McGILL UNIVERSITY

BUDGET 2019-2020

McGill

Office of the Provost and Vice-Principal (Academic)

May 1, 2019

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MISSION

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.

In fulfilling its mission, McGill University embraces the principles and values of academic freedom, integrity, responsibility, equity and inclusiveness.

MOTTO

Grandescunt Aucta Labore (By work, all things increase and grow)

PRIORITIES OF THE PRINCIPAL AND VICE-CHANCELLOR

The Principal and Vice-Chancellor has established five priority areas organized around three academic mission themes (student life and learning, research, community engagement) and two mission support themes (work culture, physical and virtual campus).

The McGill Commitment: Providing all students with a stimulating, innovative, and inquiry-based educational experience.

Unleashing Our Full Research Potential: Laying the foundation for McGill to excel in the increasingly competitive and challenging global research environment.

Enhancing Our Community Partnerships: Making McGill a responsive and dynamic collaborator with a wide range of communities and partners, locally, nationally and globally.

My Healthy Workplace: Turning McGill into a true learning organization, where administrative and support staff are empowered to use their knowledge to increase agility and effectiveness.

Transforming Our Campus: Providing our physical and virtual campuses with the resources necessary to continue our mission in a sustainable, safe and welcoming environment.

BUDGET 2019-2020 AT A GLANCE

Revenue – Unrestricted Fund:
$920.0M
Unrestricted revenue are expected to increase by 0.9% compared to the 2018-2019 forecast.

Tenure Stream Instructional Faculty
1,710
McGill added 28 incremental tenure-stream instructional faculty between January 2018 and January 2019.

Expenses and inter-fund transfers – Unrestricted Fund:
$928.7M
Expenses (including inter-fund transfers) are expected to increase by 1.8% in 2019-2020 compared to the 2018-2019 forecast.

Non-Tenure Stream Instructional Faculty:
1,632
McGill added seven instructional faculty in non-tenure stream between January 2018 and January 2019.

Number of students:
41,286
The number of students increased by 0.8% in fall 2018 compared to fall 2017. Enrolment in credited programs increased by 1.4%.

Non-Academic Staff:
4,197
There were 4,197 non-academic staff at McGill in January 2019, compared to 4,045 in January 2018.

INTRODUCTION

Universities play a critical role in addressing challenges of the 21st century. They provide perspectives from different fields on social trends, scientific breakthroughs and environmental disruptions using cutting-edge knowledge, skills, and technology. Universities work together, with social and business partners as well as with governments—both locally and globally—to push the boundaries of knowledge and document the results of innovative ventures for use by future generations. By making the results of these ventures accessible to society, universities contribute to the advancement of knowledge and support innovation led both within and outside universities. Simultaneous exploration on common issues across different fields of study also allow public decision-makers to balance perspectives expressed by a wide range of stakeholders when attempting to preserve the well-being of society.

While pursuing their mission, publicly funded and regulated universities must balance a particularly complex set of objectives and constraints by complying with government legislation and regulations aimed at achieving a wide-range of social and economic objectives under different time frames. McGill University sets for itself an ambitious agenda by committing to the highest global academic and research standards, while planning and delivering its activities in the environment in which it operates.

Universities offer an experience focused on human achievement to a diverse community of students, faculty, and administrative staff. The effectiveness of financial means provided to universities depends on each institution's ability to combine those with the talent of individuals that are part of this community. Effective policies and governance supported by high-quality data are the sine qua non conditions to fully realize the innovative capacity of community members. Universities must also communicate clearly how their academic and research **activities** represent a good investment, even though the return on such investment may be longer and more difficult to measure than for other types of investments.

With these considerations in mind, we are pleased to present the McGill Budget for **fiscal year** 2019-2020. This **budget** is built with the primary objective of allocating financial resources in such a manner as to advance the mission of McGill University. It enables the implementation of the McGill University's strategic plans and initiatives and reflects the decisions the University has made regarding its **activities** for **fiscal year** 2019-2020. This Budget Book reflects the information that was available at the time the **budget** was approved by the Board of Governors on April 25, 2019.

This **budget** supports transparency, accountability, and communication with members of our community. When a term appears in **bold typeface** within the text, the reader can find its definition in the Glossary (Appendix 9).

1 – CURRENT ECONOMIC AND POLITICAL ENVIRONMENT

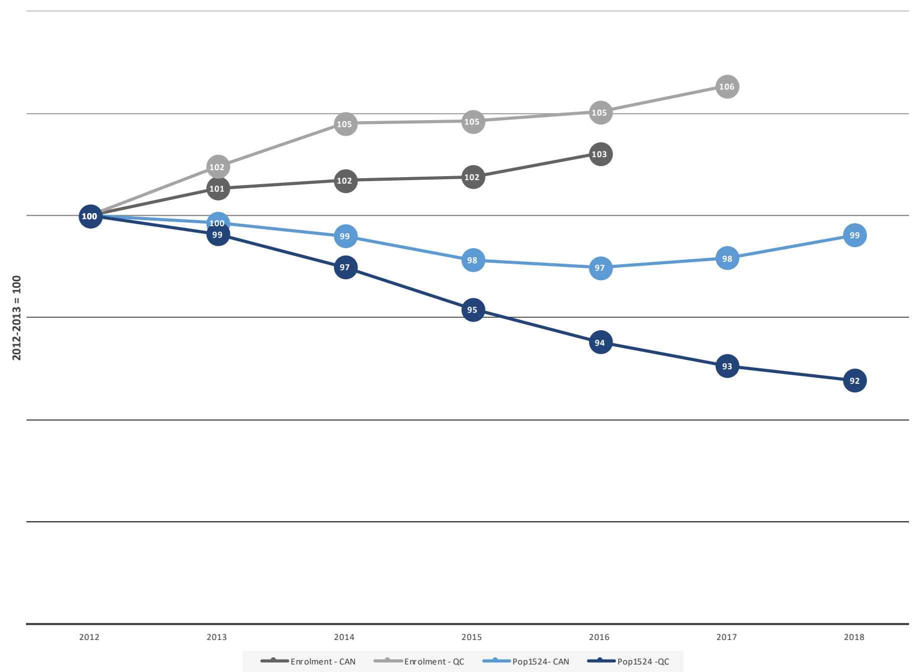
The planning reflected in **Budget** 2019-2020 is shaped by the economic and political environment that impacts the demand and supply of the McGill student and research experience.

After years of low growth in government funding, both the Canadian and Québec governments announced significant increases in operating funds, capital funds, and research **grants** in the past two years. The demand for a McGill education remains high, the global macroeconomic environment has been favourable in recent years, and business and philanthropic partners have expressed a strong interest in contributing to the success of McGill's students and Faculties. These conditions have provided McGill with the means to partially offset the impact of underfunding over the past decade but remain insufficient to close funding gaps with national and global peers.

University Enrolment in Québec and Canada

University enrolment increased between 2012-2013 and 2016-2017 in Québec and Canada by 5% and 3%, respectively. This increase occurred despite a shrinking potential pool of traditional Canadian students. The 15 to 24 year-old population declined by 7% in Québec between 2012 and 2017 and is projected to be 13% lower than its 2012 level by 2021. This decline represents a challenge for enrolment strategies targeting to preserve stability in Québec student representation. Population projections beyond 2021 show a reversal of course, with the 15-to-24 year-old population expected to return to its 2017 level by 2026.

Figure 1: University Enrolment and 15 to 24 Year-Old Population

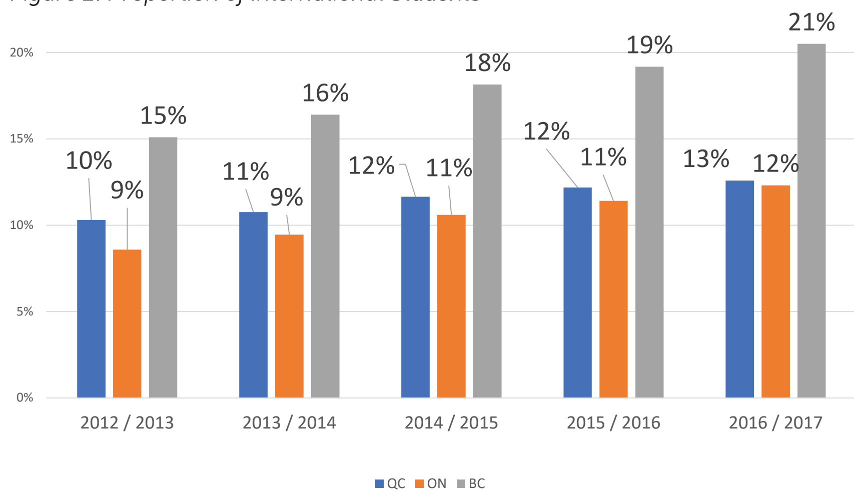


Source: Statistics Canada. Postsecondary Students Information System. Population Estimates. Ministère de l'éducation et de l'enseignement supérieur du Québec. Système de gestion des données de l'effectif universitaire (GDEU).

