, Audited Financial Statements and Auditor's Report [AD19-06 & AD19-07]

The Audit Committee received the 2018-2019 Financial Report to the Board of Governors and the financial statements prepared by management. The Committee received from the external auditors the external audit report concerning the audit of the financial statements for the year ended April 30, 2019. The external auditors confirmed their opinion that the financial statements present fairly and in all material respects the financial position of the University as at April 30, 2019, and that this opinion is without qualification.

Following presentation of this report, a private meeting was held with the auditors in the absence of management, and subsequently, a private meeting was held with management in the absence of the auditors. The external auditors confirmed that they have received good cooperation from management in the conduct of the audit. Management also conveyed that they had received good cooperation from the auditors.

By resolution, the Committee recommended to the Board of Governors the approval of the Auditor's Report and Audited Financial Statements for the fiscal year ending April 30, 2019 as follows:

Be it resolved that the Board of Governors, on the recommendation of the Audit Committee approve the 2018-2019 Financial Report to the Board of Governors including the External Auditor's report and the Audited Financial Statements of The Royal Institution for the Advancement of Learning/McGill University for the year ended April 30, 2019.

The Financial Report to the Board of Governors has been distributed as Appendix A. The financial statements, which include the auditor's report, are also included in Appendix A.

2. Appointment of External Auditors for Fiscal Year 2020 [AD19-08]

Following a public call for tenders in April 2017 for external audit services, a selection committee was formed, as required by law, to perform a Quality and Financial evaluation of the bids and proposals received. Deloitte's proposal was ranked first, being the lowest conforming bidder, for a total price of $815,000 (not including taxes) over the contract's full potential term of 60 months, subject to annual approval by the Board of Governors.

At its meeting on September 25, 2017, the Audit Committee resolved, on the recommendation of the Vice-Principal (Administration and Finance), to recommend that the Board of Governors approve the appointment of Deloitte as external auditor of the University for fiscal years ending April 30, 2018 through April 30, 2022, subject to annual appointment by the Board. The Board of Governors approved this recommendation on October 5, 2017.

Board approval is therefore being requested for the appointment of Deloitte as McGill's external Auditors for the fiscal year ending April 30, 2020, which represents the third year of the five-year contract.

> *Be it resolved that the Board of Governors, on the recommendation of the Audit Committee, approve the appointment of Deloitte as external auditors of the University for the fiscal year ending April 30, 2020.*
>
> *Be it further resolved that the Board of Governors authorize the Vice-Principal (Administration and Finance) or the Associate Vice-Principal (Financial Services) to sign the contract and any related documents, subject to review by Legal Services.*

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Management's Assessment of Past Due Items – Heat Map [AD19-10]

The Audit Committee received a report on Management's assessment of Internal Audit's "past due" items in relation to the probability and impact of occurrence. Items that are not resolved within one year of the issuance of the Internal Audit Report are considered "past due". As part of its regular progress report to the Audit Committee, Internal Audit provides a status update for management action items, including those that fall into the category of "past due". Following the Audit Committee meeting in May 2019, the Offices of the Principal, the Provost and Vice-Principal (Academic) and the Vice-Principal (Administration and Finance) prepared a risk matrix that defines the level of risk associated with each "past due" action item under their respective purviews. This assessment considers the likelihood of an item occurring (probability) against that of its consequence severity (impact). The report will be included periodically as part of the Audit Committee agenda.

2. Report on Projects and Recommendations with IT Implications [AD19-04]

The Committee received a report on internal audit recommendations with IT implications carried out in support of McGill's priorities. The report had been reformatted to present an overview of the status of internal audit action items implicating IT Services as at September 2019. The Committee reviewed the projects and discussed upcoming IT challenges.

3. Update on Activities under the Policy on the Approval of Contracts and Designation of Signing Authority [AD19-05]

The Committee received an update on the activities under the *Policy on the Approval of Contracts and Designation of Signing Authority (Policy),* which came into effect on May 1, 2018. The results for the first fiscal quarter (May 1- July 31) were presented to the Committee, indicating an overall increase in the number of reports submitted in relation to previous quarters and capturing 116 contracts. The Committee will continue monitoring the status of the reporting function and receive, going forward, the total value of the contracts reported for each quarter.

The Committee was informed that Policy is presently under review. A summary of the proposed modifications will be provided to the Committee at its next meeting.

4. Declarations of Compliance [AD19-01]

In accordance with the Committee's Terms of Reference, the Committee received and reviewed declarations of Compliances to August 31, 2019.

5. Progress report on Internal Audits [AD19-09]

The Committee received a progress report on internal audits, which have been recently completed or are still ongoing. Members were also briefed on the status of action items from previous audits carried out by Internal Audit.

The Internal Audit Unit recently submitted final reports for the following units: Desautels Faculty of Management, Office of Investments and Intellectual Property Management.

6. Report on Contracts Over $6 million for the Period Ended April 30, 2019 [AD19-02]

In accordance with the terms of reference, the Committee received confirmation that for the year ended April 30, 2019, all contracts over $6 million have been approved by the Board or relevant Board Committee, in accordance with University policy. Future annual reports will be given at the May Committee meeting.

7. Report on Quarterly Financial Results for Fiscal Period Ended July 31, 2019 and Variance Report [AD19-11]

The Committee received a quarterly report on the financial results for the period ended on July 31, 2019 and a variance report.

8. 2019-2020 Audit Committee Orientation Package [AD19-03]

The Committee received an orientation package for the 2019-2020 governance year, containing updated reference documents for the Committee's information.

END
October 2019

GD19-04 Appendix A

McGill

2018 > 2019

Financial Report

To the Board of Governors

The Mission of McGill University

The mission of McGill University is the advancement of learning and the creation and dissemination of knowledge, by offering the best possible education, by carrying out research and scholarly activities judged to be excellent by the highest international standards, and by providing service to society.

McGill
Secretariat Secrétariat

McGILL UNIVERSITY

Extract from the minutes of a meeting of the Board of Governors of The Royal Institution for the Advancement of Learning / McGill University and The Royal Victoria College held in Montreal on the 4th day of October 2018.

On a motion duly proposed and seconded, the Board of Governors, on the recommendation of the Audit Committee, approved the 2017-2018 Financial Report to the Board of Governors including the external auditor's report and Audited Financial Statements of The Royal Institution for the Advancement of Learning/McGill University for the year ended April 30, 2018.

Signed this 10th day of October 2018.

Edyta Rogowska
Secretary-General

James Administration Building
845 Sherbrooke Street West, Room 313
Montreal, Quebec, Canada H3A 0G4
T: 514 398-3948 F: 514 398-4758

Pavillon James de l'administration
845, rue Sherbrooke Ouest, bureau 313
Montréal (Québec) Canada H3A 0G4
T : 514 398-3948 F : 514 398-4758

Financial Report to the Board of Governors

5 **Overview**
6 **Executive Summary**
10 **Operational Highlights**
11 Overall Performance
16 Students
17 *Enrolment by Faculty*
18 *Tuition and Fees*
20 *Graduation*
21 *Degrees Awarded by Faculty*
22 *International Students*
24 Tenure-Track Academic Staff
25 Administrative and Support Staff
25 Administrative Staff Awards
26 **Audited Financial Statements**
28 **Financial Highlights**
30 *Balance Sheet Assets and Liabilities*
42 Overall Sources of Revenues and Expenses
45 Sources of Revenues
49 Research and Restricted Activities
50 Other Restricted Funds
52 Fundraising Activities
53 Endowment Gifts
54 **Deferred Maintenance – Campus Renewal**
55 **Master Plan Implementation**
56 **Update on the New Vic Project**
58 **McGill Bond Rating**
59 **Outlook**
60 **Glossary**

Mission

Administration and Finance is entrusted with McGill's physical, financial, technological and human resources. Each day we strive to continually improve as we provide a respectful, supportive and safe environment for all. Hailing from diverse professions, we are committed to our work and accountable for getting the job done right as we partner with those whose learning, teaching, research and administrative contributions make McGill extraordinary.

We are committed to a culture of service and performance.

Acknowledgement of Traditional Land
McGill University is on land which long served as a site of meeting and exchange amongst Indigenous peoples, including the Haudenosaunee and Anishinabeg nations. We acknowledge and thank the diverse Indigenous people whose footsteps have marked this territory on which peoples of the world now gather.

Overview

This report provides highlights of the operational and financial activities of The Royal Institution for the Advancement of Learning/McGill University ("McGill") for the year ended April 30, 2019 and includes the audited financial statements of the University as at April 30, 2019, prepared in accordance with Generally Accepted Accounting Principles (GAAP). Our auditors, Deloitte, have provided an unmodified opinion further to the Board approval.

The financial activities which support McGill's mission are accounted for internally in four distinct funds: Operating (Unrestricted), Restricted, Plant, and Endowment. The GAAP financials reflect the University's operational results, which would include the operating excess of revenue over expenses, inter-fund transfers in the Operating Fund, and also include the net amortization expense associated with Capital Assets. The GAAP financials also present contributions for capital assets from operating or restricted revenues as inter-fund transfers, rather than expenses, and thus must be taken into account when determining the change in the "Operating Accumulated Deficit." The adoption of the GAAP deferral method in the Restricted Fund results in this Fund no longer having an impact on the operating results for the year, since revenues not spent in the current year are deferred and are not included in the annual surplus or deficit from "research operations." Also, the Endowment Fund no longer contains any revenues or expenses, as donations are reflected directly in the Statement of Net Assets, and direct endowment expenses are reflected in the Restricted Fund where the majority of Endowment earnings are reflected.

McGill's overall balance sheet incorporates all assets, liabilities and Net Asset balances and also includes the assets and liabilities held in trust. In addition, GAAP changes have resulted in recognition of amounts due from the Ministère de l'Éducation et de l'Enseignement supérieur (MEES) with respect to capital assets which were previously not recorded as a receivable. The overall liabilities also reflect deferred revenue contributions (as described above) which are amortized into income in the future, and liabilities related to vacation, pension, and future employee benefits. The majority of the Long-Term Assets consists of buildings and equipment, and its Net Asset balance is represented as "Investments in Capital Assets." The Endowment related Net Assets balance contains the total investments held in perpetuity for the purpose of earning income for spending, as designated by the respective donors and are considered externally restricted.

This report also includes highlights relating to our students and our professoriate.

Respectfully submitted,

YVES BEAUCHAMP, C.Q., FCAE, Eng., PH.D.
Vice-Principal, Administration and Finance

CRISTIANE TINMOUTH, CPA, CA
Associate Vice-Principal, Financial Services

Executive Summary

Highlights

The University posted a net operating surplus for the year of $27.6 million on a GAAP basis.

MEES Calculs Définitifs were received on August 6, 2019 confirming funding for the 2019 fiscal year. The provincial government unveiled its new funding formula, based on weighted full time equivalents, including the deregulation of international students, and allocated an additional $277 million to the network.

McGill was granted $85.8 million for infrastructure and IT spend by MEES for Fiscal 2019, an increase of $39.7 million over Fiscal 2018.

The pension deficit as at April 30, 2019 is $37.8 million, a decrease of $15.5 million from April 30, 2018.

Capital expenditures allocated to the series B debentures of $160 million were $47.9 million for IT projects and $93.4 million for deferred maintenance for the fiscal year ended April 30, 2019.

The average cost of borrowing for the fiscal year, through the use of cross currency swaps and bankers' acceptances, was 1.68% (2018 –1.79%).

MEES confirmed up to $158.6 million of long-term debt financing through Financement Québec to June 30, 2019. The entire allocation was received in December 2018.

The Campus Master Plan was endorsed by the Board. This Master Plan is a living document that articulates a vision for increasing the quality of teaching, learning, research and student life—all while adhering to principles of sustainable growth, sound financial management, and responsible stewardship of heritage buildings.

Highlights

On July 23, 2019, the University issued $90 million series C debentures, maturing in July 2049 and bearing interest at 2.926%, historically the lowest interest rate for debentures issued by Canadian universities.

Our rating agencies, Moody's and S&P Global Ratings have reaffirmed our rating of Aa2 (stable) and AA-, respectively, on both the Series A ($150 million) and Series B ($160 million) issuances.

The total income distribution on endowment funds at 4.00% plus an additional 0.25%, amounted to $67.0 million on realized income of $99.8 million, resulting in an under distribution of $32.8 million due to higher returns over our distribution rate. The under distribution increases the market value of the Endowment Fund.

Operational Highlights

Overall Performance

McGill continues to positively distinguish itself from peer institutions, as indicated by the following performance highlights from FY 2018-2019:

Rankings

- QS World University Rankings: McGill placed #33 in the world, down from #32 last year. The University of Toronto was Canada's top university (#28).
- *Maclean's* magazine: After 13 years as the #1 medical-doctoral university in Canada, McGill shared the top spot with the University of Toronto.
- Times Higher Education World University Rankings: McGill dropped to #44 after two years at the #42 position. McGill, the University of Toronto (#21) and UBC (#37) were the only Canadian universities in the global top 50.
- Times Higher World Reputation Rankings: McGill stayed at #41.
- Academic Rankings of World Universities ("Shanghai Rankings"): McGill placed #70, down from #67 last year.
- QS World University Rankings by Subject: McGill rose in rank in twenty-four subjects, and declined in eight. For 33 of the 41 subjects in which it ranked, McGill is in the Top 50.

Finance

- In February 2019, S&P Global Ratings Services re-affirmed McGill's credit rating as AA- (stable).
- In January 2019, Moody's Investor Service re-affirmed McGill's credit rating as Aa2 (stable).

1st

Maclean's ranking of McGill university in Canada among institutions in the medical-doctoral category

Sustainability

- The University secured a $1.8M contribution from the Low Carbon Economy Fund to reduce McGill's institutional carbon footprint. The projects that will be funded will have combined reductions of 9,921 tonnes of carbon dioxide equivalent per year once they are online, representing a 25% reduction of McGill's energy-related greenhouse gas emissions below 2017 level.

- The McGill Office of Sustainability published a midway Progress Report of the Climate and Sustainability Action Plan (2017-2020). It shows that the implementation of the 22 priority actions is proceeding quickly, with a degree of completion of 71%.

- On April 3, 2019, McGill joined the City of Montréal, C2 Montreal, and Mouvement Desjardins in a commitment to reduce the environmental impacts of air travel. Taking action to reduce these emissions is in line with McGill's objective to achieve carbon neutrality by 2040.

- On World Water Day (March 22, 2019), the City of Montréal and McGill University jointly received "Blue Community" designations from Eau Secours, a non-profit committed to protection and responsible use of water. The University earned this designation for its commitment to eliminate the sale of single-use water bottles and increase access to water fountains on campus.

- The Sustainable Events Certification Program, which provides resources, support, and recognition to events at McGill that integrate socially and environmentally responsible best practices, has certified more than 100 events. Convocation, which hosts between 15,000 and 20,000 guests, was the University’s largest certified sustainable event.

- The McGill Office of Sustainability and Human Resources created a resource for incorporating sustainability objectives in performance dialogues, with the goal of formalizing employee’s contribution to McGill’ sustainability goals.

- Three guides were released to support McGill community members in making environmental and socially responsible choices: The Sustainable Travel & Mobility Guide, the Urban Agriculture Guide, and the Staff Sustainability Guide.

Infrastructure Projects

Work was completed on several projects supported by the Strategic Investment Fund (SIF) program:

- Construction of a new emergency power facility located between the **Wong** and **Ferrier Buildings**, to replace the mobile diesel-powered generator that sits between the **Ferrier** and **James Buildings**.
- McGill Nanotools Microfabrication Laboratory (**Rutherford Building**): replacement of HVAC, upgrade of the dangerous goods storage and distribution, and installation of new gas detection system.
- Sustainable Materials Processing Facility (**Wong Building**): major renovation and upgrade.
- Replacement of HVAC systems at **Lyman Duff Medical Building** and **Rutherford Physics Building**.

Other completed projects:

- **680 Sherbrooke**: reconfiguration of the basement to allow McGill's bookstore to bring almost all of its operations back under one roof.
- HVAC upgrades **Burnside Hall** and the **Education Building**.