Attraction of International Students

Despite a shrinking pool of potential domestic applicants, universities across Canada and Québec have increased enrolment through a significant increase in the enrolment of international students. According to Statistics Canada, 180,000 international students enrolled in Canadian universities in 2016-2017, an increase of 48,000 students compared to 2012-2013. Of this increase, Québec universities accounted for 8,800 students.

Figure 2: Proportion of International Students



Source: Statistics Canada. Postsecondary Students Information System.

Provincial Funding

McGill receives about one-third of its **revenue** from the Québec government, both from operating and capital **grants.**

The Provincial **Budget** 2019 includes an overall increase of $93M – or 3.0% - in **operating grants** for Québec universities in 2019-2020 relative to 2018-2019. This includes $45M announced in **Budget** 2018 for 2019-2020 and subsequently confirmed in the **Règles Budgétaires** 2018-2019. Additionally, $16M is earmarked annually to fund merit scholarship for future teachers and an additional $5M is provided to help them transition to the workforce. Regional universities also receive an additional $15M annually. The 2019 Provincial **Budget** contains a number of measures to support research and innovation, researchers, and education related to the development and implementation of artificial intelligence (AI).

Table 1: Increase in Provincial University Operating Funding

Fiscal Year	Règles budgétaires 2018-2019		Budget 2019	Annuel change
	Total	Annual change	Additional investment	
	millions of dollars			
2017-2018	69.3	-	-	-
2018-2019	196.9	127.6	-	127.6
2019-2020	242.4	45.5	47.7	93.2
2020-2021	294.9	52.5	-	52.5
2021-2022	338.0	43.1	-	43.1
2022-2023	366.7	28.7	-	28.7
Total	1,508.2	-	-	-

Source: MEES. Règles budgétaires 2018-2019. P.3 Provincial Budget 2019. Volume 3. Crédits des ministères et organismes. P.94.

The **Règles Budgétaires** 2018-2019 was released in summer 2019, which marked the introduction of the first part of the updated new provincial funding policy for Québec universities. The updated **operating grant** still rests on a funding model that is primarily based on the volume of student **activity** and the disciplines in which they study.

The first major change under the new funding policy consists of an updated funding grid that is used to calculate a large portion of the **operating grant.** The updated grid includes weights used to calculate weighted full-time equivalent (FTE) students that are based on updated teaching costs by level and discipline of study. Under the new funding grid, the base reference weight is a full-time equivalent undergraduate student in psychology (weight=1.00). The weight of all fields of study at the doctoral level is 12.55, except for psychology (weight=8.59). Under the previous grid, the reference weight was a FTE undergraduate student in literature (weight=1.00) and doctoral students had a weight that varied between 6.40 and 10.69, depending on the discipline of study. The introduction of the new weights created a structural increase in the teaching **grant** for 2018-2019.

The second major change to the **operating grant** is the consolidation of several envelopes, including specific **grants** and reinvestment announcements by the Québec government.

The third major change consists of two temporary **grants** to support the transition of universities to the new funding policy that are set to decrease over time. The first **grant** guarantees to all universities that their **operating grant** is preserved at a minimum of their 2016-2017 levels after the introduction of the new funding policy. The second **grant** consists of a **grant** adjustment that aims to smooth the increases in operating **grants** of institutions whose **grants** grew by more than 5% relative to their 2016-2017 levels. Universities where **grants** grew by more than 5% provide an amount that is redistributed to the other universities, so the net cost of the government for this **grant** is nil.

Fourth, the Québec government also introduced mechanisms in the **Règles Budgétaires** 2018-2019 to control the compensation of Senior Executives at Québec universities and made part of the **operating grant** contingent on compliance with those new mechanisms.

The **Règles Budgétaires** 2018-2019 also confirmed the deregulation of tuition and fees for international students in first cycle and second cycle non-research programs effective beginning in 2019-2020. This action will impact the **operating grant** to the extent that **deregulated** students will no longer be considered for the purposes of this **grant.** Among the cycles and program types subject to deregulation, universities will be required to maintain 50% of Québec student enrolment; this target will increase to 55% by 2026-2027.

McGill University has been proactive in modelling the different policy scenarios that led to the adoption of the updated funding policy presented in the **Règles budgétaires** 2018-2019. The **Règles budgétaires** 2019-2020 is expected to be released in summer 2019, after the beginning of the **fiscal year.** The unavailability of the **Règles budgétaires** before the beginning of the **fiscal year** has been a recurring issue and adds an element of uncertainty to financial planning for Québec universities.

In addition to **operating grants**, McGill University works closely with the Québec government to secure funding for capital projects, including construction and renovation of its facilities, as well as IT projects. More than half of the **Plant Fund revenue** is provided by the Government of Québec.

Details of the Plan québécois des infrastructures (PQI) 2019-2029 were included in **Budget** 2019, which includes $484M in additional funding for higher education infrastructures. These are incremental resources to those announced in the PQI 2018-2028. The PQI 2019-2029 mentions that the Royal Victoria Hospital project is "à l'étude", while the renovation of Wilson Hall is at the planning stage and $35M has been allocated for the latter project.

Table 2: Plan québécois des infrastructures 2019-2029, Higher Education Sector

	millions of dollars
Maintien de l'offre de service	5,741.5
Ressources informationnelles – enseignement supérieur	775.3
Bonification de l'offre de service	634.1
Total	7,150.9

Source: Government of Québec. Plan québécois des infrastructures 2019-2019. March 2019. Tableau 1.3.

The Provincial **Budget** 2019 provides $38M over five years (with $7M in 2019-2020) to consolidate Québec's position as a world leader in the field of AI. The government is providing an additional $12.5M over five years to expand training opportunities for students at all levels and workers in this field and $34.5M over five years to increase Québec's computational power and facilitate its access and use by Québec researchers and businesses.

Tuition and fees

Tuition and fees represent the second largest source of **revenue** for the University.

All regulated students pay a base tuition fee, which is indexed annually following the most recent disposable income per capita measure available. For 2019-2020, the base tuition will increase by 3.6%, reaching $84.80 per credit (or $2,544 for a student taking 30 credits). The same rate of increase applies to all ancillary fees, unless an agreement is reached with the students to apply a higher rate.

Regulated Canadian out-of-province and international students are also charged a supplement (or **forfaitaire**) that is returned to the government, thus having a nil impact on the McGill's **budget.** However, universities are allowed to charge an additional 10% over and above the **forfaitaire** to help cover the costs of recruitment and support related to this population.

Since 2008-2009, tuition fees have been **deregulated** for undergraduate international student **activities** in six disciplines: management, law, engineering, computer sciences, mathematics and pure sciences. For those students, universities were allowed to set the tuitions and fees, but did not receive the teaching **grant.** Starting in fall 2019, the Québec government will **deregulate** tuition and fees for all international undergraduate students, as well as for international students in second cycle non-research programs. Due to the deregulation of tuition and fees for international students, the additional supplement over and above the **forfaitaire** will decrease. The difference is expected to by offset by the **deregulated** tuition and fees, as is the loss of all government **grants** for students in **deregulated** programs.

Federal funding

The federal government is a major stakeholder in postsecondary education as it expends considerable financial resources for both colleges and university education in various forms: research **grants**, post-secondary infrastructure funding, student **grants** and loans, tax credits, transfers to provinces, and promotion of Canadian post-secondary education abroad.

The federal government is the third largest source of **revenue** for McGill University. Federal funding mostly supports the research mission of McGill University through research **restricted funds**.

The Federal **Budget** 2019 contained measures that are likely to shape the demand for postsecondary education in years ahead. Some of measures are targeted to individuals, such as the Canada Training Benefit tax credit, changes to the Canada Student Loans program (including measures specifically targeted at disabled students), added benefits (i.e., parental leaves), scholarships offered by the federal agencies, and support for the creation of up to 20,000 new work placements per year for post-secondary students. While Québec has its own student financial aid program, the federal government makes alternative payments to provinces that have a student loan plan in operation, as prescribed in the Canada Students Loans Act.

Other measures are targeted at government programs, such as the development of two Indigenous post-secondary education strategies. The first is led by Inuit communities and the other by Métis communities. A new Canada International Education Strategy has also been announced. However, measures announced in the Federal **Budget** 2019 are not expected to have a material impact on the **budget** of universities in 2019-2020, in contrast to the Federal **Budget** 2018 that increased funding of the Tri-Agency funding by $925M over five years.

In May 2016, the Parliamentary Budget Officer estimated that the federal government would spend $15.3 billion in 2019-2020 on postsecondary education. This amount has not been updated by the Parliamentary Budget Officer and does not take into account additional spending announced in subsequent federal **budgets**. This amount represents more than twice the combined amounts of Québec and Ontario **operating grants** for their universities, which amount to $3.1 billion and $3.7 billion for 2018-2019, respectively.

Regulatory Environment

Pension Plan

Under government regulations, an actuarial valuation must be performed on the McGill University Pension Plan (MUPP) every three years. The University is obliged to make supplementary contributions from the **budget** of the **unrestricted fund** to the pension plan to make up for any shortfalls in the ability to cover the defined pension benefits to departing employees as well as shortfalls in annuity plans written for some pensioners.

An actuarial valuation was triggered as at December 31, 2017, one year earlier than required by legislation, due to favourable interest rates.

The December 31, 2017 valuation reported that the Plan had a going concern unfunded liability of $47.4M and the degree of solvency of the Plan was 86.1%. The prior valuation was performed as at December 31, 2015 and reported a going concern unfunded liability of $78M.

Immigration and Work Permits

The immigration landscape has changed considerably in Québec since August 2018 as the Government of Québec aims at improving the selection and integration of new immigrants. During this transition period, the number of *Certificats de sélection du Québec (CSQ)* has decreased drastically. In addition, Immigration Canada has increased processing time of permanent residence (PR) applications. Taken together, these factors have affected the overall processing time of PR applications. Consequently, the increase of work permit renewal applications has significantly increased the cost to the University.

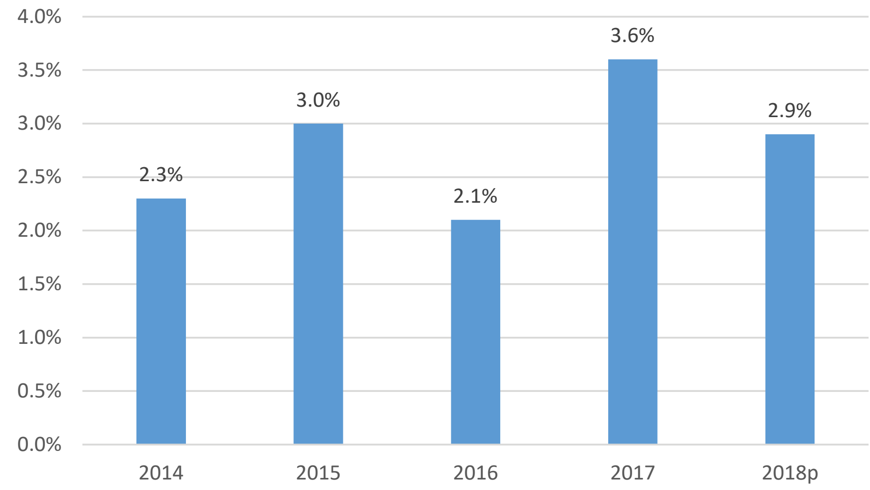
For many academics and visitors, the process of obtaining a work permit remains arduous and costly. Since February 2015, McGill University must submit forms and pay compliance fees for all academics and visitors who obtain a work permit under the International Mobility Program (IMP), including research trainees, postdoctoral fellows, contract academic staff and visiting professors. These costs are borne by the academic units supporting these visitors and staff. For all other academics applying for a work permit under the Temporary Foreign Worker Program (TFWP), McGill University must obtain a Labour Market Impact Assessment (LMIA). This requirement also contributes to additional costs and budgetary challenges for the University.

Disposable income per capita

Disposable income per capita is used by the Québec government to set the maximum annual increase of base tuition fees (with a two-year lag) for regulated students. This represents a major source of **revenue** for universities.

Québec experienced sustained annual increases in disposable income per capita above 2% between 2013 and 2018. Preliminary data suggest that disposable income per capital grew at a rate of 2.9% in 2018, which would impact the base Québec tuition fees to be collected in 2020-2021.

Figure 3: Nominal Disposable Income per Capita, Québec, Annual Growth Rate



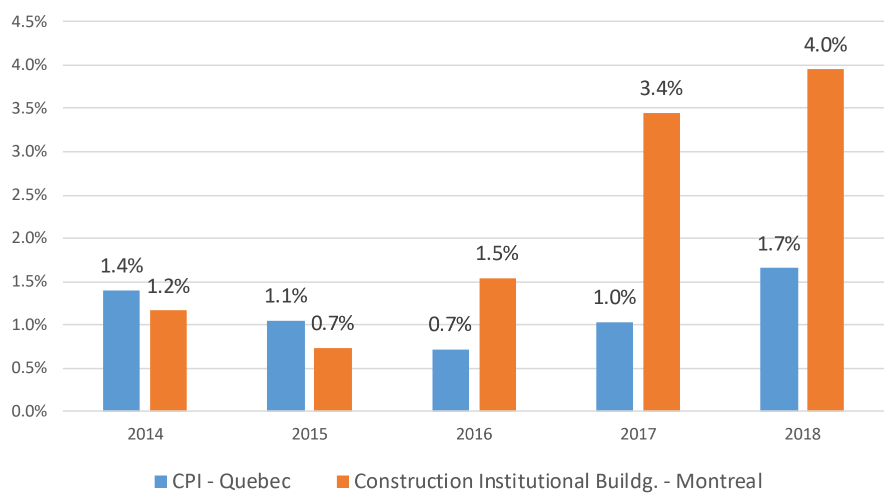
Source: 2013-2017: Institut de la statistique du Québec. Preliminary 2018: calculated by McGill University. Analysis, Planning and Budget.

Inflation

When used in conjunction with disposable income per capita, inflation measured with the Consumer Price Index provides indications of the financial capacity of households to save, including for postsecondary education.

The Consumer Price Index increased by 1.7% in 2018 in Québec. This marks a significant increase in inflation of consumer goods and services after several years of inflation growth below 1.4%.

Figure 4: Annual Price Inflation, Consumer Goods and Services and Construction of Institutional Buildings

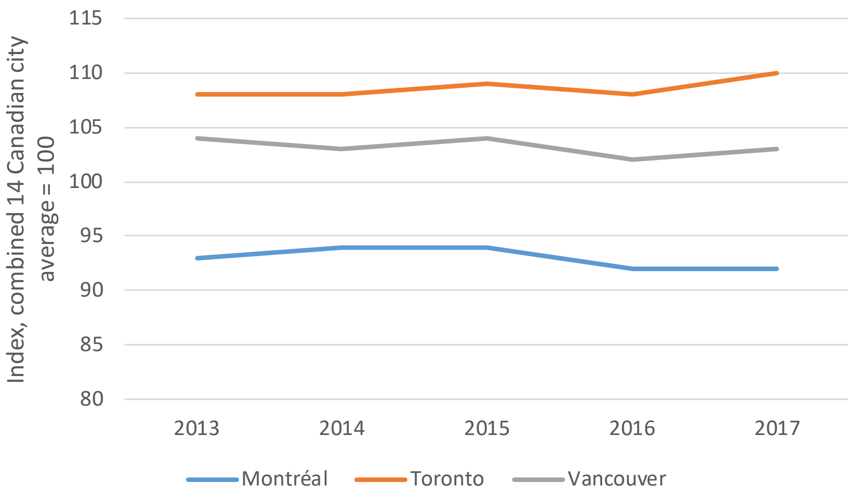


Source: Statistics Canada.

Inflation as measured by the Consumer Price Index does not necessarily reflect the inflation faced by universities as the basket of goods and services they consume is different than the basket of goods and services consumed by the average household. Inflation of operating costs of higher education are measured by a Higher Education Price Index in the United States. Unfortunately, such data are not available in Canada.

The Consumer Price Index provides an indication of the change in the costs of living, but does not represent an indicator of the levels of costs of living. Different levels of prices may impact the capacity of households to save for postsecondary education. The inter-city indexes of price differential on consumer goods and services provides an indication of the differences in costs of living across Canada. This index shows that the cost of consumer goods and services in Montréal in 2017 was 14.8% and 11.6% lower than in Toronto and Vancouver, respectively.

Figure 5: Inter-city index of price differential of consumer goods and services



Source: Statistics Canada.

As a result of additional capital funding provided by governments, universities have undertaken major construction projects to modernize their facilities and address years of **deferred maintenance.** Since 2016, several economic sectors in Montréal have simultaneously initiated major capital project. Increased demand for construction projects causes inflationary pressures on costs on capital projects inputs. Montréal has experienced accelerated inflation of the Building Price Construction Index for institutional buildings, which reached an annual growth rate of 4.0% in 2018. Tracking inflation on multi-year construction projects and revisiting initial assumptions at the planning stage becomes critical for budgeting.