Work continued on several projects, including:

- **Stewart Biology**: a complete reconfiguration of the west wing's interior spaces, the construction of new state-of-the-art research and teaching laboratories, and the replacement of all mechanical and electrical installations. Planned to be completed in Fall of 2022.
- **Macdonald Engineering**: an extensive restoration/preservation of the building masonry. To be completed by December 2019.
- **Macdonald-Harrington**: a major restoration of the exterior masonry walls, replacement of roof, replacement or restoration of windows, and extensive improvements or repairs to the foundation. To be completed by November 2019.
- **Smart energy grids**: modification of heating systems to create energy recovery loops linking the 12 main buildings of the southeast sector of the downtown campus. To be completed by November 2019.

Work began on several projects, including:

- **McTavish Gates**: reconstruction and redesign of the area around the gates, replacement of underground water mains, waterproofing of north side of Redpath Hall foundation. Not new, Project was mostly executed in 2018 and completed in the summer of 2019.
- Major repairs to the eight-level **McIntyre Garage** structure. Started in fall of 2018.
- **Bronfman Building**: modifications to first two levels of east and south façades and, started in summer 2018, to interior spaces on the same levels to house Bensadoun School of Retail Management. Planned to be completed in 2020
- Restoration of the envelope of the **Education Building**, starting with the repairs or replacement of the roofs and the exterior brick walls in 2018, followed with repairs to the exterior terrace starting in summer 2019 and to the parking garage in 2021
- **Lyman Duff Medical Building**, Pain CERC: complete interior demolition and redesign of the basement, 1st and 2nd floors of the new wing to create central hub for research on pain.

Operational highlights

Enrolment (Fall 2018) at 40,036 students; -2.28% under Fall 2017; + 5.53% over Fall 2013

Tenure Track Academics total approximately 1,707; net change of + 241 over the fiscal periods 2004 to 2019

Approximately 1,256 academic hires over the period 2004 to 2019

Operations

- The editors of Canada's Top 100 Employers named McGill one of Montreal's Top Employers for the 11th consecutive year. Université de Montréal and Concordia University were also on the list, as was the Shriners Hospitals for Children. The University earned high marks for its family-friendly benefits, its initiatives – such as the Principal's Awards – to celebrate exceptional employee performance, and its work cultivating a respectful and supportive campus culture, among other initiatives.
- Following a successful pilot period, the "**Family Days**" project, which allows employees to use up to three of their nine sick days to care for a sick family member, was confirmed as an ongoing policy, and the inclusivity of the definition of qualifying family members was significantly expanded to further support employees in balancing work and family responsibilities.
- The **My Workplace** initiative entered its third phase, **My Healthy Workplace**, and the University has partnered with the non-profit organization Excellence Canada, Canada's national authority on Quality and Healthy Workplace practices, to demonstrate and develop its clear commitment to physical and psychological health and safety. Using their uniquely Canadian model, Excellence Canada provides measurable standards and objective validation through its certification programs.

Students

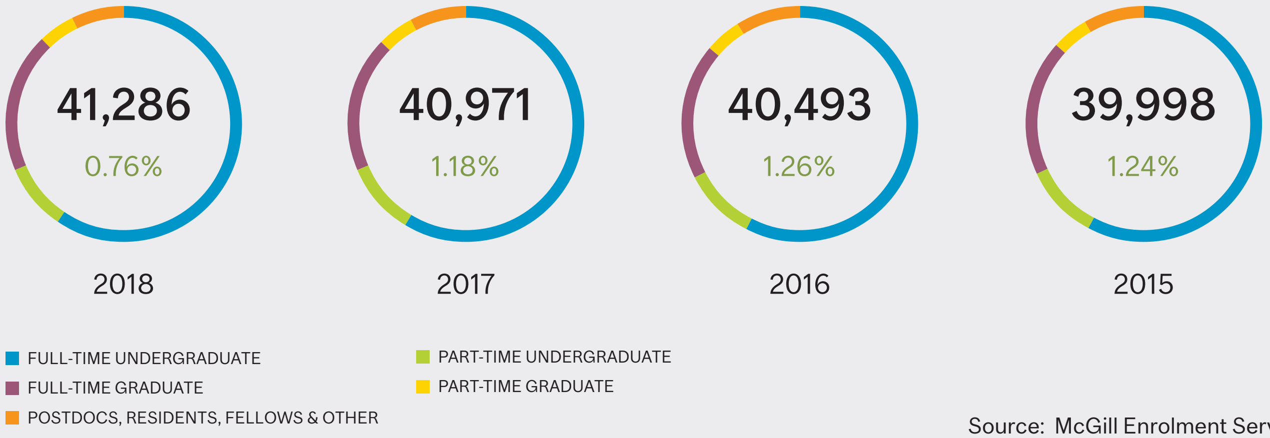
Total student enrolment at McGill in Fall 2018 again surpassed the 40,000 mark between its downtown and Macdonald campuses. The majority of the students (80%) are enrolled in full-time undergraduate and graduate programs, as highlighted in the chart below.

Part-time undergraduate and graduate students represent 14%, while the remaining 6% of the population are students associated with post-doctoral studies, medical residents and fellows and other categories of students. Graduate students (full and part-time) accounted for 25% of the total.

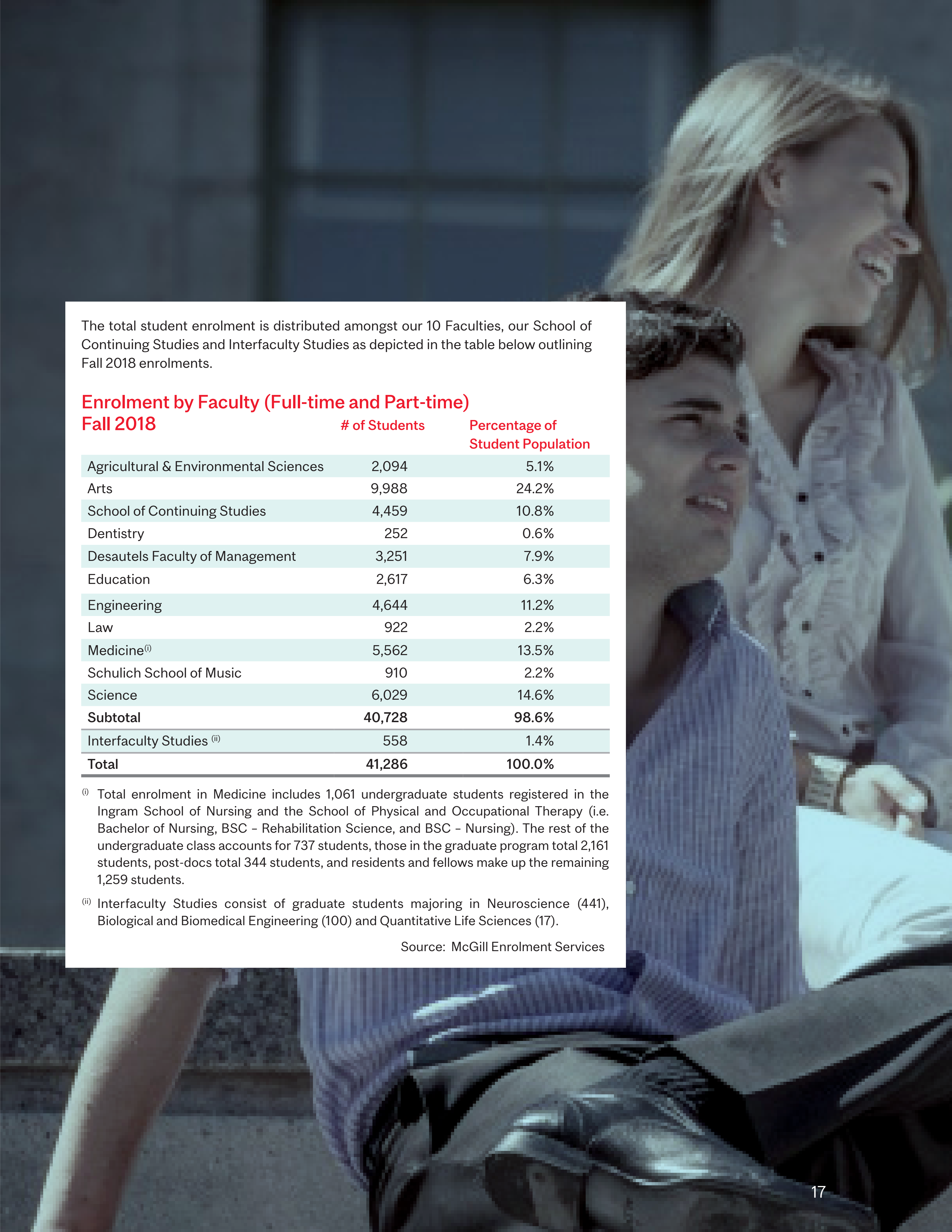
Overall, enrolment increased by 0.76% year-over-year (prior year increase of 1.18%), as highlighted below:

Over
40,000
Students

Student Enrolment (Fall)



Source: McGill Enrolment Services



The total student enrolment is distributed amongst our 10 Faculties, our School of Continuing Studies and Interfaculty Studies as depicted in the table below outlining Fall 2018 enrolments.

Enrolment by Faculty (Full-time and Part-time) Fall 2018

	# of Students	Percentage of Student Population
Agricultural & Environmental Sciences	2,094	5.1%
Arts	9,988	24.2%
School of Continuing Studies	4,459	10.8%
Dentistry	252	0.6%
Desautels Faculty of Management	3,251	7.9%
Education	2,617	6.3%
Engineering	4,644	11.2%
Law	922	2.2%
Medicine[i]	5,562	13.5%
Schulich School of Music	910	2.2%
Science	6,029	14.6%
Subtotal	**40,728**	**98.6%**
Interfaculty Studies [ii]	558	1.4%
Total	**41,286**	**100.0%**

[i] Total enrolment in Medicine includes 1,061 undergraduate students registered in the Ingram School of Nursing and the School of Physical and Occupational Therapy (i.e. Bachelor of Nursing, BSC – Rehabilitation Science, and BSC – Nursing). The rest of the undergraduate class accounts for 737 students, those in the graduate program total 2,161 students, post-docs total 344 students, and residents and fellows make up the remaining 1,259 students.

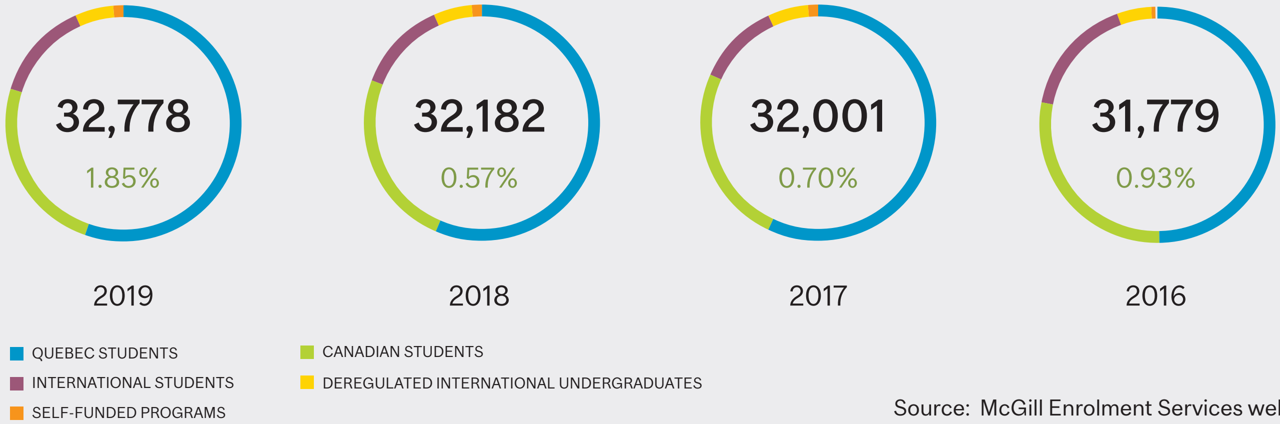
[ii] Interfaculty Studies consist of graduate students majoring in Neuroscience (441), Biological and Biomedical Engineering (100) and Quantitative Life Sciences (17).

Source: McGill Enrolment Services

This mix of student enrolments effectively translates into full-time equivalent units (FTEs) which are the root of government funding (grants), tuition and fees. The following chart highlights the billed (tuition) FTEs over the last four years, realizing that McGill's overall student population is made up of students originating from Québec and the rest of Canada, as well as International students.

The MEES funding model funds students at various amounts based on their discipline of study. For example, in fiscal 2019, an undergraduate student in Arts (grouped under *Sciences humaines et sociales* sector by MEES) is funded at an annual amount of $6,567. On the other hand, an undergraduate student in Dentistry (classified as Médicine dentaire by MEES) is funded at $32,183 per year.

Billed Tuition - Student FTEs



Source: McGill Enrolment Services website

Overall, the total numbers of full-time equivalent (FTE) students was above predictions by approximately 1.36%. The overall number of international FTEs (excluding those exempt from the supplement) increased by 8.6% to 7,319 (compared to a budget of 6,740) from 6,673 in the prior year.

The tuition fee (regulated by MEES) for a full-time Québec student in 2018-19 was $2,455.50 ($81.85 per credit), an increase of 2.7% from 2017-2018. The fee for a full-time out-of-province Canadian student was $7,631.70 ($254.39 per credit including supplements), a 3.1% increase from 2017-18. The fee for an International student in 2018-19 ranged from $16,815.60 ($560.52 per credit) to $45,262.80 (for the BCOM) including supplements, depending on the program. Currently, MEES regulations require all Canadian Masters students to pay the out-of-province supplement, while Canadian Ph.D. students are exempt.

Since 2013-14, fee increases for regulated tuition have been limited to a cost of living index based on the "change in household disposable income for Quebec residents" (2.7% increase in the base Quebec rate of tuition in 2018-19 based on the reference period for this index of 2015-2016). These tuition amounts include amounts required to be contributed to the Province's financial aid regime.

In addition, McGill's current practice continues to set aside 30% of net tuition increases to the institutional financial aid program.

Government Funding

All tuition fee supplements paid to McGill University by Canadian and International students are deducted from the University's operating grant. The total supplements deducted from our operating grants amounted to $91.5 million (2018: $87.2 million), representing 35.4% of all tuition collected. The government does provide a limited number of differential fee waivers for international students at the Graduate level which are administered through the Graduate & Postdoctoral Studies Office.

Starting in Fall 2015, newly admitted students from France pay fees at the Canadian rate due to a signing of an entente between Quebec and France. Following this, in Fall 2018, a new agreement signed with Belgium provides similar rates to students who are french native speakers. All MBA, certain specialized Masters in Management programs and a small number of students registered in distance programs outside of Quebec pay a self-funded tuition rate.

In fiscal 2008, the government permitted the deregulation of international tuition relating to specific undergraduate disciplines, including Management, Science, Engineering, Law, Mathematics and Computer Science. All other international tuition fees in excess of the Québec (regulated) basic tuition fee ($2,456) are effectively remitted in their entirety to the Québec government via a "claw-back" in the annual operating grants.

The deregulation of the afore-mentioned programs generated revenues of $85.8 million in 2018-2019 (2017-2018: $72.8 million). As of 2019-20, the government announced that all undergraduate International students can be deregulated, as well as 2nd cycle graduate non-thesis programs including post-graduate medicine and dentistry programs. No grant will be allocated for the students by the Province. Universities in Quebec may therefore set the tuition rate for all such programs, and tuition for newly enrolled students will increase by 7.7% in 2019-2020) for these deregulated programs. Returning students will experience more modest tuition increases (3.6% in 2019-20).

MEES has defined Frais Institutionnels Obligatoires (FIOs), which essentially represent those administrative fees charged by universities to students in addition to tuition. The annual increase for McGill in 2018-19 was limited to 2.7%, unless specific agreements are acknowledged by both McGill and the affected student groups/representatives.

The total "FIO's" revenue amounted to $37.8 million (2018: $36.4 million). In addition to FIOs, other student fees charged for non-credit courses, student services, Athletics, and other activities totaled $24.4 million (2018: $23.6 million). These fees, combined with tuition, totaled $349.6 million (2018: $319.7 million) and represent 37.9% (2018: 37.5%) of operating revenues.

Over
9,200
Graduates

Graduation

Degrees are awarded at two periods during the academic year: Fall and Spring Convocations. The following chart depicts the total number of degrees awarded for the two terms of the following academic years.

Graduation	2017-2018	2016-2017
Undergraduate	6,057	6,005
Masters	1,938	1,865
Doctoral	520	510
Certificates & Diplomas (Grad)	459	530
Non-credit Certificates	298	262
Total	**9,272**	**9,172**

Degrees, Certificates and Diplomas awarded, by Faculty	2017-2018	2016-2017
Agricultural & Environmental Sciences	528	510
Arts	2,230	2,183
School of Continuing Studies	961	1,102
Dentistry	93	79
Desautels Faculty of Management	899	859
Education	682	705
Engineering	1,034	929
Interfaculty Studies	79	68
Law	223	221
Medicine	1,112	1,063
Schulich School of Music	233	253
Science	1,198	1,192
Total	**9,272**	**9,172**

International Students

In 2018, McGill welcomed over 12,500 International students from a variety of countries around the world, of whom 85% are from the countries listed.

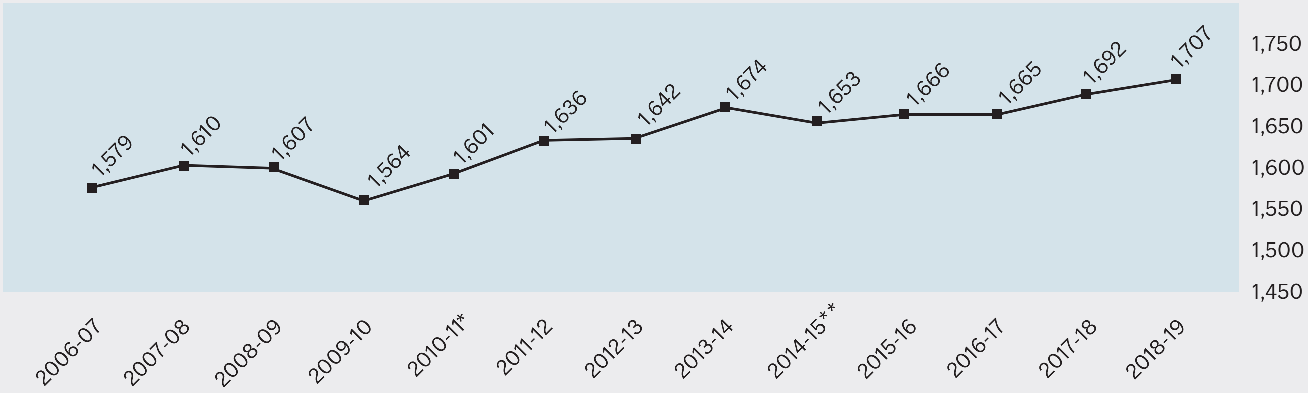
International Students - Full-time and Part-time	
Top 20 Countries	Fall 2018
1. China	2,864
2. USA	2,412
3. France	1,886
4. India	736
5. Saudi Arabia	297
6. Turkey	284
7. Iran	265
8. South Korea	258
9. United Kingdom	224
10. Mexico	184
11. Pakistan	177
12. Japan	160
13. Brazil	149
14. Bangladesh	148
15. Germany	116
16. Egypt	101
17. Australia	98
18. Lebanon	96
19. Italy	89
20. Taiwan	82
Sub-Total	**10,626**

Source: Enrolment Services

Tenure-Track Academic Staff

Our academic staff ranks have continued to grow to support the new programs and program offerings to students. The academic renewal program, which started in the early 2000s, has resulted in many new faculty members, coming from all over the world in various fields of study. Currently, the total number of tenure-track academics is approximately **1,707**, as compared to approximately 1,271 (fiscal 2000) prior to the academic renewal program. The progression of net new hires has continued, as depicted in the following graph.

Tenure-Track Academics



■ Year End Complement

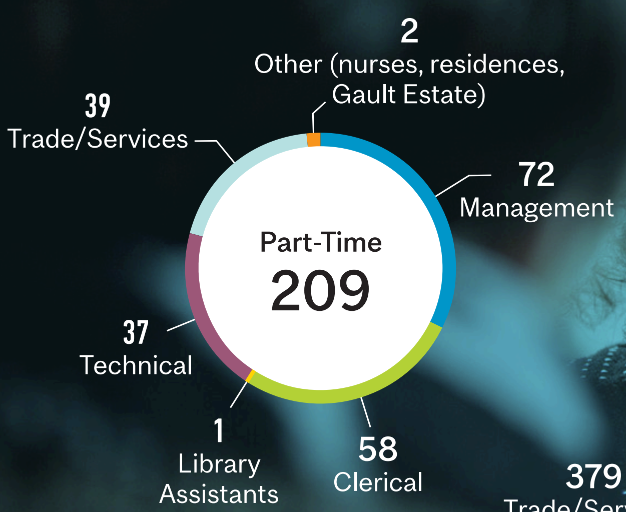
* 11 month year

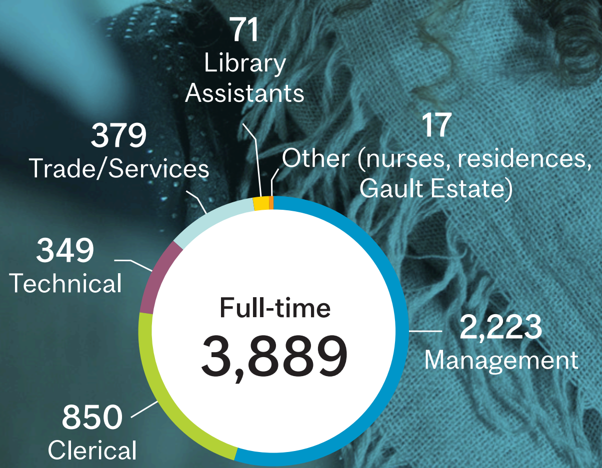
** 3 for 4 tenure track replacement plan

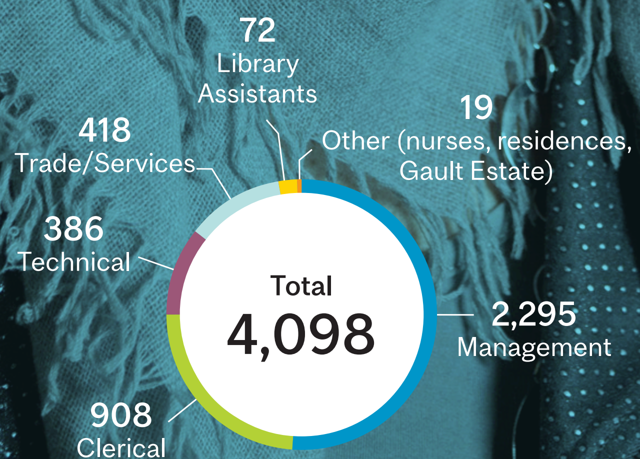
Source: McGill Academic Personnel Office/ Planning and Institutional Analysis

Administrative and Support Staff

The support network required to assist both students and professors is varied and comes from a variety of individuals working in different capacities around the University. A total of 4,098 individuals work to support the academic and research mission of the University, as at May 1, 2019, highlighted below:







Administrative Staff Awards

Each year, the Principal’s Awards for Administrative and Support Staff program recognizes the outstanding contributions of administrative and support staff to McGill University. This annual program provides staff the opportunity to promote, acknowledge, and commend the exceptional efforts of their peers.

Audited Financial Statements

Financial statements of

The Royal Institution for the Advancement of Learning / McGill University

April 30, 2019

Independent Auditor's Report 1–2

Statement of revenue and expenses 3

Statement of changes in net assets 4

Balance sheet 5

Statement of cash flows 6

Notes to the financial statements 7–21

Deloitte.

Deloitte LLP
La Tour Deloitte
1190 Avenue des
Canadiens-de-Montréal
Suite 500
Montréal QC H3B 0M7
Canada

Tel: 514-393-7115
Fax: 514-390-4116
www.deloitte.ca

Independent Auditor's Report

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

Opinion

We have audited the financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheet as at April 30, 2019, and the statements revenue and expenses, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

•, 2019

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of revenue and expenses

Year ended April 30, 2019

(In thousands of dollars)

	Notes	2019	2018
		$	$
Revenue			
Grants			
Federal		**217,449**	204,977
Provincial		**464,754**	431,238
United States		**4,797**	6,100
Other sources		**58,191**	48,071
Contracts		**14,128**	16,264
Tuition and fees		**349,649**	319,673
Sales of goods and services		**154,587**	151,374
Gifts and bequests		**76,931**	59,380
Foreign exchange gain		**2,168**	1,728
Investment and interest income	15	**75,905**	87,449
		1,418,559	1,326,254
Expenses			
Salaries and student support			
Academic		**360,872**	347,005
Administrative and support		**284,922**	272,618
Benefits		**120,916**	116,812
Student aid		**127,949**	118,617
Students		**39,999**	39,830
		934,658	894,882
Non-salary			
Material, supplies and publications		**47,572**	45,441
Contributions to partner institutions		**47,622**	42,571
Contract services		**23,781**	22,704
Professional fees		**23,294**	23,546
Travel		**29,987**	27,303
Cost of goods sold		**19,672**	19,147
Building occupancy costs		**32,425**	34,930
Energy		**21,968**	19,058
Other non-salary expenses		**44,043**	42,308
Hardware and software maintenance		**11,753**	11,983
Amortization of capital assets		**141,114**	127,122
Interest		**37,675**	36,240
Bank charges		**1,556**	1,536
		482,462	453,889
		1,417,120	1,348,771
Excess (deficiency) of revenue over expenses		**1,439**	(22,517)

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of changes in net assets

Year ended April 30, 2019

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	$	$	$	$	$	$
Net assets (deficiency), April 30, 2017	(364,576)	84,509	—	256,139	1,562,327	1,538,399
(Deficiency) excess of revenue over expenses	25,147	6,517	17,718	(71,899)	—	(22,517)
Pension liability remeasurement*	3,168	—	—	—	—	3,168
Post-employment benefit remeasurement*	25,103	—	—	—	—	25,103
Endowment contributions and gifts in kind	—	—	—	542	23,390	23,932
Investment loss items reported as direct decrease in net assets	—	—	—	—	(23,526)	(23,526)
Net change in internally restricted net assets	8,734	(4,381)	—	(2,722)	(1,631)	—
Investment in capital assets	(43,757)	—	(16,710)	60,467	—	—
Other transfers	(6,778)	1,750	(1,008)	395	5,641	—
Net assets (deficiency), April 30, 2018	**(352,959)**	**88,395**	**—**	**242,922**	**1,566,201**	**1,544,559**
Excess (deficiency) of revenue over expenses	**63,900**	**12,810**	**18,560**	**(93,831)**	**—**	**1,439**
Pension liability remeasurement*	**4,846**	**—**	**—**	**—**	**—**	**4,846**
Post-employment benefit remeasurement*	**6,507**	**—**	**—**	**—**	**—**	**6,507**
Endowment contributions and gifts in kind	**—**	**—**	**—**	**1,479**	**42,914**	**44,393**
Investment income items reported as direct increase in net assets	**—**	**—**	**—**	**—**	**368**	**368**
Net change in internally restricted net assets	**(627)**	**3,798**	**—**	**(2,625)**	**(546)**	**—**
Investment in capital assets	**(56,711)**	**—**	**(22,509)**	**79,220**	**—**	**—**
Other transfers	**2,823**	**(9,190)**	**3,949**	**457**	**1,961**	**—**
Net assets (deficiency), April 30, 2019	**(332,221)**	**95,813**	**—**	**227,622**	**1,610,898**	**1,602,112**

* As at April 30, 2019, the accumulated post-employment benefit remeasurement is $46,557 ($40,050 as at April 30, 2018) and the accumulated pension liability remeasurement is $59,594 ($54,748 as at April 30, 2018).

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

The Royal Institution for the Advancement of Learning / McGill University

Balance sheet

As at April 30, 2019

(In thousands of dollars)

	Notes	2019	2018
		$	$
Assets			
Current assets			
Cash and cash equivalents		**1,634**	24,229
Short-term investments	17	**23,609**	35,325
Receivables	3 and 4	**515,544**	490,373
Prepaid expenses		**9,282**	11,105
Inventory		**1,466**	1,641
		551,535	562,673
Marketable securities	17	**1,778,224**	1,769,151
Grants and contracts related to research receivable		**53,201**	43,942
Capital grants receivable	4	**710,157**	669,255
Loans receivable	5	**3,819**	5,494
Capital assets	6	**1,643,445**	1,544,930
		4,740,381	4,595,445
Liabilities			
Current liabilities			
Bank indebtedness	7	**95,020**	89,155
Accounts payable and accrued liabilities	8	**236,624**	242,183
Unearned revenue		**38,238**	29,008
Current portion of long-term debt	11	**209,353**	193,606
		579,235	553,952
Deferred contributions	9	**613,754**	558,686
Deferred capital contributions	10	**974,569**	895,973
Long-term debt	11	**847,509**	898,029
Accrued pension liability	12	**37,786**	53,334
Post-employment benefit obligation	12	**85,416**	90,912
		3,138,269	3,050,886
Commitments and contingent liabilities	19 and 20		
Net assets (deficiency)			
Invested in capital assets		**227,622**	242,922
Externally restricted for endowment purposes	13	**1,610,898**	1,566,201
Internally restricted	14	**95,813**	88,395
Unrestricted		**(332,221)**	(352,959)
		1,602,112	1,544,559
		4,740,381	4,595,445

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

Approved by the Board of Governors

____, Governor

____, Secretary-General

The Royal Institution for the Advancement of Learning / McGill University

Statement of cash flows

Year ended April 30, 2019

(In thousands of dollars)

	Notes	2019	2018
		$	$
Operating activities			
Excess (deficiency) of revenue over expenses		**1,439**	(22,517)
Adjustments for:			
Amortization of capital assets		**141,114**	127,122
Amortization of bond discount		**187**	202
Amortization of deferred contributions	9	**(418,082)**	(386,559)
Amortization of deferred capital contributions	10	**(71,280)**	(60,967)
Change in fair value of investments	15	**15,731**	1,823
Change in fair value of derivative financial instruments	15	**(6,277)**	(3,068)
Change in pension liability		**(10,702)**	(14,344)
Change in post-retirement benefit obligation		**1,011**	1,526
Loss on disposal of capital assets		**1,703**	—
		(345,156)	(356,782)
Net change in non-cash working capital items	16	**1,230**	31,686
Increase in government grant receivable		**(55,277)**	(32,428)
Increase in grants and contracts related to research receivable		**(17,874)**	(4,213)
Increase in deferred contributions		**473,150**	438,387
		56,073	76,650
Investing activities			
Decrease (increase) in short-term investments		**11,716**	(8,933)
Acquisition of capital assets		**(239,074)**	(249,901)
Purchase of marketable securities		**(1,187,189)**	(1,338,580)
Proceeds from sale of marketable securities		**1,168,662**	1,360,333
Change in loans receivable		**1,675**	1,618
		(244,210)	(235,463)
Financing activities			
Change in bank indebtedness		**5,865**	(17,499)
Investment income (loss) reported as direct increase (decrease) in net assets		**368**	(23,526)
Endowment contributions and gifts in kind		**44,393**	23,932
Issuance of long-term debt		**158,645**	220,392
Repayment of long-term debt		**(193,605)**	(116,198)
Deferred capital contributions		**149,876**	80,448
		165,542	167,549
Net (decrease) increase in cash and cash equivalents		**(22,595)**	8,736
Cash and cash equivalents, beginning of year		**24,229**	15,493
Cash and cash equivalents, end of year		**1,634**	24,229

Non-cash transactions

Capital assets additions amounting to $33,504 ($31,246 in 2018), included in accounts payable and accrued liabilities, have no cash flow impact.

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

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 Sainte-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 *Canadian Income Tax Act*.

2. 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 includes 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 a direct increase 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 gifts in kind in 2019 is $1.5 million ($0.5 million in 2018). The value of contributed volunteer hours is not recognized in these financial statements.

Government operating grants are recorded in the period for which they are granted.