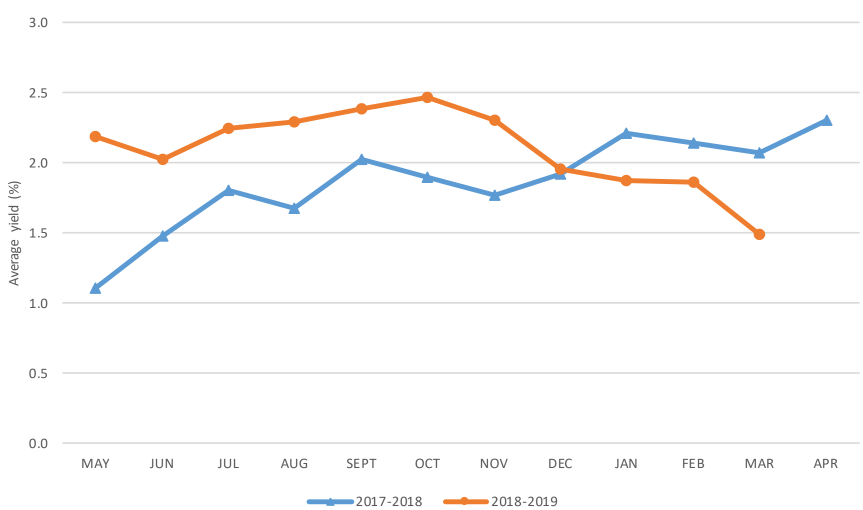
Interest Rates

IInterest rates have an impact on McGill's **investment revenue** and borrowing **expenses**, including the cost of post-employment and pension benefits, which represent a significant component of compensation.

While bond yields increased throughout 2016-2017 and 2017-2018, they are set to end 2018-2019 lower than they were at the beginning of the **fiscal year.** Between May 2018 and March 2019, the Bank of Canada raised the overnight interest rate twice, bringing it from 1.25% to 1.75%.

Variations in interest rates also impact pension and post-employment benefit re-measurements when the University decides to perform such exercises. Such re-measurements significantly impact the balance of the **unrestricted fund** presented in the Financial Statements. In 2016-2017 and 2017-2018, the balance of the **unrestricted fund** in the Financial Statements was higher by $8.3M and $28.3M respectively as a result of these re-measurements. These are included in the Financial Statements as prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Figure 6: Government of Canada Marketable Bonds, Average Yield - 5-10 years



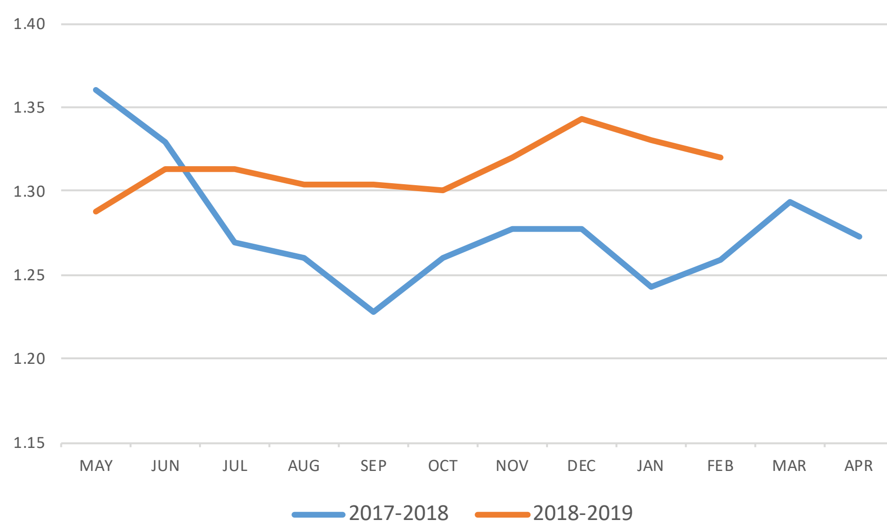
Source: : Bank of Canada.

Currency Exchange Rate

The exchange rate of the Canadian dollar relative to the U.S. dollar impacts McGill's **budget** through several channels. First, a higher value of the U.S. dollar relative to the Canadian dollar makes McGill's tuition fees more affordable for American students and their parents. Second, a higher value of the U.S dollar relative to the Canadian dollar may render McGill less attractive when recruiting and retaining the talented faculty from other countries as it pays salaries in Canadian dollars[1]. Third, a lower Canadian dollar makes purchases of goods in U.S. currency more expensive, including library serial collections, books, and research equipment. McGill is a net purchaser of U.S. goods.

The value of the U.S. dollar relative to the Canadian dollar was higher through with most of 2018-2019 relative to 2017-2018'. The exchange rate of a U.S. dollar fluctuated between $1.29 CAD and $1.24 CAD between May 2018 and February 2019.

Figure 7: Monthly Average Exchange Rate, USD vs. CAD



Source: Bank of Canada.

[1]Other financial parameters impact the financial proposition made to potential talented faculty (e.g., tax rates, housing costs, availability of public services).

2 - McGILL STRATEGIC PLANNING

THE 2017-2022 STRATEGIC ACADEMIC PLAN

The 2017-2022 Strategic Academic Plan supports the implementation of priorities of the Principal and Vice-Chancellor by serving as a guide for central strategic planning and providing opportunities for expression and implementation at the local level.

The plan focuses on the following objectives:

Be open to the world: McGill will strive to remain an institution of choice for international students and faculty and will make a commitment to providing undergraduate and graduate students with a 21st century education by increasing the number of enriched educational opportunities that offer opportunity for global engagement.

Expand diversity: We will deepen our commitment to excellence and diversity in faculty recruitment and career progression. We will also enhance accessibility for students from underrepresented groups, especially Indigenous students.

Lead innovation: We commit to supporting pedagogical and curricular innovation, including increased numbers and availability of active learning classrooms, and the implementation of robust programs to prepare undergraduate and graduate students for the full range of careers available to them, as well as to contribute to the innovation ecosystem of Montréal, Québec, and Canada.

Connect across disciplines and sectors: We will reduce administrative barriers to academic appointments across academic units and facilitate interdisciplinary teaching and research.

Connect with our communities: We will embrace our cultural milieu and physical location to build collaborative relationships with educational, commercial and policy sectors in Montréal and Québec and across Canada.

Details about the 2017-2022 Strategic Academic Plan can be found here: **https://www.mcgill.ca/provost/academic-plan**

THE 2019-2024 STRATEGIC RESEARCH PLAN

For close to two centuries, McGill University has attracted some of the world's brightest researchers and young minds. Today, McGill remains dedicated to the transformative power of ideas and research excellence as judged by the highest international standards. McGill benefits immensely from its place at the centre of a vibrant hub of intellectual, cultural, and scientific **activity**. In addition to Montréal's many academic institutions, major government laboratories and research-intensive industry are situated in the city. These organizations anchor research clusters in life sciences, sustainable resource utilization, aeronautics, and artificial intelligence.

The Strategic Research Plan (SRP) expresses McGill's core commitments to research. It is centered on four strategic objectives:

- Strengthen the Innovation and partnership agenda.
- Steward research trajectories toward collaborative, large-scale initiatives and international partnerships.
- Promote and draw on diversity in all aspects of research.
- Lead in open science and data management.

Details about the Strategic Research Plan can be found here: **https://www.mcgill.ca/research/srp**

THE McGILL UNIVERSITY CAMPUS MASTER PLAN

The McGill University Campus Master Plan provides a framework for defining a clear vision for the development of physical campuses that reflect the objectives of the University. The development and changes on campus occur cohesively and that spaces and resources are allocated in a manner that effectively supports the objectives of the University. It was developed with extensive consultation with McGill and greater Montréal communities.

Initiatives being considered for new or further integration in the campus Master Plan include the transformation of the Royal Victoria Hospital site, the development of the Powell site, the transformation of the McLennan-Redpath Library, the renovation of Wilson Hall, the conversion of commercial space in 680/688 Sherbrooke Street West building to space suited for an academic vocation and the transformation of the Montréal Neurological Institute.

Details about the University Physical Master Plan and related initiatives underway can be found here: **https://www.mcgill.ca/campusplanning/current-initiatives**

VISION 2020 –McGILL'S SUSTAINABILITY STRATEGY

Vision 2020 – McGill's Sustainability Strategy – lays out a framework for achieving the highest possible standards of sustainability on our campuses.

The Climate & Sustainability Action Plan 2017-2020 covers the final phase of Vision 2020 and contains 22 short-term priority actions and aims at achieving two long-term targets:

- Achieving carbon neutrality by 2040: McGill's own plan for carbon neutrality includes strategies for campus energy systems, air travel, and commuting policies, among other emissions sources.
- Attain the Platinum sustainability rating issued by the Association for the Advancement of Sustainability in Higher Education by 2030.

Details about the McGill Vision 2020 Climate and Sustainability Action Plan can be found here:
https://www.mcgill.ca/sustainability/sustainability-strategy

Progress on the 22 short-term priority actions is described here:
https://www.mcgill.ca/sustainability/files/sustainability/climate_sustainability_action_plan_progress_report_-_final.pdf

3 – BUDGET AND FINANCIAL INTEGRATION AT McGILL

This **Budget** represents a plan to achieve financial objectives for the University and is built from plans made by units across the University. McGill prepares its **Budget** on a modified **accrual** basis (i.e., transactions are recognized when the generating **activity** takes place rather than when the **revenue** is received, or when the **expense** is incurred).

McGill uses fund accounting and prepares its **budget** accordingly. The **Budget** of McGill University covers four funds: the **unrestricted fund**, the **restricted fund**, the **endowment fund** and the **plant fund**.