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

2. 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 securities 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 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 subsequent to initial measurement 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 statement 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 statement of revenue and expenses 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 the statement 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. Non-monetary assets and liabilities are translated at historical rates. Revenue and expense items are translated into Canadian dollars at the rates of exchange prevailing at the date of the transaction. The gain or loss resulting from translation is included in the statement of revenue and expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments with a term to maturity of three months of less at the date of acquisition.

Student loans

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

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 $19.5 million ($19.1 million in 2018).

(Tabular amounts in thousands of dollars)

2. 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 is calculated on a straight-line basis over the estimated useful lives in years of various asset categories as follows:

Land improvements	10 or 20 years
Buildings	20 to 50 years
Major renovations	20 to 40 years
Leasehold improvements	Over term of lease, to a maximum of 10 years
Equipment	3 to 20 years
Rolling stock	5 years
Library materials	10 years
Intangible assets (primarily software)	3 to 5 years

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 in accordance with McGill's endowment policy.

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 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 benefit plans other than pensions is determined by independent actuaries. The University has chosen to evaluate the accrued benefit obligations by using the actuarial valuation for funding purposes. 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). The most recent actuarial evaluation for funding purposes was dated December 31, 2017.

For the purpose of calculating the expected return on plan assets, the assets are valued at fair value.

(Tabular amounts in thousands of dollars)

2. Accounting policies (continued)

Employee future benefits (continued)

The University recognizes:

- in the balance sheet, the accrued benefit obligations, reduced by the fair value of plan assets and adjusted for any valuation allowance (either the defined benefit asset or the accrued benefit obligation);
- in the statement of revenue and expenses, the cost of the plan for the year; and
- in the statement of changes in net assets, revaluations and other items arising in particular from the difference between the actual return on plan assets and the return calculated using the discount rate determined from actuarial gains and losses, past services, settlement, compression and asset ceiling for defined benefits.

Use of estimates

The preparation of financial statements in accordance with Canadian ASNPO 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 non-publicly traded 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.

3. Receivables

	2019	2018
	$	$
Operating, net of provision for doubtful accounts of $1,302 ($1,257 as at April 30, 2018)	**38,674**	35,809
Student loans, net of provision for doubtful accounts of $625 ($550 as at April 30, 2018)	**3,989**	4,484
Investment income	**2,593**	2,782
Government operating grants	**41,197**	42,552
Grants and contracts related to research – short-term	**220,735**	212,120
Capital grants receivable – short-term	**208,356**	192,626
	515,544	490,373

4. Capital grants receivable

Capital grants receivable relate to capital grants approved by Ministère de l’Éducation et de l’Enseignement supérieur (MEES), but funded through long-term debt issued in McGill’s name or not yet funded. These amounts are due immediately; however, only a portion of their collection is expected within the next fiscal year and the remainder is presented as long-term.

(Tabular amounts in thousands of dollars)

5. Loans receivable

Loans receivable bear interest at rates varying from 3.013% to 4.125% (3.013% to 4.125% as at April 30, 2018), with maturities up to three years.

6. Capital assets

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	28,685	–	28,685	28,685
Land improvements	55,770	22,694	33,076	35,796
Buildings	665,916	374,973	290,943	300,356
Major renovations	1,170,502	372,086	798,416	756,507
Leasehold improvements	19,579	5,334	14,245	14,927
Equipment	541,028	304,747	236,281	216,731
Rolling stock	1,945	1,385	560	547
Library materials	185,921	99,681	86,240	83,639
Intangible assets	17,547	10,489	7,058	4,956
	2,686,893	1,191,389	1,495,504	1,442,144
Assets under development	147,941	–	147,941	102,786
	2,834,834	1,191,389	1,643,445	1,544,930

7. Bank indebtedness

In accordance with MEES regulations, McGill's Board of Governors has approved maximum borrowings of $300.0 million from May 1, 2018 to April 30, 2019, $380.0 million from May 1, 2019 to May 31, 2019, and $400.0 million from June 1, 2019 to May 31, 2020 ($300.0 million as at April 30, 2018), under short-term credit facilities, of which $94.1 million has been used as at April 30, 2019 ($89.2 million as at April 30, 2018). There are $0.9 million in short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness (nil in 2018). Unsecured and uncommitted operating lines of credit, totalling $465.0 million ($350.0 million as at April 30, 2018), 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 or banker's acceptance rate. The prime rate averaged 3.80% for the year (3.16% in 2018). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 1.68% (1.79% as at April 30, 2018). The banker's acceptance rate in effect as at April 30, 2019, was 1.92% (1.64% as at April 30, 2018). Banker's acceptances outstanding at year-end amounted to $10.0 million (nil as at April 30, 2018). The cross currency swaps outstanding at year-end amounting to $84.1 million ($63.0 million USD) ($89.2 million ($70.0 million USD) at 1.50% as at April 30, 2018) bear interest at a rate of 1.82%.

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $8,195,000 ($7,841,000 as at April 30, 2018) of government remittances.

(Tabular amounts in thousands of dollars)

9. Deferred contributions

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

	2019	2018
	$	$
Balance, beginning of year	558,686	506,858
Restricted funds received during the year	413,838	390,122
Gifts and bequests	59,312	48,265
Amortization of deferred contributions	(418,082)	(386,559)
Balance, end of year	613,754	558,686

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

	2019	2018
	$	$
Federal grants	336,128	310,004
Provincial grants	101,845	94,887
United States grants	4,197	3,380
Other grant sponsors	22,021	17,043
Contracts	23,895	16,362
Gifts and bequests	111,671	97,092
Endowment income	8,928	14,886
Investment income	5,069	5,032
	613,754	558,686

10. Deferred capital contributions

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

	2019	2018
	$	$
Balance, beginning of year	895,973	876,492
Deferred capital contributions received	149,876	80,448
Amortization of deferred capital contributions	(71,280)	(60,967)
Balance, end of year	974,569	895,973
Composed of contributions from the following sources:		
MEES	510,672	459,388
Other provincial	158,626	151,565
Federal	176,043	150,575
Gifts and donations	117,110	122,344
Specific grant agreements	12,118	12,101
Balance, end of year	974,569	895,973

(Tabular amounts in thousands of dollars)

11. Long-term debt

	2019	2018
	$	$
Government of Québec debt notes[i]		
2.213%, due June 1, 2018	**—**	132,940
2.112%, due June 1, 2018	**—**	2,092
2.406%, due December 1, 2018	**—**	12,452
2.413%, due May 29, 2019	**161,192**	172,753
4.125%, due August 24, 2020	**1,440**	2,117
2.559%, due December 1, 2021	**1,511**	—
1.709%, due March 1, 2022	**6,544**	7,363
2.947%, due September 1, 2022	**5,026**	6,369
2.947%, due September 1, 2022	**4,828**	6,119
2.226%, due September 1, 2022	**6,465**	8,312
3.013%, due September 28, 2022	**4,054**	4,994
2.044%, due October 1, 2022	**3,491**	4,485
1.639%, due March 1, 2023	**3,533**	4,341
2.324%, due September 1, 2024	**9,871**	11,666
2.949%, due March 1, 2025	**31,942**	37,081
2.408%, due September 1, 2026	**46,920**	49,680
2.149%, due September 1, 2026	**14,988**	16,615
2.280%, due September 1, 2027	**41,703**	43,440
2.787%, due September 1, 2027	**61,010**	65,087
3.021%, due December 1, 2028	**11,342**	—
3.082%, due December 1, 2029	**122,128**	—
4.991%, due June 1, 2034	**16,000**	17,000
3.680%, due June 1, 2034	**44,100**	46,200
3.161%, due June 1, 2034	**48,400**	50,600
2.933%, due December 1, 2042	**58,156**	60,579
3.218%, due December 1, 2043	**23,664**	—
Total	**728,308**	762,285
McGill Senior Unsecured Debentures[ii],		
6.150% Series "A", mature on September 22, 2042	**150,000**	150,000
3.975% Series "B", mature on January 29, 2056	**160,000**	160,000
Loan payable[iii]	**23,496**	24,454
Other	**11**	36
Bond discounts and issuance costs	**(4,953)**	(5,140)
Total long-term debt	**1,056,862**	1,091,635
Current portion	**209,353**	193,606
	847,509	898,029

(Tabular amounts in thousands of dollars)

11. Long-term debt (continued)

(i) 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 final payments including lump sums due at maturity are as follows:

	Annual payment	Final payment on maturity
	$	$
2.413%, due May 29, 2019	11,562	161,191
4.125%, due August 24, 2020*	677	—
2.559%, due December 1, 2021	581	349
1.709%, due March 1, 2022	819	4,906
2.947%, due September 1, 2022*	1,291	720
2.947%, due September 1, 2022*	1,344	750
2.226%, due September 1, 2022	1,847	924
3.013%, due September 28, 2022*	940	—
2.044%, due October 1, 2022	994	509
1.639%, due March 1, 2023	808	1,109
2.324%, due September 1, 2024	1,795	896
2.949%, due March 1, 2025	5,140	6,242
2.408%, due September 1, 2026	2,760	27,600
2.149%, due September 1, 2026	1,626	3,606
2.280%, due September 1, 2027	1,738	27,799
2.787%, due September 1, 2027	4,077	28,394
3.021%, due December 1, 2028	1,110	1,352
3.082%, due December 1, 2029	10,812	14,008
4.991%, due June 1, 2034	1,000	1,000
3.680%, due June 1, 2034	2,100	12,600
3.161%, due June 1, 2034	2,200	15,400
2.933%, due December 1, 2042	2,423	2,427
3.218%, due December 1, 2043	947	936

* Annual payments vary from year to year.

(ii) In September 2002, McGill issued $150 million of unsecured debentures. In January 2016, McGill issued $160 million of unsecured debentures. Unlike MEES notes, McGill will be required to repay these obligations from resources generated by McGill. Semi-annual interest payments are paid by McGill.

(iii) In August 2017, McGill entered into a 10-year loan agreement of $25 million, with a 20-year amortization period. The loan bears interest at the banker's acceptance rate plus 0.73% with a 10-year rate swap for an all-in rate of 2.84%.

(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:

	$
2020	209,353
2021	48,319
2022	51,579
2023	43,870
2024	38,832

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. Prior to January 1, 2011, employees were able to obtain a McGill annuity upon retirement.

The University measures its accrued benefit obligations and fair value of the 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 at December 31, 2017, and the next required valuation will be no later than as at December 31, 2020.

Post-employment benefit obligation

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, 2019, is estimated at $85.4 million ($90.9 million as at April 30, 2018). 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 10.8% of the employees’ basic earnings depending on the age of the employee.

The significant information about the University’s Plan is as follows:

	2019	2018
	$	$
Cash payments recognized	**49,897**	51,226
Benefit costs	**24,540**	22,982
Accrued pension liability		
Defined benefit cost		
Current service cost	**7,189**	7,340
Interest cost on accrued benefit obligation	**1,813**	2,229
	9,002	9,569

(Tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Pension plan defined contribution plan (continued)

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

	2019	2018
	$	$
Accrued benefit obligations	**307,366**	317,231
Fair value of plan assets	**269,580**	263,897
Plan deficit	**37,786**	53,334
Accrued pension liability	**37,786**	53,334

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

	2019	2018
	%	%
Cash equivalents	**7.3**	2.0
Alternative assets	**3.3**	3.1
Equity	**48.5**	50.6
Fixed income	**40.9**	44.3

The significant assumptions used are as follows:

	2019	2018
	%	%
Discount rate		
Active	**5.75**	5.75
Retirees	**4.50**	4.50
Price inflation allowance	**3.00**	3.00

Post-employment benefit obligation – unfunded benefits

	2019	2018
	$	$
Balance, beginning of year	**90,912**	114,489
Current service cost	**784**	1,210
Interest cost on accrued benefit obligation	**4,329**	5,190
Benefits paid	**(4,102)**	(4,874)
Net actuarial gain	**(6,507)**	(25,103)
Balance, end of year	**85,416**	90,912

(Tabular amounts in thousands of dollars)

12. Employee future benefits (continued)

Post-employment benefit obligation – unfunded benefits (continued)

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

	2019	2018
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	**5.75**	5.75
Discount rate – retirees	**4.50**	4.50
Rate of compensation increase – Academics	**4.50**	5.70
Rate of compensation increase – Non-academics	**3.00**	3.00
Health care cost trend rates		
Current trend rate	**4.00**	4.00
Ultimate trend rate	**4.00**	4.00
Year of ultimate trend rate	**2040**	2040

13. Externally restricted for endowment purposes

	2019	2018
	$	$
Faculty endowments	**603,090**	588,696
Student aid	**476,603**	461,875
Research endowments	**118,319**	118,930
Emerging priorities	**32,866**	21,455
Library endowments	**25,934**	25,531
Student services	**9,484**	9,514
Annuities	**4,021**	3,930
Accumulated income	**340,581**	336,270
	1,610,898	1,566,201

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 4.00% plus an additional 0.25% from fiscal year 2016 to fiscal year 2019 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. In accordance with the policy, the unspent portion of the amount made available for spending is capitalized and recorded as a direct increase in endowment funds. 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.

In addition, the Board of Governors has approved a charge of 1.10% (1.10% in 2018) of the fair value of investments to cover internal and external investment management costs. As these costs are recorded in the operating and restricted funds, this amount is included in the interfund transfers each year.

14. Internally restricted net assets

	2019	2018
	$	$
Self-financing teaching and research	**33,498**	31,767
Professor start-up funds	**9,540**	7,489
Other	**52,775**	49,139
	95,813	88,395

15. Investment and interest income

	2019	2018
	$	$
Change in fair value of investments	**(15,731)**	(1,823)
Change in fair value of derivative financial instruments	**6,277**	3,068
Interest income	**7,850**	5,844
Investment income	**77,509**	80,360
	75,905	87,449

(Tabular amounts in thousands of dollars)

16. Net change in non-cash working capital items

	2019	2018
	$	$
Receivables (operating, student loans and investment income)	**(2,181)**	(2,135)
Prepaid expenses	**1,823**	(3,996)
Inventory	**175**	(165)
Accounts payable and accrued liabilities	**(7,817)**	32,098
Unearned revenue	**9,230**	5,884
	1,230	31,686

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, 2019, McGill's foreign-denominated marketable securities had a fair value of $1.09 billion ($1.07 billion as at April 30, 2018), the most significant of which were US dollar-denominated marketable securities of $651 million ($660 million as at April 30, 2018).

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-rate 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.

McGill is also exposed to other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The University is exposed to other price risk through its marketable securities.

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, 2019, the most significant financial liabilities are bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Derivatives

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of US$250.4 million with a forward rate of 1.3429 as at April 30, 2019, maturing through December 2021 (US$259.5 million with a forward rate of 1.2812 as at April 30, 2018 that matured on June 27, 2018). As at April 30, 2019, the fair value of these contracts was an unrealized loss of $1.7 million, which was recorded in marketable securities (an unrealized loss of $1.5 million as at April 30, 2018).

(Tabular amounts in thousands of dollars)

17. Financial instruments (continued)

Derivatives (continued)

In October 2003, McGill entered into an agreement with RBC Dominion Securities (RBCDS) whereby it invested in a US$13.0 million US dollar-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 in 2029. The fair value of the bond and the swap agreement is $67.7 million ($61.5 million as at April 30, 2018) 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, 2019, the fair value of the swap is $40.9 million ($38.7 million as at April 30, 2018).

The future value of this investment, including accumulated growth to the year 2042, is planned to be used to redeem the $150.0 million of outstanding senior debentures.

The University entered into rate lock contracts amounting to $207.0 million of nominal value with a settlement date of May 17, 2019. As at April 30, 2019, the fair value of the rate locks is an unrealized loss of $4.2 million which has been included in marketable securities (an unrealized loss of $3.9 million as at April 30, 2018). The University entered into the rate lock contracts to protect against a rate increase for the remaining anticipated issuances of $240.0 million of long-term debt. The contracts are rolled-over every 3 months with a settlement at market value, yielding a realized gain or loss, until the full issuance of the long-term debt.

The University also entered into cross-currency swaps amounting to $84.1 million with settlement dates between May 13, 2019 and May 14, 2019 and bearing interest at a rate of 1.76%. As at April 30, 2019, the fair value of the swaps approximate their carrying value and therefore no gain or loss was recorded in the statement of revenue and expenses.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2019	2018
	%	%
Canadian equity	**12**	10
U.S. equity	**22**	20
Non-North American equity	**22**	22
Canadian fixed income	**16**	17
U.S. fixed income	**1**	1
Hedge funds	**7**	11
Alternate strategies, including private equity and other	**20**	19
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 0.92% to 6.45% (0.79% to 6.83% as at April 30, 2018).

18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of $1.2 million, as at April 30, 2019, amounted to $220.6 million ($210.0 million as at April 30, 2018, net of doubtful account of $1.1 million). These have not been recognized in the financial statements.

(Tabular amounts in thousands of dollars)

19. Commitments

Operating leases

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

	$
2020	11,502
2021	11,771
2022	10,633
2023	10,314
2024	11,314
2025 and thereafter	32,315
	87,849

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $90.0 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 $193.3 million within the next four years in accordance with its arrangements with these funds.

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 Québec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2019, 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.

21. Subsequent event

On July 23, 2019, McGill issued $90 million Series C unsecured debentures, bearing interest at 2.926%, with semi-annual interest payments, maturing on July 26, 2049.

22. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Financial Highlights

Reporting Period
Year Ended April 30, 2019

Total combined assets liabilities and net assets include the Operating (Unrestricted) Restricted, Plant and Endowment Funds.

Total Combined Assets

2019: $4.74 billion (2018: $4.60 billion)

(in millions of dollars)

	2019	2018
Cash and short term investments	**25.2**	59.5
Receivables, including operating, government operating grant, grants and contracts related to research, capital grants, student loans and investment income	**515.7**	490.4
Prepaid expenses and inventory	**10.7**	12.7
Marketable securities related to the endowment fund and plant fund (related to the bond issuances)	**1,778.2**	1,769.2
Capital assets, including land, buildings and major renovations, equipment, library materials, leashehold improvements and intangible assets as well as assets under development	**1,643.4**	1,544.9
Long term receivables related to capital and research	**767.2**	718.7
TOTAL	**4,740.4**	4,595.4

Total Combined Liabilities and Net Assets

2019: $4.74 billion (2018: $4.60 billion)

(in millions of dollars)

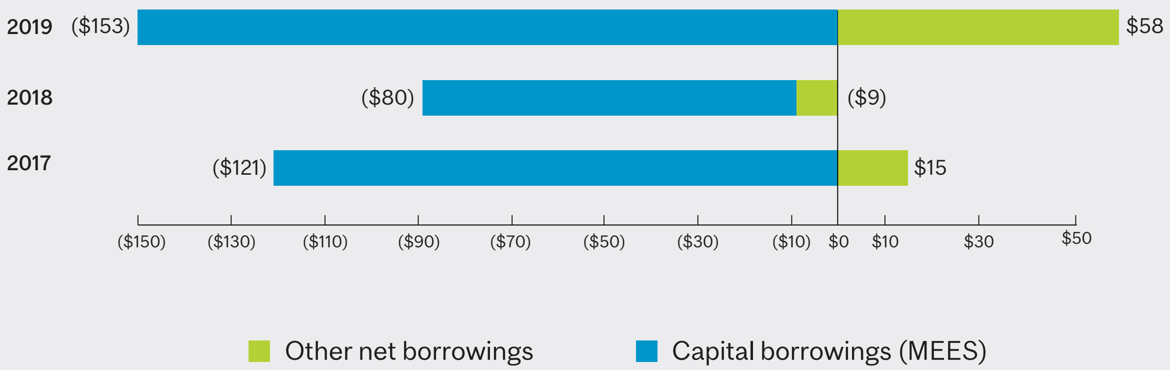
	2019	2018
Bank indebtedness	**95.0**	89.2
Accounts Payable and accruals including amounts due to supplies, payroll accruals and deductions at source remittances	**236.6**	242.2
Unearned revenues for tuition and fees for the summer session, deposits for student housing and deferred grants of $5M in fiscal 2019.	**38.2**	29.0
Current portion of long-term debt expected to be partially financed by MEES in Fiscal 2020	**209.4**	193.6
Deferred research and capital contributions	**1,588.3**	1,454.7
Long-term debt, including notes from Financement Quebec and McGill issued bonds and other loans payable	**847.5**	898.0
Pension liability and Post-employment obligations	**123.2**	144.2
Net Assets: Invested in Capital Assets	**$227.6**	$242.9
Externally Restricted	**$1,610.9**	$1,556.2
Internally Restricted	**$95.8**	$88.4
Unrestricted deficit	**($332.2)**	(352.9)
Sub Total	**1,602.1**	1,544.6
TOTAL	**4,740.4**	4,595.4

Net cash position
(Financial Statement note 7)

The Board of Governors has authorized a maximum of $300 million in bank borrowing from available credit facilities totaling $465 million (see Note 7 in the Audited Financial Statements). As at April 30, 2019, McGill had a bank indebtedness of $95.1 million, as compared to $89.2 million one year earlier. Bank indebtedness, net of operating cash and short-term investments excluding endowment investments of $7.8 million (2018: $10.8 million) held for operations, was $77.5 million (2018: $40.5 million). This bank indebtedness continues to be primarily required to temporarily finance borrowings owed by the *Ministère de l'Éducation et de L'Enseignement supérieur* (MEES) to McGill.

As at April 30, 2019, the total capital borrowings owed from MEES amounted to $152.8 million (2018:$80.5 million). These amounts include annual capital and deferred maintenance grants, as well as other specific capital grants and prior year financings which the University has temporarily refinanced on behalf of MEES. The following chart outlines the progression of the Net Bank Indebtedness position over the last three years, as compared to the level of temporary capital borrowing on behalf of MEES. The timing of the issuance of long-term debt to reimburse the temporary borrowings is dictated by MEES.

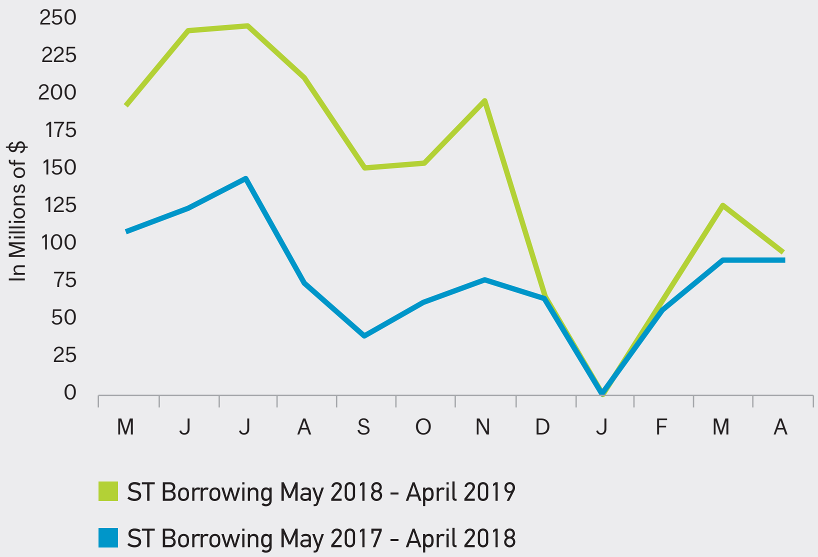
Total Bank Indebtedness at April 30
($ millions)



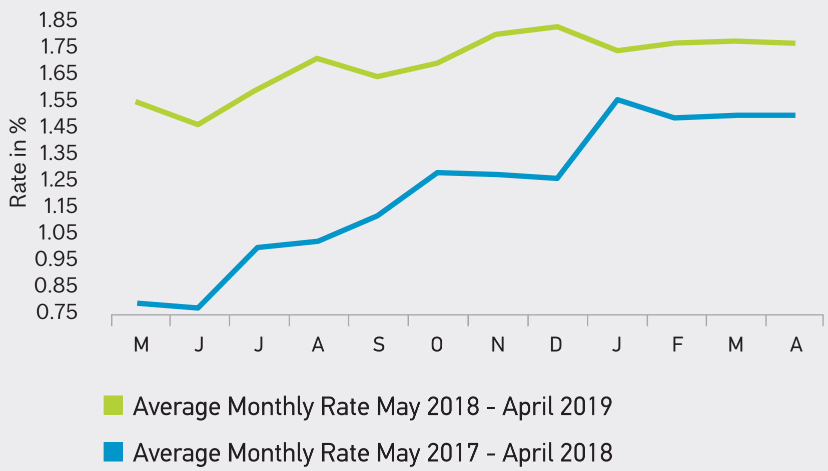
Source: McGill Financial Services

The line of credit bears interest at the prime rate or banker's acceptance rate. The prime rate averaged 3.80% for the year (3.16% in 2018). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 1.68% (1.79% as at April 30, 2018). The banker's acceptance rate in effect as at April 30, 2019, was 1.92% (1.64% as at April 30, 2018). Bankers' acceptances outstanding at year-end amounted to $10 million (nil as at April 30, 2018). The cross currency swaps outstanding at year end amounting to $84.1 million ($63.0 million USD; $89.2 million ($70 million USD) at 1.50% as at April 30, 2018) bear interest at a rate of 1.82%.

Monthly Outstanding Short-Term Borrowing



Average Borrowing Rate on Outstanding Monthly Short-Term Borrowing



Source: McGill Financial Services

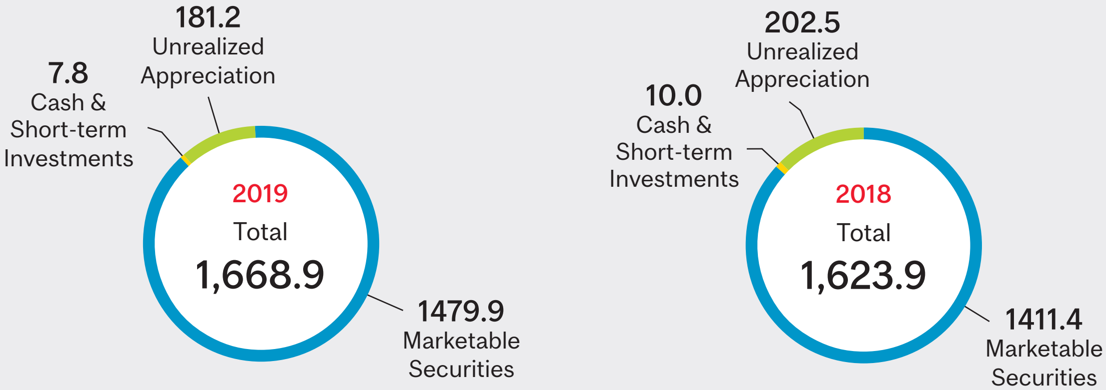

MUSÉE REDPATH
REDPATH MUSEUM

Marketable securities at market value
(Financial Statements, Note 17)

Total marketable securities amount to $1,778.2 million (2018: $1,769.2 million) and include $1,661.6 million (2018: $1,613.8 million) relating to endowment investments.

Of this total, $106.5 million (2018: $155.2 million) consists of $67.7 million relating to an investment purchased from proceeds of the 2002 McGill Bond issue of $150 million and $38.8 million relating to the 2016 McGill 40 year bond of $160 million. The 2002 investment is expected to be valued at $150 million by 2042 in order to extinguish the related debt at that time. The total endowment assets managed as part of the McGill Investment Pool amount to $1,668.9 million (2018: $1,623.9 million), including the $1,661.6 million in marketable securities mentioned above (see Section Endowment Gifts, page 58). The following chart outlines the significant assets included in the $1,668.9 million.

Market Value of Endowment Assets as April 30
($ millions)



Source: McGill Audited Financial Statements

Capital assets
(Financial Statements, Note 6)

Total net capital assets amount to $1.643 billion (2018: $1.544 billion) and include various asset categories.

Additions during the year amounted to $241.3 million (2018: $261.3 million) as undernoted:

	2019	2018
Buildings and renovations, including major projects at the following buildings: Duff Medical, Macdonald Harrington, University Centre, McIntyre Medical, MNI, Rutherford Physics, Steward Biology, Bronfman, Otto Maas, M.H. Wong among others under $3.5 million each	**123.5**	155.1
Equipment and intangibles, including scientific, computing mechanical, audiovisual and specialized equipment as well as furniture and office equipment, and software	**96.6**	74.7
Library books	**19.8**	22.7
Land and Leasehold improvements	**1.1**	8.4
Other Assets (vehicles)	**0.3**	0.4
TOTAL	**241.3**	261.3

CAPITAL
ASSETS

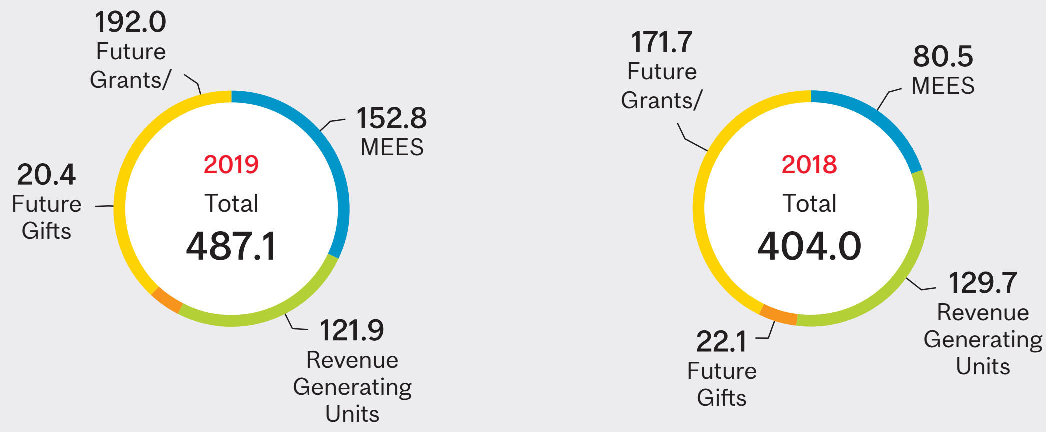
The majority of the funding for capital projects is from the Québec Government, the Federal Government, and from the *Canada Foundation for Innovation* (CFI). Other expected sources of funding include future gifts and capital grants to be applied to existing building costs. These amounts are temporarily financed by short-term bank borrowings.

A total of $20.4 million (2018: $22.1 million), is expected from future commitments on buildings including the Montreal Neurological Institute (MNI), the Bronfman Building, Faculty of Law renovations and the Dietetics and Human Nutrition Lab.

In addition to the above, revenue-generating projects (such as residences, parking, etc.) are expected to generate annual capital and interest repayments for its share of the $150 million 2002 bond debenture issue. As at April 30, 2019, a total of $121.9 million (2018: $129.7 million) is expected to be recovered from revenue-generating units, including the three former hotel acquisitions since 2002 which are used as student residences.

The following chart depicts two years of outstanding sources of funding for capital asset spending, which when received, will reduce short-term borrowings.

Sources of funding for Capital Assets spending
($ millions)



Current liabilities
(Millions of dollars)

	2019	2018
Accounts Payable and accruals including amounts due to supplies, payroll accruals and deductions at source remittances.	**236.6**	242.2
Unearned revenues for tuition and fees for the summer session, deposits for student housing and deferred grants of $5M in fiscal 2019.	**38.2**	29.0
Current portion of long-term debt expected to be partially financed by MEES in Fiscal 2020.	**209.4**	193.6
TOTAL	**$484.2**	$464.8

In 2001,McGill conducted and completed a pay equity exercise and on November 21, 2001, posted the results in accordance with the Pay Equity Act. All salary adjustments calculated under the plan were paid in five installments during the period spanning 2001 to 2005. In 2002, several McGill employees represented by MUNACA deposited complaints regarding the results with the Pay Equity Commission. Despite the fact that these complaints were filed outside of the applicable delay, in 2004, the Pay Equity Commission notified the University of its decision to investigate the pay equity exercise on its own initiative. Subsequently, McGill and MUNACA entered into a conciliation process with the Pay Equity Commission in order to arrive at an agreement concerning the implementation of the pay equity exercise on November 21, 2001, specifically with respect to the method of analysis used at the time of implementation of pay equity. During the period from February 2014 to May 2016, the University processed all retroactive pay equity payments for all groups of employees involved. These payments covered the requirements of the 2001 and 2005 pay equity maintenance as required by law.