The **unrestricted fund** is used to record **revenue** that the University can allocate at its discretion, subject to legislation and government regulation. Unrestricted **revenue** allows the University to fund **activities** supporting its primary academic mission with limited external constraints and is critical to preserve the freedom of the University. The majority of operating **expenses** are recorded in the **unrestricted fund**, with three significant exceptions: (1) the annual **amortization** of **assets** is recorded in the **plant fund**; (2) a significant portion of academic salaries are recorded in the **restricted fund** and (3) a significant portion of student aid is recorded in the **restricted fund**. The **unrestricted fund** is used as the residual funding source for **capital assets** when no other source of funding is available. Unrestricted **revenue** funds significant acquisitions of **capital assets** (e.g., library collections and other equipment) and capital project costs that do not meet government or internal **capitalization** requirements (e.g., movable equipment and non-capitalized costs of administrative and support staff time allocated to capital projects). Finally, unrestricted **revenue** is used as the residual source of liquidity for repayment of financial liabilities when no other source of liquidity – either from **revenue** or balance sheet – is available (e.g., debt and bond repayments).

From the planning exercise of units to the production of the financial statements, **budget reclassifications** occur in the **unrestricted** fund due to the **capitalization** of goods and services purchased by units. When units plan their spending, they plan according to the type of goods and services (e.g., books, equipment), while central administration is responsible for the rules and operations related to the **capitalization** of **assets** on the University's balance sheet. **Expenses** on goods and services initiated in the **unrestricted fund** by units are reclassified as inter-fund transfers from the **unrestricted fund** to the **plant fund**, from which capitalization on the University's balance sheet is performed by central administration.'

The **budget** of the **unrestricted fund** does not include subsequent **year-end audit adjustments** (i.e., unused vacation days, post-retirement benefit obligations, and accrued pension liabilities). McGill also does not **budget** benefit re-measurements nor book-to-market adjustments as these are volatile and assessed only as of the last day of the **fiscal year** in its Financial Statements. Regulations governing the provincial **conditional grant** require excluding those elements from the balance of the **unrestricted fund**. Planning **expenses** contingent on short-term market fluctuations would not be prudent. However, the magnitude of these two items may be significant and may cause annual variations of more than $20M in the results of the **unrestricted fund** reported in the financial statements, as experienced several times by the University since 2014-2015.

Differences between non-salary **expenses** presented in the **budget**, the forecast, and financial statements must be interpreted with caution because of **budget reclassifications** and differences in scope. This **budget** presents the perspective of the units. However, Appendix II presents **revenue** and **expenses** pro forma to the financial statements, and thus from the perspective of the University across the four types of funds.

Restricted funds are typically used to manage scholarships and research funding and are associated with significant reporting requirements, both at the time of application and for reporting on their use. **Restricted funds** are provided by external stakeholders for specific purposes as well as from the annual income distribution coming from **endowment funds**. **Restricted funds** are typically not allowed to run **deficits** and restricted funding sources may not be covering the entire administrative costs of initiatives funded with restricted **revenue**, in which case the residual indirect costs of research get absorbed by the **unrestricted fund**.

The **plant fund** is used to record resources allocated specifically to acquire **capital assets** (e.g., via capital **grants**). The **amortization** of the University's **assets** is also recorded in the **plant fund**. Most outlays on capital projects charged to the **plant fund** get capitalized on the balance sheet and do not show up as University **expenses**. The **plant fund** also includes charges related to principal repayment and interest charges on financial instruments.

The **endowment fund** is used to manage the University's endowment **assets**. No **revenue** or **expenses** are recorded in the **endowment fund** but it is subject to inter-fund transfers to and from other funds, as well as to book-to-market adjustments impacting the value of the balance of the fund.

4 - REVIEW 2018-2019

McGill University determines the volume of its **activities** through its annual planning processes that set the planning of teaching **activities** (through enrolment targets), research **activities**, and administrative and support **activities.**

Student enrolment drives major **revenue** sources, including **grants** and tuition and fees. Enrolment in credit programs increased by 1.4% between fall 2017 and fall 2018. Undergraduate enrolment remained stable, while graduate enrolment grew by 4.5%.

Table 3: Student Enrolment, Fall Semester

	Fall 2018	Fall 2017	Pct. Change(%)
	Headcount		
Undergraduate	**27,601**	**27,526**	**0.3**
Graduate			
Master	5,130	4,771	7.5
Doctoral	3,590	3,532	1.6
Other Graduate	1,424	1,401	1.6
Total Graduate	**10,144**	**9,704**	**4.5**
Total students (credits)	**37,745**	**37,230**	**1.4**
Postdoctoral	638	662	-3.6
Residents and Fellows	1,287	1,277	0.8
Non-credit students	1,616	1,802	-10.3
Total	**41,286**	**40,971**	**0.8**

Source: McGill Enrolment Services. Enrolment Report Fall 2018: Overview by Level. McGill School of Continuing Studies. Registration Statistics.

Increased **activity** is also reflected in staff headcount at the University as of January 31. This punctual count is selected at a point in time when the operations of the University are at their peak. This timing ensures that the scope of the headcount is closely aligned with the scope of salary **expenses** reported in the financial statements, which include salary **expenses** for employees under contracts that end before April 30. The last day of class in 2018-2019 was April 12.

Staff headcount increased by 1.4% between January 2018 and January 2019. The number of instructional faculty increased by 1.7%, including 28 more **tenure-stream** faculty. Graduate students typically require more time from academic staff relative to undergraduate students, as most graduate students require research or other supervision. In addition to academic salaries charged to the **unrestricted fund**, increased research **activities** have contributed to an increase of $3.8M (7.1%) in academic salaries charged to the **restricted fund** at the end of the third quarter of 2018-2019 compared to the same period in 2017-2018.

While instructional Faculties perform the **activities** directly supporting the teaching and research **activities** of the University, non-academic staff provide services to students, faculty, and units within central administration to support the mission of the University. The largest category of non-academic staff is the managerial and professional category with 2,287 employees. This number represents an increase of 140 additional staff between January 2018 and January 2019. Administrative and support staff **expenses** are charged to both the **unrestricted** and **restricted fund**. Increased research **activities** have contributed to a year-to-year increase of $3.3M (17.4%) in administrative and support staff **expenses** charged to the **restricted fund** at the end of the third quarter of 2018-2019. The costs of administrative and support staff working on capital projects that meet **capitalization** requirements are included in increased value of **capital assets** on the University's balance sheet - which are recorded at cost – and not recorded as **expenses**.

The University has confirmed in 2018-2019 appointments in several key management positions, including a new Chief Information Officer, a new Registrar and Executive Director of Enrolment Services, and a new Executive Director of the Royal Victoria Hospital Project. The University has also been actively working on the appointment process for the position of Deputy Provost (Student Life and Learning).

Table 4: Staff Headcount, as of January 31

	January 31 2019	January 31 2018	Pct. Change(%)
	Headcount		
Instructional Faculty			
Tenure stream	1,710	1,682	1.7
Non-tenure stream	1,632	1,625	0.4
Total	3,262	3,220	1.3
Non-academic staff			
Executive	**18**	**16**	**12.5**
Managerial and Professional	2,287	2,147	6.5
Clerical	947	924	2.5
Library Assistant	76	76	0.0
Technical	400	409	-2.2
Trades and services	451	453	-0.4
Other (Residences, Nurses, Hospital)	18	20	-10.0
Total	**4,197**	**4,045**	**3.8**
Total paid staff	**7,459**	**7,352**	**1.5**
Unpaid non-tenure stream	**3,262**	**3,220**	**1.3**
Total staff (incl. unpaid non-tenure stream)	**10,721**	**10,572**	**1.4**

Source: McGill HR Datawarehouse. Calculations by McGill Analysis, Planning and Budget.. Notes: 1) Most student assistants are no longer on the HR file as they are now paid through BSAC; 2) Staff whose administrative unit is "Long Term Disability" are not included in these staff counts; 3) Staff on leave are included in these staff counts.

Unrestricted Fund

The balance of the **unrestricted fund** is forecasted to be at **deficit** of \$0.6M in 2018-2019. This amount represents a **deficit** of less than 0.1% of **revenue**, while the **budgeted deficit** for 2018-2019 was \$15.4M, or 1.8% of **budgeted revenue**.

Unrestricted **revenue** is forecasted to be \$40.6M (+4.5%) higher than budgeted, while unrestricted **expenses** (not including inter-fund transfers) is forecasted to be \$8.4M (+ 0.9%) higher than **budgeted**.

Higher **revenue** are primarily driven by tuition and fees which are forecasted to be higher than budgeted by \$17.9M because of fall 2018 enrolment of **deregulated** international students, as well as enrolment of graduate students. Both surpassed institutional enrolment targets.

Grants from the Québec government are forecasted to be \$9.2M higher than **budgeted** due to the implementation of part of the updated funding policy and higher graduate enrolment. As described above in Section 2, there was a structural one-time increase in the provincial **operating grant** and transitional funding was provided by the government for the implementation of the updated funding policy.