The University has produced the December 2010 pay equity maintenance. Results were posted in accordance to the Pay Equity Act on March 31, 2016 and on June 29, 2016 and complaints were filed by unions and employees. The University has produced the December 2015 pay equity maintenance. Results were posted in accordance to the Pay Equity Act on December 21, 2016 and on March 24, 2017. Again complaints were filed by unions and employees.

The conciliation process with the CNESST (Commission des normes, de l'équité de la santé et de la sécurité du travail) and the discussions that followed between McGill and each union resulted in several outcomes. McGill, AMURE and AMUSE have successfully reached mutually agreeable resolutions to both unions' complaints filed with the CNESST. Since January 2019, McGill is paying retroactive payments for current or past AMURE and AMUSE employees covering the 2010-2019 period. There are still payments to be made for terminated employees.

CURRENT LIABILITIES

The conciliation process did not result in an agreement with the third participating union, MUNACA. As a result, the retroactive pay increases for the four (4) MUNACA positions (PED 119, PED 156, PED 190 and PED 194) are suspended pending the outcome of the formal CNESST investigation.

It is unknown when results of the investigation will be available.

The *Projet de loi 10* sanctioned last April amended the Pay Equity Act. The Bill amends the date on which the adjustments determined following a pay equity audit become payable, making each adjustment payable as of the date of the event leading to the adjustment, and specifies the terms and conditions of payment of the adjustments. The Bill also states that adjustments bear interest at the legal rate starting from the date on which they should have been paid. The Bill requires certain employers who decide to conduct a pay equity audit alone to carry out a participation process. It also requires the employers to report to the bargaining units on the process when posting the result of the audit. McGill is presently assessing the impacts of these changes. Given the significance of Pay Equity for the University, and the fact that our 2020 pay equity maintenance is fast approaching, we will prepare an action plan with some short-and longer-term recommendations.

Deferred contributions (Financial Statements, Notes 9 and 10)

With the adoption of the GAAP deferral method, restricted contributions/revenues are deferred until the matching expense is incurred. In the case of restricted contributions received for non-capital expenses, the total deferred contribution as at April 30, 2019 amounted to $613.8 (2018: $558.7 million). These revenues will be recognized in the future when the associated non-capital expenditure is incurred and reflects an overall decrease in research revenue inflows during the year.

With respect to deferred capital contributions, the April 30, 2019 total was $974.6 million (2018: $896.0 million) and reflects increased funding for Capital Assets. These revenues will be recognized in the future as the underlying assets are amortized annually.

Long-term debt (Financial Statements, Note 11)

Total MEES issued debt decreased by a net $34.0 million (2018: net increase of $79.4 million) as a result of new Financement Québec Promissory Notes (Notes) issued by MEES and MESI totaling $158.6 million (2018: $195.4 million). This was used to repay matured bonds and repayment of previously issued notes totaling $191.0 million (2018: $114.1 million). Other bank debt repayments amounted to $2.6 million (2018: $2.1 million) on debt previously issued by other provincial ministries and other parties.

Long-term liabilities – Employee future benefits (Financial Statements, Note 12)

These include pension obligations that have been confirmed by independent external actuaries of $37.8 million (2017: $53.3 million), and post-employment benefits of $85.4 million (2017: $90.9 million).

The most recent actuarial valuation of the pension plans for funding purposes was at December 31, 2017 and the next required valuation will be as at December 31, 2020.

LONG-TERM DEBT/LIABILITIES

Net Assets (Financial Statements, Note 13 and 14)

Net assets in a not-for-profit environment represents capital which is invested in assets and/or surpluses (deficits) pertaining to core missions. GAAP classifies net assets in various categories according to any restrictions imposed on future spending, including Invested in Capital Assets, Externally Restricted, Internally Restricted, and Unrestricted.

- The Invested in Capital Assets represents the accumulated amounts contributed to the University for the purpose of acquiring long-term capital assets.
- Externally and Internally Restricted balances are amounts available for future purposes and are affected by the nature of the restriction imposed by external or internal parties.
- Unrestricted Net Assets balances represent the total amount of accumulated surpluses (deficits), assuming all internally restricted balances are spent in the future.

(In millions of dollars)	**2019**	2018
Invested in Capital Assets	**227.6**	242.2
Externally Restricted	**1,610.9**	1,556.2
Internally Restricted	**95.8**	88.4
Unrestricted deficit	**(332.2)**	(352.9)
TOTAL	**$1,602.1**	$1,544.6

Of the total net assets above, the University's GAAP Unrestricted (Operating) Net Assets are undernoted ($millions)

	2019	2018
Unrestricted Net Assets	(332.3)	(352.9)
Internally Restricted Net Assets	53.9	47.0
Net Unrestricted Assets (deficiency) - as at April 30, 2019 (i)	(278.4)	(305.9)

The above unrestricted net assets have been affected by the following GAAP liabilities:

	2019	2018
Vacation Accrural	35.3	33.2
Pension Obligation	37.8	53.3
Post-employment benefits	85.4	90.9
	158.5	177.4

Once the GAAP liabilities are removed the “financed” accumulated deficit is $119.9M (2018: $128.5M).

NET ASSETS

OVERALL SOURCES OF REVENUES AND EXPENSES

In accordance with GAAP the presentation outlines revenues and expenses in the line item *Excess (deficiency) of revenues over expenses*, which do not include inter-fund transfer items. The latter are considered in arriving at the change in the Net Assets balance for each year. Contributions to capital assets and other transfers, including endowment income not available for spending, must be considered when evaluating the change in "operating accumulated deficit"

Total Combined Sources of Revenues

2019: $1.42 billion (2018: $1.32 billion)

	2019	2018
Government of Quebec to fulfill teaching mission	**365.3**	337.8
Tuition and fees, including domestic, Canadian, international students and self funded programs	**349.6**	319.7
Government of Canada research and infrastructure grants, including Tri-Agency and CFI	**217.0**	205.0
Research and infrastructure grants and contracts, recognized to the extent expenses are incurred, including MEES, US government grants and other sources	**177.0**	163.8
Sales of goods and services generated by student housing and hospitality services, bookstore sales, faculty programs, community services (ex. School of continuing studies, Executive Institute, Dental clinic), student services, such as athletics and health services	**154.6**	151.4
Investment and interest income from endowment income distribution and contributions to operations as well as unrealized gains and losses on investments.	**78.1**	89.1
Gifts and bequests	**76.9**	59.4
	1,418.5	1326.2

Total Combined Sources of Expenses

2019: $1.41 billion (2018: $1.35 billion)

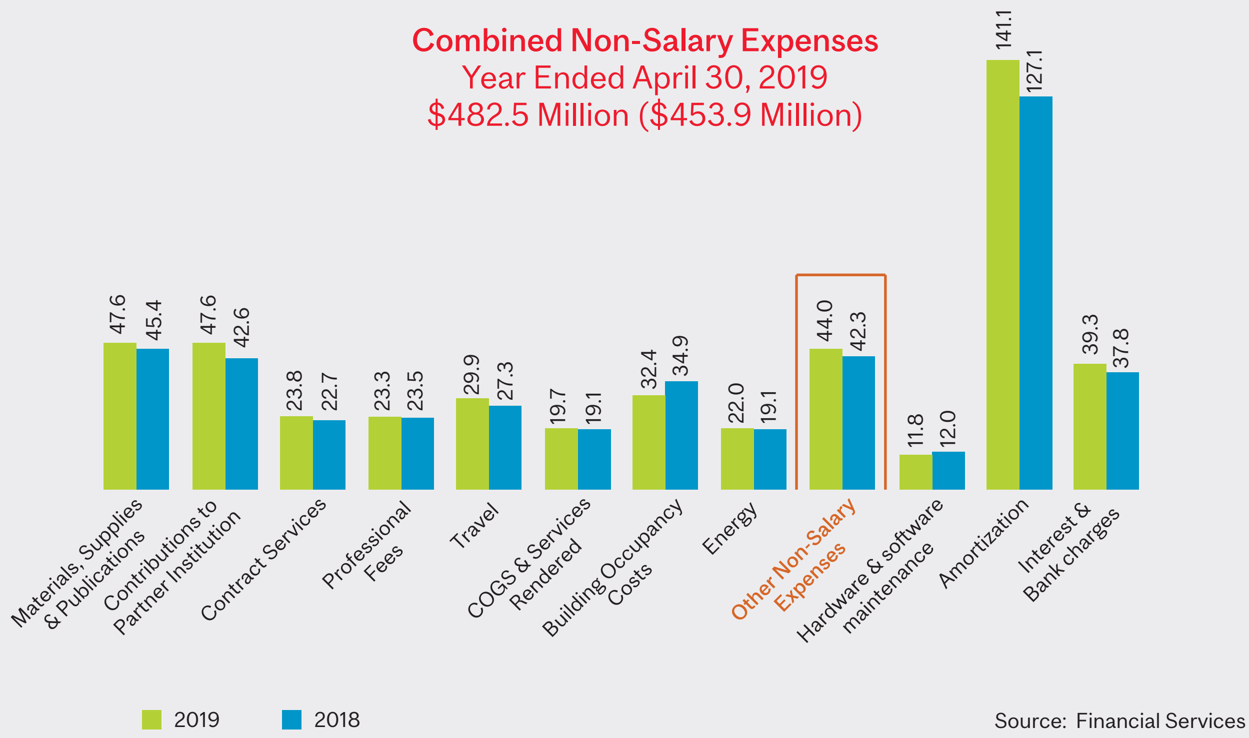
	2019	2018
Academic salaries, teaching and research	**360.9**	347.0
Admin & support salaries, teaching and research	**284.9**	272.6
Student salaries and aid	**167.9**	158.4
Benefits	**120.9**	116.8
Non-salary expenses, including amortization, materials & supplies, interest, building occupancy, travel and others	**482.5**	453.9
	1,417.1	1,348.7

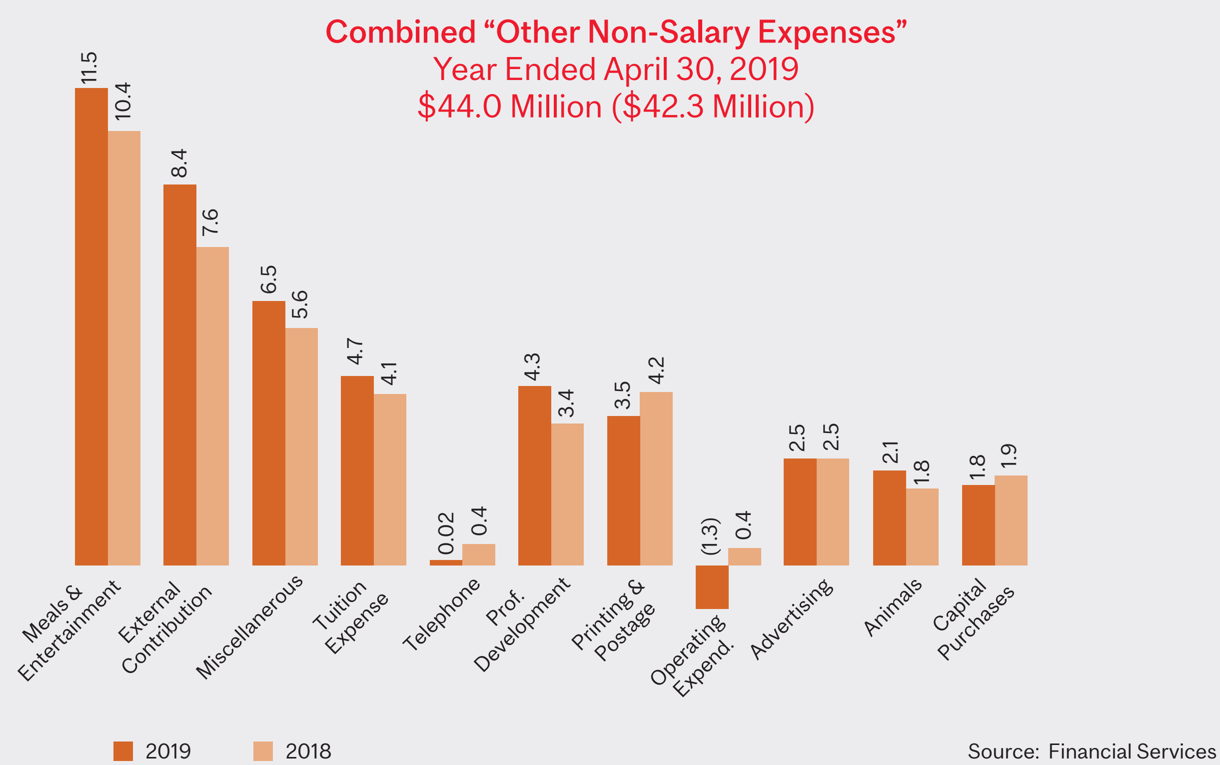
Total Compensation and student support amounted to $934.7 million (2018: $894.9 million). This represents 65.9% (2018: 66.4%) of total expenditures, excluding inter-fund transfers.

Excess (deficiency) of Revenues over expenses before interfund transfers	**1.4**	(22.5)

Fund by Fund Sources of Revenues and Expenses and Interfund Transfers

	Unrestricted (Operating) Fund	Restricted Fund	Plant Fund	Endowment Fund	Total
Total Revenues	920.7	414.8	83.0	-	1418.5
Total Expenses	(841.3)	(396.2)	(179.6)	-	(1,417.1)
Excess (deficiency) of revenues over expenses	**79.4**	**18.6**	**(96.6)**	**-**	**1.4**
Interfund Transfers (out) in	(51.8)	(18.4)	81.2	45.2	56.2
Excess (deficiency) or revenues over expenses and interfund transfers	**27.6**	**0.2**	**(15.4)**	**45.2**	**57.6**


Combined Non-Salary Expenses
Year Ended April 30, 2019
$482.5 Million ($453.9 Million)
47.6
45.4
47.6
42.6
23.8
22.7
23.3
23.5
29.9
27.3
19.7
19.1
32.4
34.9
22.0
19.1
44.0
42.3
11.8
12.0
141.1
127.1
39.3
37.8
Materials, Supplies & Publications
Contributions to Partner Institution
Contract Services
Professional Fees
Travel
COGS & Services Rendered
Building Occupancy Costs
Energy
Other Non-Salary Expenses
Hardware & software maintenance
Amortization
Interest & Bank charges
2019
2018
Source: Financial Services


Combined "Other Non-Salary Expenses"
Year Ended April 30, 2019
$44.0 Million ($42.3 Million)
11.5
10.4
8.4
7.6
6.5
5.6
4.7
4.1
0.02
0.4
4.3
3.4
3.5
4.2
(1.3)
0.4
2.5
2.5
2.1
1.8
1.8
1.9
Meals & Entertainment
External Contribution
Miscellanerous
Tuition Expense
Telephone
Prof. Development
Printing & Postage
Operating Expend.
Advertising
Animals
Capital Purchases
2019
2018
Source: Financial Services

SOURCES OF REVENUES

Total Grant revenue - all sources

Grant revenue used to support the teaching and research mission of the University totaled $745 million in 2019 (2018: $689 million), which represents 53% (2018: 51%) of total revenues.

Per GAAP, research revenue is recorded to the extent that research operating and amortization expenses are incurred. The following table outlines grant revenues from the various sources, whether operating (unrestricted), restricted, or capital in nature.

			2019		
Purpose	Quebec	Canada	US	Other Sources	Total
Operating	365	-	-	-	365
Capital	63	22	-	-	85
Indirect Costs (Operating)	-	31	-	-	31
Research (Restricted) Grants	5	185	5	38	233
Other Restricted Grants	31	-20	-	20	31
Total:	**464**	**218**	**5**	**58**	**745**

			2018		
Purpose	Quebec	Canada	US	Other Sources	Total
Operating	336	-	-	-	336
Capital	58	16	-	-	74
Indirect Costs (Operating)	-	28	-	-	28
Research (Restricted) Grants	23	139	6	48	216
Other Restricted Grants	13	22	-	-	35
Total:	**430**	**205**	**6**	**48**	**689**

a) Operating grants

These include amounts received from MEES to operate the University and are based on a valuation of the total student population reported during the year. Other annual operating grants include amounts for research support, and specific initiatives. As part of the calculation of the operating grant, MEES reduces the grants for any recoveries or "supplements" charged (and collected) by the universities from Canadian and International students. Certain students are exempt from being charged supplements due to international treaty agreements or other regulations in force. The supplements "returned" to MEES in fiscal 2019 total $36.1 million (2018: $35.8 million) and $55.4 million (2018: $51.4 million) for Canadian and International students, respectively.