Sales of goods and services are forecasted to be \$7.7M over **budget** due to conservative expectations at the time of preparation of the **budget**. Sales of goods and services in 2018-2019 are comparable to 2017-2018.

Table 5: Forecast of Unrestricted Fund, 2018-2019

	Budget 2018-2019*,**	Forecast 2018-2019*	Diff.
	thousands of dollars		
Revenue			
Grants – Québec	350,845	360,090	9,245
Tuition and Fees	332,138	350,000	17,862
Sales of Goods & Services	139,884	147,630	7,746
Grants – Canada	30,438	30,970	532
Investment and interest income, forex gain	10,309	13,330	3,021
Gifts and Bequests	7,249	9,490	2,241
Revenue – total	**870,863**	**911,510**	**40,647**
Salaries			
Academic	286,418	283,590	(2,828)
Administrative & Support	233,526	242,120	8,594
Benefits	112,981	107,610	(5,371)
Student salary and payment and student aid	47.775	48,530	755
Adjustment to pay period	1,825	-	(1,825)
Salaries-total	**682,525**	**681,850**	**675**
Non-Salary *(net)*			
Building and occupancy costs	32,709	44,310	11,601
Materials, Supplies & Publications	29,288	34,470	5,182
Contract Services	26,076	32,140	6,064
Energy	18,213	19,540	1,327
Costs of Goods Sold & Services rendered	17,851	18,260	409
Hardware and Software Maintenance	11,116	11,490	374
Travel	9,356	11,170	1,814
Professional Services	10,491	10,590	99
Interests and Bank Charges	3,720	2,870	(850)
Other Non-Salary Expenses	46,897	29,030	(17,867)
Contributions to Partner Institutions	11,159	10,730	(429)
Non-Salary *(net)* – total	**216,876**	**224,600**	**7,724**
Expenses – total	**899,401**	**906,450**	**8,399**
Excess (deficiency) of revenue over expenses	**(28,538)**	**5,060**	**(33,598)**
Inter-fund Transfers	13,503	(5,440)	(8,063)
Capitalization of investment income	(407)	(170)	237
Total inter-fund transfers	**13,096**	**(5,610)**	**(18,706)**
Book-to-Market Adjustment* **	n.a	n.a	n.a
Pension and Post-Employment Re-measurement* **	n.a	n.a	n.a
Increase/(decrease) in Fund Balance	**(15,442)**	**(550)**	**14,892**

*: Before reclassifications of expenses on goods and services eligible for capitalization.. **: Items classified as non-salary expenses at the time of Budget may be reclassified into other categories throughout the fiscal year. ***: McGill does not budget nor forecast book-to-market adjustments nor pension and post-employment re-measurements.

Expenses in the **unrestricted fund** (not including inter-fund transfers) in 2018-2019 are forecasted to be $8.4M (+0.9%) above **budget**. Salary **expenses** are forecasted to be closely aligned with **budget**. Higher **expenses** on administrative and support staff salary are forecasted to be partially offset by lower benefits costs, mostly driven by lower contributions towards the **deficit** of the pension plan. Non-salary **expenses** are expected $7.7M above **budget**. This result is a combination of spending items postponed in previous years which have been honoured in 2018-2019 and spending on items that were considered for future years and that were brought forward to 2018-2019.

Net transfers from the **unrestricted fund** to other funds are expected to be $19M above budget. An accounting change reclassified $7M of inter-fund transfers from the endowment fund to the **unrestricted fund** as unrestricted revenue. Some units also performed significant transfers from their **unrestricted fund** to their **restricted fund.**

5 - BUDGET 2019-2020

The 2019-2020 **Budget** assumptions support the allocation of resources towards the specific objectives of the Strategic Academic Plan 2017-2022.

Table 6: Objectives of the Strategic Academic Plan 2017-2022

Objective	Indicator	Target
Be Open to the World	Share of international undergraduate enrolment	Maintain in 25%-30% range.
	Number of enriched educational opportunities that create occasion for global engagement.	Double the proportion of undergraduate students undertaking educational opportunities with global engagement.
Expand Diversity	Proportion of women at the rank of full professor	Reach 25% by 2022.
	Proportion of people from other equity groups at rank of full professor	Reach 20% by 2022.
	Enrolment of Indigenous students.	Increase enrolment of Indigenous students to 1,000.
Lead innovation	Number and availability of collaborative and active learning classrooms.	Increase number and availability of collaborative and active learning classrooms.
	Number of online programs.	Implement five online programs by 2022.
Connect across disciplines and sectors	Resources invested in large interdisciplinary and inter-sectoral projects.	Increase resources (human and financial) in large interdisciplinary and inter-sectoral projects.
Connect with our communities	New registrations from the French language CEGEP system.	Increase number of applications by 15% between 2017 and 2022.

5.1 MAJOR INITIATIVES 2019-2020

The Rossy Student Wellness Hub

The Student Wellness Hub is a new initiative to improve student access to campus and community-based resources. It includes: (1) the construction of a Student Wellness Hub in the Brown Student Services Building; (2) the creation of a network of Local Wellness Advisors embedded in the Faculties and other student-oriented units across campus; and (3) the integration of all health and wellness information into a single Virtual Hub, which includes a searchable map of available resources. The Hub is a new service-delivery model that integrates physical and mental healthcare and ensures that students have access to the right care at the right time. This new, evidence-informed approach constantly adapts according to students' goals and results, and emphasizes the role of awareness, prevention and early intervention.

In 2019-2020, the Hub will open its doors to students, offering an integrated one-stop shop for all health and wellness concerns. Local Wellness Advisors will be on site in Faculties and other locations around campus, offering adapted programming and one-on-one appointments with students. The Virtual Hub, which has already come online, will continue to be improved with additional content, including a regularly updated map of health and wellness resources in the surrounding communities. The Healthy Living Annex will also begin health promotion and outreach **activities** in 2019-2020. The Rossy Student Wellness Hub is a $14M initiative funded by McGill and the Rossy Family Foundation.

Campus médical Outaouais

For the past thirty years, McGill, the Centres intégrés de santé et de services sociaux (CISSS) de l'Outaouais and the CISSS' predecessors have worked together to help improve the region's health care capacity. Offering students and young physicians the opportunity to study medicine and complete their residency training in Outaouais encourages trainees to set down roots and establish a local medical practice. Teaching and residency training in Outaouais now includes various specialties (family medicine, surgery, internal medicine, psychiatry, paediatrics, obstetrics, gynaecology, geriatrics, dermatology, cardiology, nephrology, orthopedics, neurosurgery, vascular surgery and emergency medicine).

The Campus médical Outaouais will give students from the Outaouais region and from across Québec the opportunity to complete their entire medical education, from their MDCM degree to residency training, in French, in Gatineau and the surrounding areas.

A $26.4M construction project involves adding two floors to the Emergency Department of the CISSS de l'Outaouais' Gatineau Hospital. One floor will be the new home of the Groupe de médecine familiale universitaire (GMF-U) de Gatineau and the other will house the Campus Outaouais' teaching facilities, including a high-tech simulation centre.

Recruitment of educational leadership and administrative staff is underway as the Campus prepares for the arrival of its first cohort of undergraduate medical students in August 2020.

The costs of building and operating the MDCM program are expected to be covered by incremental funding from the Québec government.

The Bensadoun School of Retail Management

A $25M **gift** received from the Bensadoun Family Foundation has allowed McGill University to establish the most comprehensive retail management school in Canada, and perhaps the world. Founding partners contributed an additional $7.5M in support of the School. The first class of twenty-two students has already begun its journey at the undergraduate level in the Retail Management Concentration of the BCom program and this number is expected to increase to forty by the year 2020. A Retail Management specialization in the PhD program will begin in fall 2019 and the Masters of Management in Retailing program will be submitted for government approval this summer and should be available as a **self-funded program** in fall 2020. Executive Education is set to launch in 2019 with both custom and open-enrolment offerings. Two new professors have been appointed, one who started in fall 2018, and one who will begin in fall 2019. As research is an important component of the mission of the Bensadoun School of Retail Management, McGill has established a partnership with IVADO, as well as other organizations, and the construction of the school's 2300-square foot Retail Innovation Lab is expected to be completed at the end of 2019. Once the lab is completed, students, professors and partner organizations will be able to conduct research in a variety of retail sectors with a particular emphasis on food, health, and wellness.

Student Aid

In addition to deploying efforts to seek funding for scholarships for McGill students from external sources, McGill continues its commitment to accessibility by contributing $34.2M of its unrestricted **revenue** towards student aid and support in 2019-2020.

Indigenous Studies and Education Initiatives

McGill is building upon a strong foundation for its commitment to Indigenous academic and community engagement. McGill's institutional **expenses** in Indigenous education, research, curricula, and community partnerships currently exceed $1.5M per year.

The Office of the Provost and Vice-Principal (Academic) has dedicated staff and oversight through a new, three-person Indigenous Initiatives team consisting of a Special Advisor, Indigenous Education Advisor, and a Program Administrator. An Indigenous Achievement Award was also created, providing $5,000 to two incoming students each year, renewable in each subsequent year. This commitment will be expanded until 2022, when a total of eight annual awards will become available for Indigenous students.

Strengthening Indigenous-focused research and building the academic complement includes a cluster hire of six new faculty positions to start in 2019-2020 focusing on Indigenous health and Indigenous education, languages, and governance. These appointments are in addition to ten Indigenous-focused positions posted or filled in recent years across fields and **faculties**.

Other initiatives planned in 2019-2020 include the establishment of a new partnership with Vancouver Island University, increasing Indigeneity on the McGill campus starting with ameliorating the Hochelaga Monument, creating a commemorative Indigenous themed sculpture, and purchasing Indigenous art. Discussions will also be undertaken to explore the creation of Indigenous cultural spaces on campus.

Royal Victoria Hospital Project

On May 24, 2018, the Board of Governors approved, in principle, proceeding with the development of the next phase of the Royal Victoria Hospital project. Subsequently, on June 22, 2018, the Government of Québec announced that it would be investing $37M 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. While the development of the site has been entrusted to the *Société québécoise des infrastructures* (SQI), the announced financial support will allow McGill to complete the development of a formal *Dossier d'opportunité* (DO) that includes programming and design specifications for its new pavilion, as well as further cost estimating and financial planning for the project. The Government has asked the SQI to develop a master plan for the entire site of the former RVH, which will include determining the portion of land and buildings that it intends to transfer to McGill for the development of its new pavilion. The development of the DO is now underway, for submission to government in June 2020 and anticipated approval by January 2021.

Human Resources Information System Modernization

Labour is the primary driver of budgetary costs of the University, representing approximatively two thirds of the University's **budget**. As such, meeting **budgetary** plans depends to a large extent on effective management of McGill's labour force. At its meeting on April 26, 2015, the Executive Committee of the Board of Governors informed the Board of Governors that it approved the replacement of McGill's Human Resources Information System (HRIS). The new HRIS will help to streamline McGill's HR processes, and provide a wide set of standardized reports to inform human resources management at McGill. The budget of the project stands at $50M, which is to be funded from bond proceeds. The Executive Committee was informed in October 2018 that the project's timeline would be altered in order to allow for restructuring, and that go-live date of the new system is set for summer of 2020.

Salary Policy

Salaries and benefits represent about two thirds of the University's total operating **expenses**. In order to attract and retain top academics in a global market, both starting salaries and annual salary increases for McGill professors must remain competitive. McGill must also be able to provide starting salaries and interesting career prospects to talented administrative and support staff that have the skills to support the academic mission of the University in a professional manner. The cost of salary policy including benefits is **budgeted** at $15.0M for 2019-2020.

Pension Plan Employer Contributions

All employees who joined McGill on or after January 1, 2009 are members in the McGill defined-contribution pension plan. However, McGill must still cover the unfunded liabilities related to the defined-benefits component of the hybrid plan that were accrued before January 1, 2009 for members who joined or were eligible to join the plan before this date. McGill University is the only university in Québec that currently offers a defined-contribution pension plan. McGill will contribute $19.5M in 2019-2020 to address the unfunded pension liability of the pension plan.

Amortization Fund for Bond Repayment

The Building and Property Committee of the Board of Governors was informed on April 25th, 2019 of a reallocation of bond proceeds for **deferred maintenance** and IT initiatives. The allocation of the bonds proceeds moving forward is $250M for **deferred maintenance** and $150M for IT initiatives, compared to the previous allocation of $300M for deferred maintenance and $100M for IT initiatives. This adjustment takes into account increased needs to address **deferred maintenance** in the area of IT and the availability of increased government funding for **deferred maintenance** for construction and renovation projects. The $400M bond issue will come at a significant financial cost, which will be part of the **budget** of the **unrestricted fund** over the next 40 years. Repayments from unrestricted **revenue** will start in 2019-2020 with a payment of $11.5M and increase to $23.0M annually from 2021-2022.

Celebrations of the McGill Bicentennial

Over the past 200 years, McGill has been and continues to be a leader in education and research. McGill's greatest strength is its people – students, alumni, faculty, and staff. The University is committed to being Canada's most international university while being firmly rooted in Montréal and Québec and is well-placed to address the grand challenges and complexities of the 21st century.

As the plan for the bicentennial celebration comes together, the Office of the Principal and Vice-Chancellor provides $300,000 in 2019-2020 to support the Bicentennial celebrations, which will primarily be funded through private **donations**.

5.2 BUDGET 2019-2020

Unrestricted Fund

The **budgeted deficit** of the **unrestricted fund** for 2019-2020 stands at $8.7M, or 0.9% of **budgeted** unrestricted **revenue**.

Revenue are **budgeted** to increase by $8.5M (+ 0.9%) and reach $920.0M while **expenses** (not including inter-fund transfers) are expected to increase by $16.8M (+1.9%) and reach $923.2M. Inter-fund transfers are expected to remain stable.

Provincial **grant revenue** is expected to remain stable in 2019-2020. While the Québec government confirmed in **Budget** 2019 an increase of $94M in university funding for 2019-2020, the deregulation of tuition for most international students reduces the number of McGill students funded through provincial **grants**. On the other hand, tuition and fees are expected to increase by $8.0M (+2.3%). For the first time, tuition and student fees are expected to reach a level that is comparable to the level of provincial **grants**. The base regulated tuition rate is increasing by 3.6% - in line with the growth in household' disposable income per capita in Québec in 2017 - while tuition fees for **deregulated** international students in first cycle and second cycle non-research programs are set to increase by 7.7% in 2019-2020.

Salary **expenses** are set to increase by $22.7M (+3.3%), including $15M in increases as a result of salary policy. 2019-2020 is also a **fiscal year** with one more business day compared to 2018-2019, which represents an additional cost of $1.8M.

Table 7: Budget 2019-2020, Unrestricted Fund

	Budget 2019-2020*	Change vs. 2018-2019 forecast
Fund	***thousands of dollars***	
Revenue		
Grants – Québec	359,822	(268)
Tuition and Fees	358,037	8,037
Sales of Goods & Services	146,729	(901)
Grants – Canada	32,000	1,030
Investment and interest income, foreign exchange gain	13,547	217
Gifts and Bequests	9,867	377
Revenue – total	**920,002**	**8,492**
Expenses		
Salaries		
Academic	294,096	10,506
Administrative & Support	251,084	8,964
Benefits	110,040	2,430
Student salary and student aid	49,360	830
Salaries-total	**704,580**	**22,730**
Non-Salary (net)		
Building and occupancy costs	43,130	(1,180)
Materials, Supplies & Publications	33,560	(910)
Contract Services	31,290	(850)
Energy	19,020	(520)
Costs of Goods Sold & Services rendered	17,780	(480)
Hardware and Software Maintenance	11,190	(300)
Travel	10,870	(300)
Professional Services	10,310	(280)
Interests and Bank Charges	2,290	(80)
Other Non-Salary Expenses	27,873	(1,157)
Contributions to Partner Institutions	10,837	107
Non-Salary (net) – total	**218,650**	**(5,950)**
Expenses – total	**923,230**	**16,780**
Inter-fund transfers	(5,440)	0
Book-to-Market Adjustment'**'	n.a	n.a
Pension and Post-Employment Re-measurement '**'	n.a	n.a
Increase/(decrease) in Fund Balance	**(8,668)**	**(8,118)**

*: Before reclassifications of expenses on goods and services eligible for capitalization. with
'**' McGill does not budget nor forecast book-to-market adjustments nor pension and post-employment re-measurements.

Non-salary **expenses** are set to decrease by $6.0M compared to 2018-2019 and reach $218.7M in 2019-2020. This decline is due to non-recurring one-time **expenses** incurred in 2018-2019 and brings non-salary **expenses** in line with historical trends – the 2018-2019 **budget** for non-salary **expenses** was $216.9M. Typically, the University does not have incremental funding sufficient to cover support salary increases, new initiatives and non-salary **expense** indexation. Salary policy and new initiatives are generally prioritized, leaving units to absorb non-salary **expense** increases. However, allocations are adjusted from time to time to deal with sizable changes in major **expenses** (e.g., library collections). Management is also expected to ensure the University gets competitive rates on quality goods and services procured centrally.'

The **budget** of the University is distributed across three sets of funds: funds of academic units, funds of administrative units and central funds. The initial spending capacity determined for 2019-2020 for academic and administrative units consists in permanent **budgets** that get automatically rolled-over on an annual basis, temporary allocations that get reconfirmed every year and estimates of **revenue** that flow directly to units in the new **fiscal year.** However, these three items do not represent the entire **budget** of a unit throughout the **fiscal year.** Several components are paid from central funds and whose **budgets** get transferred to units as **expenses** are incurred throughout the **fiscal year.** This includes salary policy, benefit adjustments, compensation of Senior Executives, and adjustments to the number of business days in a **fiscal year. Budget** for hiring tenure-stream professors also get transferred to faculties at the time of hiring, and not at the beginning of the **fiscal year**. The **budget** of these central funds is $49.2M in 2019-2020.