In the meantime, universities can charge what they deem appropriate to students in the 6 disciplines, which are Management, Science, Engineering, Law, Mathematics, and Computer Science. Starting in fiscal 2019-2020, all international students can be deregulated, as well as 2nd cycle graduate non-thesis programs.

In addition to the above supplements, MEES also "claws-back" $10.3 million (2018: $9.6 million) in student aid contributions, indirectly collected via tuition fees. These amounts are accumulated and distributed by the Province's financial aid system.

b) Capital grants

These consist of annual or specific grants received by the University. In fiscal 2019 McGill University was granted $85 million from capital and deffered maintenance grants, an increase of $40 million over fiscal 2018.

GAAP requires the deferral of grants in order to match future capital/amortization expenses and includes the portion of prior year awards, and which are recognized in the year to match amortization expenses. Accordingly, the level of Capital grants recorded is in excess of amounts received in order to match the annual amortization expense.

c) Federal Research Support Fund (RSF)

(formerly known as the Indirect Costs Program)

The RSF was introduced in 2003 as part of the federal government's strategy to support Canadian institutions in research and development. The RSF has a 2018-19 budget of $398.1 million, including incremental project grants of $28.7 million, and supports 144 postsecondary institutions across the country. The RSF compensates universities for costs associated with their research enterprise. Grant amounts are based on the funding received by researchers from the Tri-Agency agencies - the Canadian Institutes of Health Research (CIHR), the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC).

Over the past several years, McGill's share has remained stable between 7-8% and is expected to remain at this level over the next three years. In fiscal 2019, McGill's RSF grant was $31.0 million less the amount distributed to affiliated hospitals of $9.3 million. This amount represents 20.9% of the direct cost of research.

The net amount retained by McGill will vary depending on where the research activity is actually carried out in those years when the three-year average is calculated.

Federal Indirect Cost of Research Grant

	2019	2018
Federal Grant	30,967	28,422
Amount Remitted to Hospitals	(9,316)	(8,562)
Total:	**21,651**	**19,860**

Source: McGill Financial Services

d) Research grants and contracts

McGill is considered one of Canada's top research intensive universities. Annually, the University attracts research grants and contracts from various governments, foundations, corporations, and other sources. The overall research activity is generally summarized in two main streams: direct research grants and contracts and infrastructure grants.

The direct research grants and contracts are primarily characterized by annual grant awards from the federal tri-agency, provincial granting councils, or other grant sponsors from Canada or other countries. Since the early 2000s, both the provincial and federal levels of government have also created new pools of resources to fund research infrastructure: Canada via the Canada Foundation for Innovation (CFI), and Québec through various matching programs.

e) Other restricted grants

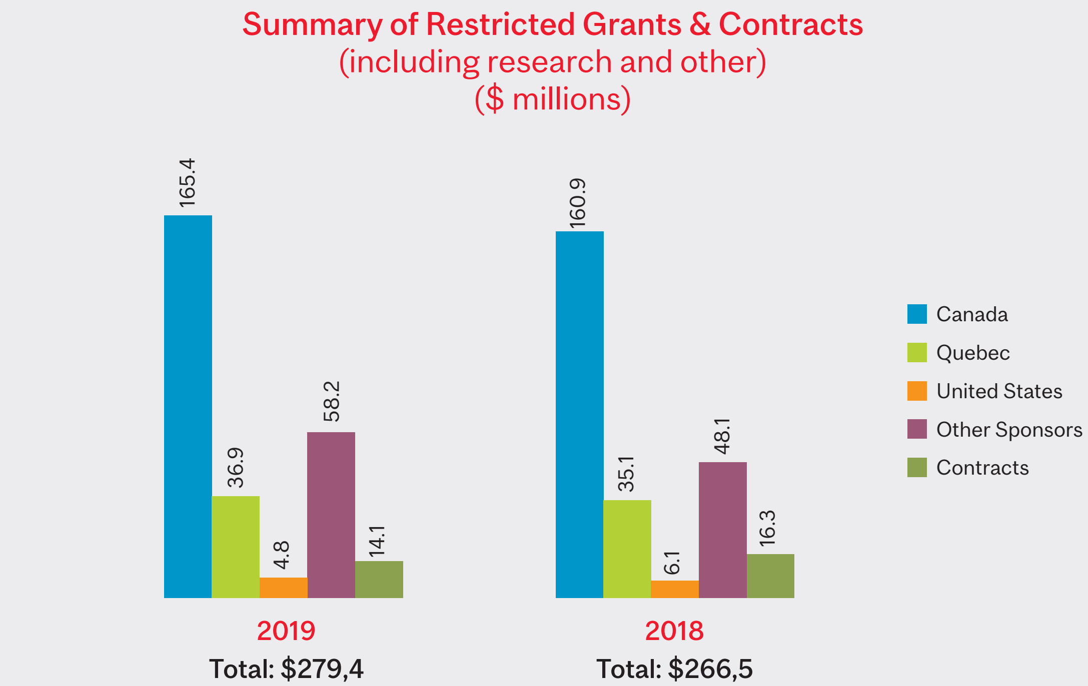
In order to support research activities, both the federal and provincial governments have awarded McGill students with scholarships and other support. Specifically, the federal government awarded approximately $15.9 million (2018: $16.1 million) while the provincial government awarded $0.8 million (no awards for 2018) for similar purposes. In addition, the provincial government funded other activities and programs, including $5.8 million (2018: $5.7 million) for teaching costs in the affiliated hospitals, and $8.0 million (2018: $4.8 million) for student placement, bursaries for abroad, and other restricted activities.

Research and Restricted Activities

Direct funded research totaled $152.9 million (2018: $170.5 million). A further $81.3 million (2018: $45.4 million) was generated in infrastructure grants and $14.4 million (2018: $15.6 million) in contracts.

The largest sponsors of restricted grants (including those relating to research above) continue to be the federal and provincial governments. Together, they account for $202.3 million (2018: $196.1 million) of the total in grants and contracts.

The following chart outlines the total restricted research grants and contracts generated for either research or other restricted purposes (e.g. aid) over the last three years:



Source: McGill Financial Services

As outlined earlier, research revenue recorded using the deferred method is recognized only to the extent expenses are incurred. In the year grants are awarded, these associated revenues are either spent or deferred as "deferred contributions." The following table highlights total research revenue awarded in both fiscal years:

AWARDED BASIS - Research Revenues ($ millions)	2019	2018
Federal Government:		
Tri Agencies/Council	**117.8**	115.5
Canada Research Chairs	**27.9**	18.8
CFI	**37.8**	31.9
CFREF	**12.3**	24.3
New Frontiers in Research Fund	**1.1**	-
Other	**15.6**	2.4
	212.5	192.9
Quebec Government:		
FRSQ/FRQNT/FQRSC	**28.6**	35.6
CFI	**28.0**	19.4
Other	**9.1**	9.7
	65.7	64.7
Canadian Foundations & Associations	**24.7**	18.6
Contracts	**21.3**	16.9
Other	**18.0**	22.3
	64.0	57.8
Total:	**342.2**	315.4

OTHER RESTRICTED FUNDS

In addition to restricted grants and contracts recognized and included on the previous page, total research and other restricted funding is supplemented by other sources of revenues, including investment income of $66.1 million (2018: $66.1 million), restricted gifts of $61.8 million (2018: $45.2 million), and other sources totaling $7.5 million (2018: $7.2 million). Total sources of revenues available for restricted and research purposes amounted to $414.8 million (2018: $385.0 million).

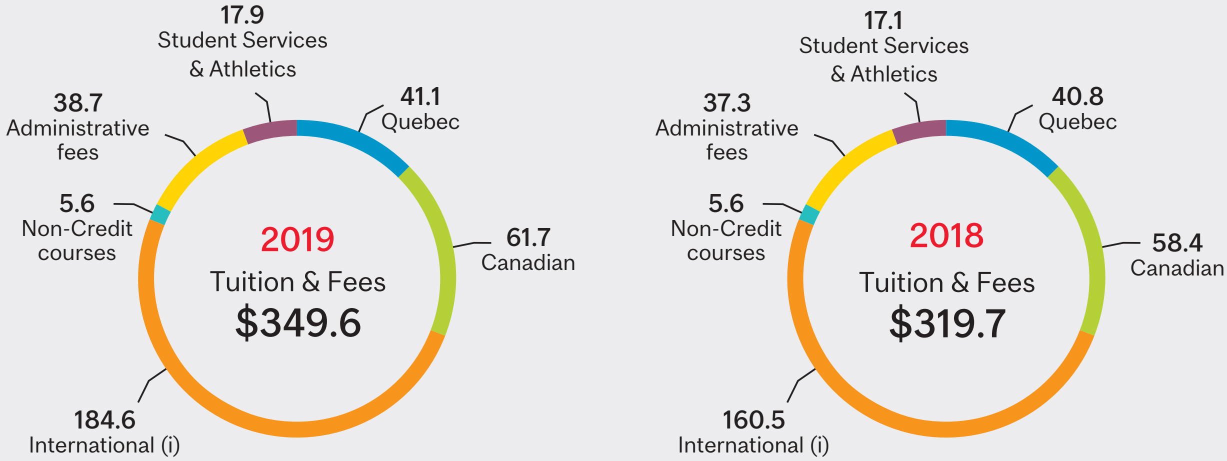
On a GAAP basis, overall restricted expenses amount to $396.2 million versus $367.3 million in the prior year, prior to inter-fund transfers relating to capital assets of $19.0 million (2018: $13.2 million). Under GAAP, capital assets are capitalized and amortized over the economic lives of the associated assets. As a result, the associated restricted/ grant revenue is deferred as Deferred capital contributions and recorded as income annually over the life of the asset in order to match the annual amortization expense.

Tuition and fees

The second largest source of revenue for the University is tuition and fees totaling $349.6 million (2018: $319.7 million), which accounts for 24.7% (2018: 23.6%) of total revenue.

Tuition is derived from both credit courses (i.e. students are funded by the province) and non-credit courses, which are considered to be self-financing and the University is free to charge what the market will bear. In addition to tuition, the University charges fees for various services and activities, and is included in the following chart.

Tuition and Fees
($ millions)



(i) Including $85.8 million (2018: $72.8 million) of deregulated fees charged to undergraduate students.

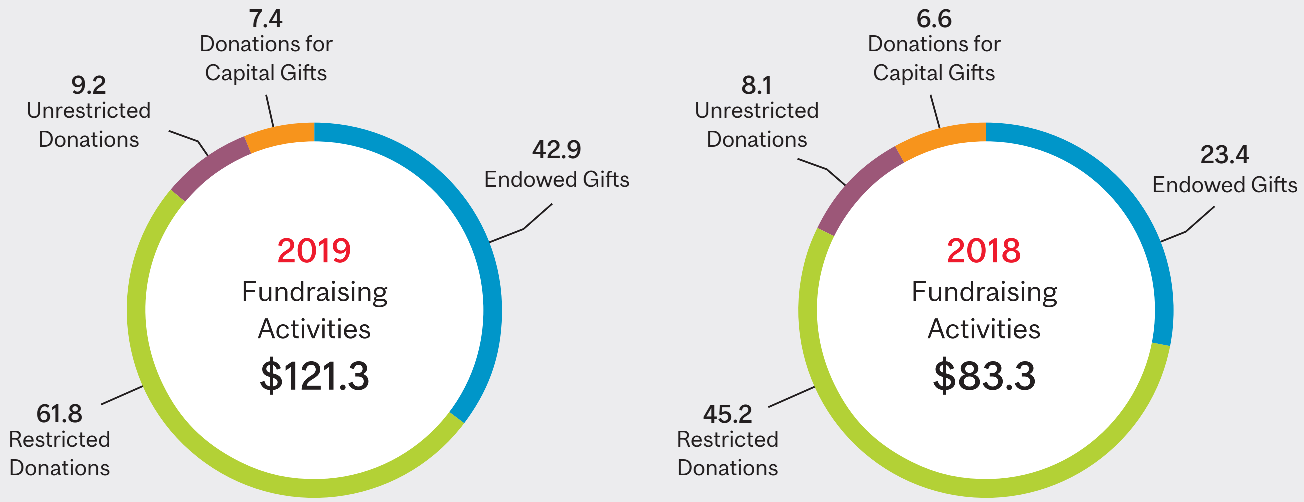
TUITION AND FEES

FUNDRAISING ACTIVITIES

During the fiscal year a total of $121.3 million (2018: $83.3 million) was received, including gifts in kind.

The following chart illustrates all gifts and bequests revenue including endowment gifts of $42.9 million (2018: $23.4 million) over the last two years:

Gifts and Bequests
($ millions)



Source: McGill Financial Services

FUNDRAISING

ENDOWMENT GIFTS

All donations received for endowed purposes are invested by the Endowment Fund and include specific spending restrictions, as per the wishes of the donors. McGill's current policy is to distribute 4.0% plus an additional 0.25%, as approved by the Board of Governors for fiscal 2016 to fiscal 2019 (based on the rolling three-year average) of investment earnings to the beneficiaries of the Endowments. In fiscal 2019, $67.0 million (2018: $66.5 million) was distributed, based on an MIP unit rate of $17.25 (prior year: $17.53).

Overall, the total change in the Endowment (net of Distributions and fees) resulted in a 2.8% growth (2018: 0.3%) in the fund. Of the total, 2.7% (2018: 1.5%) was generated from new endowment gifts received in the year. See page 56.

Also, as at April 30, 2019, the accumulated unspent investment income, held as part of Endowment Assets amounted to $309.2 million (2018: $293.8 million) and represents 4.6 times (2018: 4.4 times) the current annual distributions.

The table below outlines the overall growth in McGill's Endowment Net Assets.

($ millions)	2019		2018	
Opening Book Value	1,402.4		1,298.2	
Unrealized Market Value	202.5		301.2	
Opening Net Assets- Market Value	**1,604.9**		**1,599.4**	
New Gifts Received	42.9	2.7%	23.4	1.5%
Net Income (Loss) Realized	82.2	5.1%	132.1	8.3%
Net Income Distributed (Net of capitalizations)	(57.0)	(3.6%)	(55.6)	(3.5%)
Transfers from (to) Other Funds	(1.5)	(0.1%)	4.3	0.3%
Realized Increase in Assets	**66.6**	**3.1%**	**104. 2**	**6.5%**
Change in Unrealized Market Values	**(21.3)**	**(1.3%)**	**(98.7)**	**(6.2%)**
Total Increase in Fund Value	**45.3**	**2.8%**	**5.5**	**0.3%**
Closing Book Value	1,469.0	89.0%	1,402.4	87.4%
Unrealized Market Value	181.2	11.0%	202.5	12.6%
Closing Net Assets-Market Value	**1,650.1**		**1,604.9**	

Source: McGill Financial Services

ENDOWMENT

Deferred Maintenance – Campus Renewal

The current estimate of McGill's total deferred maintenance (DM) inventory is $1.23 billion[1]. This figure results from an analysis conducted in 2013 by the firm Planifika, hired by the Bureau de coopération interuniversitaire to assess the deferred maintenance deficit of all Quebec universities, at the request of the Quebec government, and takes into account the work executed since that analysis, which totals $125 million. This assessment must be conducted every five years; the next one is scheduled to start at the end of 2019.

A major component of the deferred maintenance estimate is the University's deteriorating building façades. Government regulation requires that the façades of all buildings of five floors and more be inspected by a qualified architect or engineer every five years to detect any dangerous conditions. McGill will soon conclude a first round of inspections and will then start a second five-year cycle of inspections.

Campus renewal also includes projects that are not part of the assessment of the deferred maintenance deficit, such as lab, classroom or other space upgrades. A total of 180 projects are currently at different stages of execution, in addition to 140 being validated. In Fiscal 2018-19, $118 million was allocated to the execution of McGill's projects.

Funding

- Applicable in Fiscal 2018-19, McGill's annual allocation (which includes funding for deferred maintenance and IT), as established through the Plan quinquennal des investissements universitaires (PQIU), was set at $85.8 million, including an envelope of $5.1 million dedicated to the conservation of heritage buildings.
- Effective in Fiscal 2019-2020, McGill's annual allocation will now reach $115.7M, according to the most recent PQIU.

Despite the recent increases in government funding, McGill must still contend with a high Facilities Condition Index[2] (FCI). McGill's FCI stands at 35 per cent, up from an estimated 31 per cent in 2007.

This is due in part to the difficulty in executing projects at a pace that would allow the University to offset the accelerating deterioration of the buildings. The current volume of construction activity in Quebec, particularly in Montreal, has resulted in a shortage of professionals, from architects and engineers to project managers and contractors. The increased demand has also produced an overheated market, where prices have surged.

Therefore, while we have almost doubled our volume of construction projects in the past year, executing all the projects we would need to or have funding for at an optimal pace remains challenging.

1 This amount includes a $779 million deficiency cost as estimated by Planifika plus a 20 per cent correction factor to reflect the known market costs, for a total of $934 million. As of December 2018, $125 million of that work was completed, for a remaining net total of $809 million. An additional $425 million to cover DM issues that were not included in the consultants' study remains an approximation and is added to the total figure for a total of $1.23 billion. A significant portion of the $425 million will be allocated to the rehabilitation of facades and major building systems, some of which are in progress but still appear in the Quebec database until works are fully completed.

2 The Facilities Condition Index (FCI) is the ratio of the value of deferred maintenance to building replacement value. An FCI over 10 per cent is considered "serious".

Master Plan Implementation

Following approval of the Master Plan by the Board of Governors in May, Campus Planning and Development Office has been actively pursuing several activities in support of its implementation:

Definition of a schedule and work plan – The implementation of the Master Plan is a major undertaking and a detailed schedule is being elaborated to define key next steps and set priorities.

Round Two of Stakeholder Engagement - A second round of discussions occurred this summer with the intention to develop strong partnerships with the key stakeholders that are affected by and will support the operationalization of the plan.

Establishing Governance for Implementation – An Architecture and Planning Advisory Panel is being established under the authority of the Vice-Principal to provide oversight and ensure quality consistent with the Plan and McGill's values and heritage in architectural and landscape design. Membership in this Panel shall include representation from McGill's student body, teaching community, planning and design staff as well as members of the professional community.

Identification of Priority Projects and Studies – The Master Plan specified a number of specific transformations and interventions that must be further elaborated. CPDO is identifying a set of priorities and associated studies that will be required to implement the real estate releases strategy, enhance campus landscapes and elaborate detailed neighbourhood plans.

Focusing on Indigenous Representation on Campus – A number of concrete steps are being taken to increase Indigenous representation on campus including the creation of a comprehensive space strategy, enhancing community engagement and supporting Indigenous initiatives that will create Indigenous academic, community and public spaces.

Update on the New Vic Project

Development of Detailed Dossier d'Opportunité

In June 2018, the Government of Quebec announced an investment of $37 million for McGill University to continue its plans to transform the old Royal Victoria Hospital into a global hub for learning, research and innovation in environmental sustainability and public policy. Based on the provincial government's *Directive sur la gestion des projets majeurs d'infrastructure publique*, which outlines an analytical framework for large-scale public projects, the development of a detailed feasibility study (Dossier d'opportunité (DO)) for the New Vic Project is now well underway with a target submission date of June 2020.

Project Governance

A new governance structure, with representation from the Ministry of Education (MEES), the Société québécoise des infrastructures (SQI) and McGill, has been implemented to monitor McGill's Project and the SQI's development of a master plan for the entire RVH site. The Dean of the Faculty of Science was named as academic lead of the project, in order to carry the academic vision of the project to ensure that the RVH Academic Plan is realized. In February 2019, a new executive director was recruited to lead the planning and development of the project. Supported by an external project management firm (Décasult), an internal project team is now in place and working closely with representatives of the MEES and the SQI. An internal Academic Steering Committee has been formed to provide strategic direction on the implementation of the Academic Plan. A detailed project schedule for the DO phase has been developed to monitor progress and deliverables.

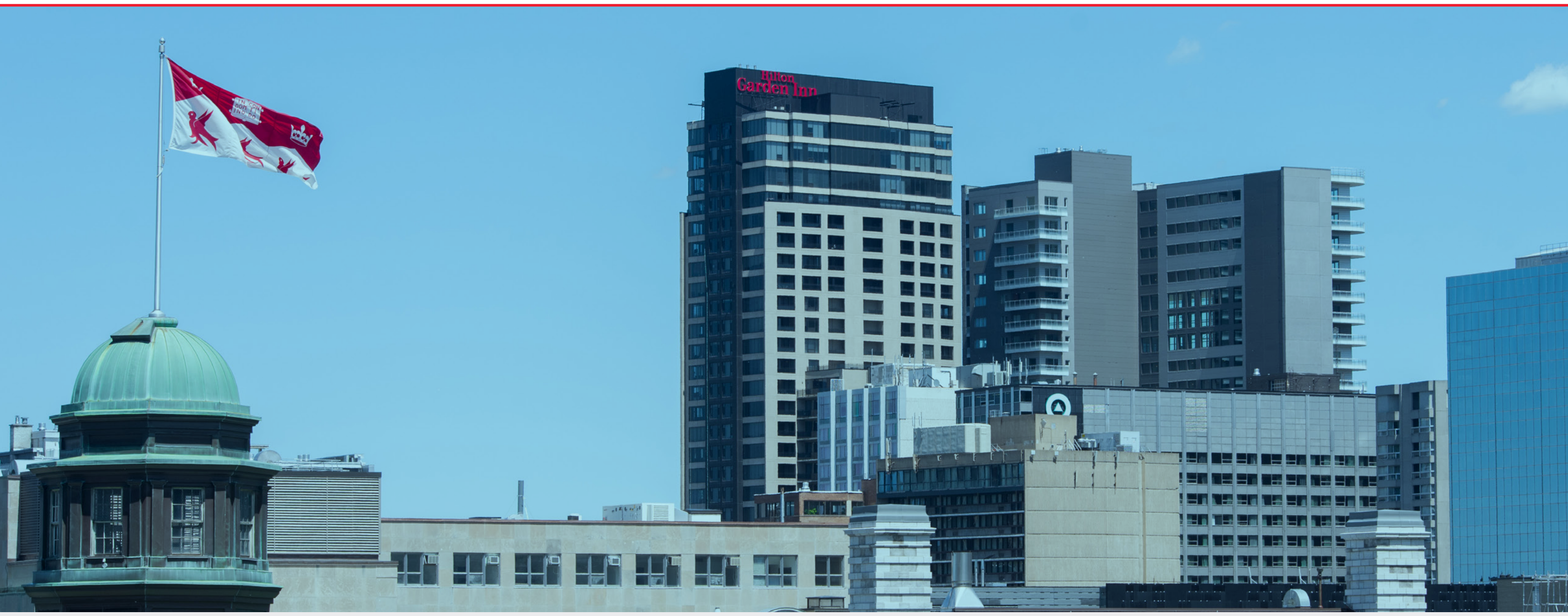
Planning & Design Teams

There have been several developments since year-end. Through a rigorous procurement process, the architectural firms of Diamond Schmitt (Toronto) and Lemay Michaud (Montreal) were selected to lead the development of the required functional program and design of the project. The mechanical, electrical, structural and civil engineering professionals are also now in place and other specialty consultants will be engaged as needed. User groups with representation from the Faculties of Arts, Engineering, Science and Library Services, as well as representatives of all building operations and support service areas are actively engaged in a 6 month exercise to develop the detailed functional program that will guide the design phase.

Community Engagement

An internal committee has recently been formed to develop a strategic communications plan for the lifecycle of the project. The plan will highlight internal and external communication priorities to keep our internal constituents informed of the project and to reach out to the broader external community to inform and engage them in this exciting project for McGill University, the Montreal community, and the Province of Quebec.


neuro



McGill Bond Rating

Moody's Investor Services reaffirmed an Aa2, Stable rating in December 2018. Moody's confirmed that the University continues to hold flagship status in the Province of Québec and a dominant national and international market presence. Continued pressure from provincial funding adjustments and instability in tuition setting parameters are adverse factors. It considers McGill to be one of Canada's most prominent and internationally renowned institutions and cites the following factors for the rating:

- Strong market position reflecting internationally recognized academic reputation
- Premier research activities that attract faculty and students.
- Debt burden supported by provincial debt service subsidies.

Standard & Poor's Rating Service reaffirmed an AA- (stable) rating in February 2019 and a continued stable outlook McGill's ratings associated with the $150 million of unsecured debentures in November 2016 and assigned the same rating to the $160 million in March 2017, citing that McGill has:

- Excellent student demand and research profile, which will remain strong.
- Provincial support that is considered good and consistent (Province of Québec rated at A+).
- McGill's independence and financial resilience to a provincial default.
- McGill has a moderate debt load relative to that of peers, especially when including post-employment liabilities.
- McGill's blended defined contribution pension plan has contained the rapid rise in pension deficits.
- Less diversified revenue sources compared to peers, with tight budgetary conditions due to limited tuition flexibility and provincial funding cuts constrain the ratings.

Outlook

Strategic planning and multi-year resource allocation are familiar terms to the McGill community.

McGill's planning processes are comprehensive and driven by academic priorities. These processes invite consideration of virtually every aspect of its operations, including finances, administrative services, physical resources, and University goals and activities with respect to philanthropy and government relations. It is a demanding, but crucial process, as we aim to build on our exceptional teaching and research strengths for the future. The competition for talent and resources has never been as fierce – and this competition is worldwide. If we are to sustain and build on our academic strengths, impact, and reputation, consistent with our mission, we must be selective and strategic in our activities, investments, resource generation, and expenditures. The purpose of this process is to identify the academic priorities and objectives of every faculty and McGill as a whole, implement plans to achieve them, and measure our progress with discipline.

McGill's activities are guided by the Principal's Priorities, the Strategic Academic Plan, and the Strategic Research Plan. The Campus Master Plan provides direction with respect to our infrastructure and physical plant in support of the University's academic mission. Investments in those priorities necessary to maintain McGill's position as a leading, global research university, together with employee future benefits and pay equity legislation, have recently placed McGill in an operating deficit position. However, we have a plan to re-establish a balanced budget in the near term. Many public, North American research-intensive universities have faced this challenge in recent years in the context of limited public funding.

The University's multi-year planning model assumes that we will fund our plans through reallocations and newly-generated revenue. Mechanisms have been built into the model to allow for the flexibility to introduce across-the-board and/or selective reductions in expense budgets, should they prove to be necessary. A further refinement of this model will incorporate other strategic directions and initiatives.

The overall multi-year plan calls for a return to a balanced budget in the latter years of the five-year budget plan, assuming that revenue growth and expense control expectations prevail. MEES is still requesting balanced budgets from universities. The deregulation of international tuition effective fall 2019 will help alleviate the challenge of achieving a balanced budget over time. In the short term, revenue growth will be affected by McGill's commitment to maintain tuition levels for deregulated students who were already enrolled at the University when the new policy came into force. Finally, we are still under the obligation to ensure that future annual budgets address the GAAP accumulated deficit for purposes of repaying it over a reasonable timeframe.

Glossary

Accrual: The accrual method of accounting reports revenue when earned (rather than received), and expenses when incurred (rather than paid).

Accumulated Deficit: The total debt (i.e., the sum of the deficits from the unrestricted fund) incurred to support the accumulated spending that is in excess of revenue.

Amortization: Systematic and rational allocation of costs of assets over time when economic benefits of such assets are expected to arise over several accounting periods. Also, for those units required to repay internal loans, it represents the systematic repayment of the debt over the agreed period.

Bequest: A gift given to the university at the time of a person's death as set forth in the individual's last will and testament. Bequests can have a variety of forms including, but not limited to: cash, marketable securities, tangible fixed assets, and consumable commodities. Bequests are classified according to the absence or presence of donor stipulations as unrestricted, temporarily restricted, or permanently restricted.

Budget: An organizational plan stated in monetary terms; functions as a tool to measure revenue and expenditures against expectations.

Capital Assets: Assets used in operations, either tangible (e.g., plant, property, equipment) or intangible (e.g., software) that have an initial useful life of more than one year. See also Plant Fund.

Capitalization: Term used in relation to the Endowment Fund when unspent distributed income is reinvested in the Endowment Fund

CFI: Canadian Fondation for Innovation

CFREF: Canada First Research Excellence Fund

Conditional grant: 10% of the provincial grant, which can be withheld by the MEES if a university runs an annual deficit, based on a predetermined formula (excluding year-end audit adjustments), without providing a plan to return to a balanced budget. This grant is accrued and typically paid subsequent to year-end.

Decapitalization: Term used in relation to the Endowment Fund when previously capitalized distributed income is credited back to the spendable fund.

Deferred Maintenance: The amount of renovation and upgrade required for the University's physical infrastructure. The repairs are serious and urgent in-nature as preventive maintenance was not performed in prior years. Examples include: upgrading ventilation systems, roof replacements, and building facade replacements.

Deficit: Also known as overdraft; the amount by which a fund's expenses and transfers out exceed revenue and transfers in.

Deregulated: Refers to tuition fees that are set by the University rather than by government regulation.

Donation: An act of presenting something as gift, bequest, or contribution, especially to a public institution or charity.

Endowment Fund: Consists of all gifts, donations, and bequests, including those for Chairs, financial aid, and other specific purposes, held in perpetuity and invested to earn a reasonable rate of return over time, while attempting to protect the purchasing power of the original gift. The earned income is distributed according to the University policy in effect, and is spent as specifically designated by the donor.

Forfaitaires: (also called tuition supplements) the additional tuition, above the Québec student tuition, charged to out-of-province Canadians and International students. These amounts are determined by MEES annually and the universities remit them back to the Province in exchange for having the students funded through the grant at the level for in-province students.

FRQNT: Fonds de Recherche du Québec - Nature et Technologie

FQRS: Fonds de la recherche en santé Québec

FRQSC: Fonds de Recherche du Québec - Societe et Culture

Fund Balance: The difference between assets and liabilities in a fund; also defined as the cumulative results of a fund.

Gift: A resource provided by a donor who enters into the transaction voluntarily and receives nothing other than a token of appreciation in exchange for the resource he/she is providing. Contributions can have a variety of forms including, but not limited to: cash, marketable securities, tangible fixed assets, and consumable commodities. Gifts are classified according to the absence or presence of donor stipulations as unrestricted, temporarily restricted, or permanently restricted. See also Bequest, Contribution, and Donation.

Grant: A monetary award, allowance or subsidy. Indirect costs of research: Institutional costs incurred by the University to support research projects, including items such as infrastructure costs, utilities, computer infrastructure, and administrative support for commercialization of research.

Investment: Refers to an exchange of cash for a less liquid asset that is expected to increase in value beyond the initial purchase price. Investment vehicles include corporate stocks and bonds, government bonds and real estate.

MEES: Ministère de l'éducation et de l'enseignement supérieur du Québec.

Plant Fund: Capital projects and assets; including those funds from Québec capital grants, donations, and other sources.

Operating grant: The grant received from the MEES in support of the primary mission teaching and research. The preliminary amount is presented in the *Règles budgétaires* and confirmed in the *Calculs définitifs*. Also known as the 'subvention de fonctionnement' in French.

Règles budgétaires: Document released by the provincial government describing the preliminary operating grant of Québec universities for the upcoming fiscal year. The document is usually released during the summer of the fiscal year to which it applies.

Restricted Fund: Any fund with stipulations imposed by a sponsor or donor external to the University. A particular project or activity is specified in writing by the donor. These funds also refer to research-related funds from Canadian, Québec, and international sources.

Revenue: Income generated by the supply of goods or services by the University unit to an external customer. Some examples are: tuition and fees, sales of goods and services to external entities, and earnings on investments.

Self-funded Programs: Programs for which universities in Québec are allowed by the provincial government to set the fees but for which no grant is received. This represents a small number of students enrolled in specialized Masters-level programs in Management as well as non-Québec students studying in distance programs outside Québec.

Surplus: the amount by which a fund's revenue and transfers in exceed expenses and transfers out.

Tenure-stream: A term that refers to either tenured or tenure-track academic staff.

Tenured: permanent academic appointment granted to Associate and Full Professors who have demonstrated excellence in teaching and research.

McGill