Table 8: Expenses (Including net-inter-fund transfers), Unrestricted Fund

Units	Expense Forecast 2018-2019	Initial spending capacity 2019-2020
	thousands of dollars	
Faculties	546,700	544,121
Administrative units	310,270	319,541
Central Funds	55,090	49,601
Total expenses – including net inter-fund transfers	912,060	928,670

Note: Including net inter-fund transfers.

Five-Year Outlook

The five-year outlook shows a reduction of the **deficit** from $550K in 2018-2019 to a **surplus** of $1.7M in 2023-2024. The financed **accumulated deficit** would increase from $129.0M in 2018-2019 to $165.6M in 2023-2024.

Revenue takes into account the Enrolment Plan required to attain the objectives of the Strategic Academic Plan, a five-year simulation of provincial **grants** under the updated funding policy, as well as increases in **deregulated** tuition fees. The latter includes realistic tuition fee policy scenarios for both newly-admitted students and returning students. A recent elasticity study with updated benchmarking will be used to inform increases in **deregulated** tuition that will take effect in fall 2020 and beyond.

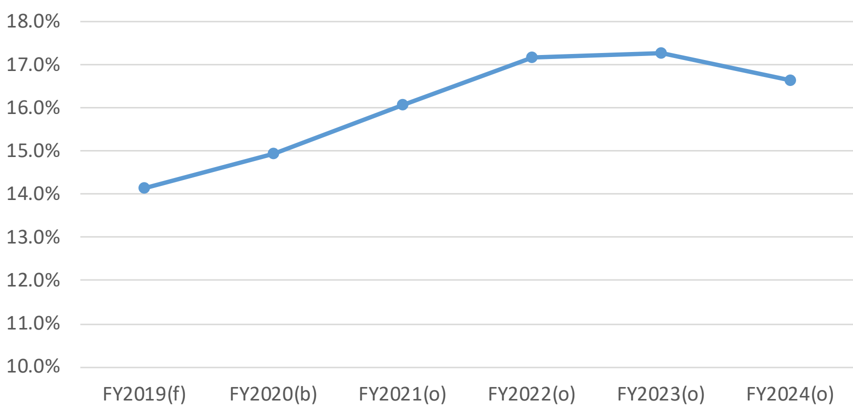
The assumptions on **expenses** of this five-year scenario are quite stringent. This five-year outlook assumes stability in the permanent salary **budget**. It also assumes no additional permanent allocation of funds to units or, alternatively, the replacement of temporary funding with permanent funding with no impact on the overall financial picture.

Table 9: Five-Year Outlook of the Unrestricted Fund,

Fiscal Year	Revenue	Expenses	Annual financed balance	Financed accumulated deficit
	thousands of dollars			
2018-2019(f)	911,510	912,060	(550)	(128,989)
2019-2020 (b)	920,002	928,670	(8,668)	(137,657)
2020-2021 (o)	923,887	934,876	(10,989)	(148,645)
2021-2022 (o)	945,023	958,526	(13,503)	(162,148)
2022-2023 (o)	969,275	974,526	(5,251)	(167,399)
2023-2024 (o)	995,983	994,226	1,757	(165,642)

Note: (f): Forecast (b): Budget (o): Outlook

Figure 8: Financed Accumulated Deficit, as percentage of revenue

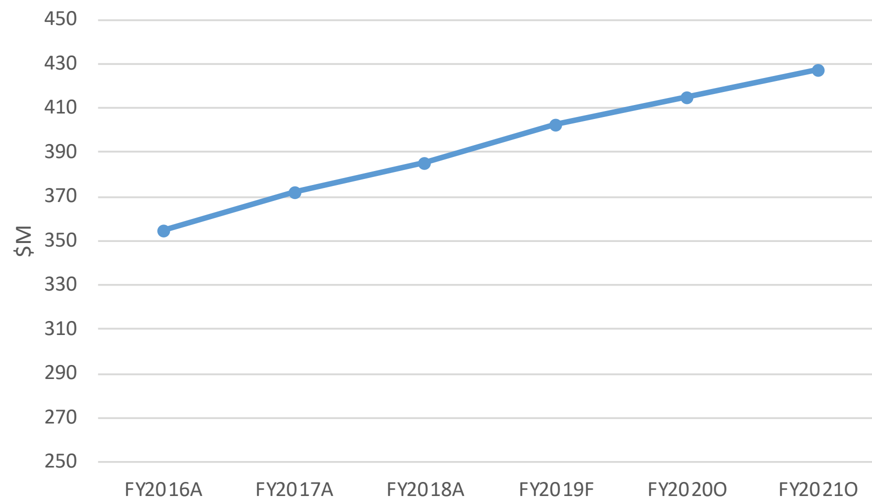


Restricted Fund

The two major components of the **restricted fund** are the research **grants** and contracts, and the spendable income from endowments along with non-endowed **gifts** and **bequests** that must be spent in accordance with the terms of the donor.

Figure 9 represents a projection of the **restricted fund revenue**. The forecast for 2018-2019 is based on forecast calculated from third quarter **revenue**. Restricted revenue are forecasted at $402M in 2018-2019, or 4.7% higher than in 2017-2018. **Revenue** in the **restricted funds** are budgeted at $415M in 2019-2020.

Figure 9: Revenue of Restricted Fund Projection ($M)



Note: (a): Actual (f): Forecast (o): Outlook.

Endowment Fund

The **endowment fund** is governed pursuant to the terms of the Statement of Investment Policy under the authority of the Board of Governors and of the Investment Committee. The University is a careful steward of the **gifts** and **donations** it receives and is mindful of the obligations it undertakes whenever accepting philanthropic support.

Pledges from fundraising and other **donations** are recorded in the period in which they are collected (excluding commitments). In terms of McGill's predicted philanthropic **revenue**, total "cash in" (**gifts** plus pledge payments) is forecasted to be between $115M and $135M for 2018-2019 and **budgeted** to be between $125M and $145M for 2019-2020.

For the most part, **donations** are restricted with approximatively a third being destined towards the **endowment fund**, generally to be held in perpetuity and invested in the McGill Investment Pool ("MIP"). The overall objective of the MIP is to preserve (in real dollar terms) the capital of the MIP within the social and ethical norms of the University, to obtain a total return (yield plus capital appreciation) necessary to provide a dependable and optimal source of income for endowment beneficiaries and to cover the annual operating costs of the MIP.

The market value of McGill's endowment, including trust funds (electing to be invested in the MIP), has achieved steady growth during the past several years. Additional **donations** to the **endowment fund** as well as re-**capitalization** allow the purchase of more units while the performance of related **investments** impacts the unit value.

As of February 28, 2019, the market value of the **endowment fund** was $1.65B. While the market value of the fund has increased by 1.5% in the first 10 months of 2018-2019, inter-fund transfers from the **endowment fund** are expected to be higher in 2018-2019 compared to the previous year.

Table 10: Donations by type, 2017-2018

Fund	Endowment	Direct Spend	Total
	thousands of dollars		
Unrestricted	0	8,077	8,077
Restricted	23,390	45,237	68,627
Plant[(1)]	0	6,066	6,066
Total	23,390	59,380	82,770

Note: (1): Plant Fund gifts are largely gifts in kind.

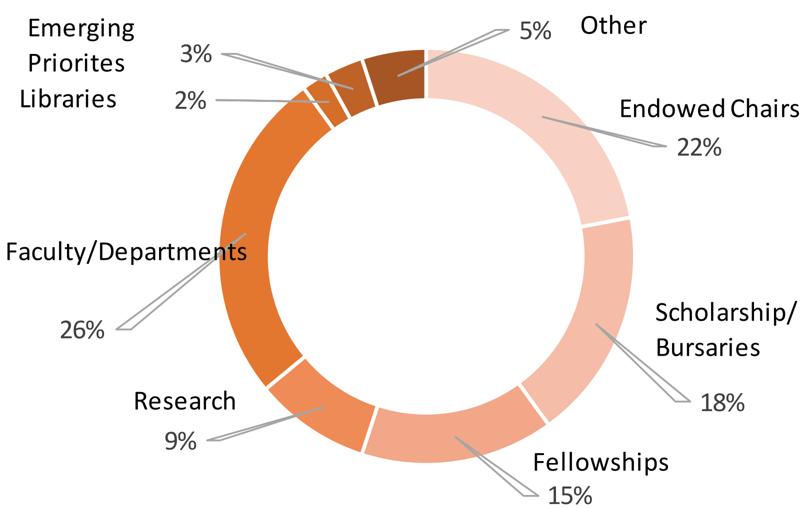
Table 11: Endowment Fund, by April 30

Year	MIP Market value ($M)	Number of MIP units	MIP Unit Value
2015	1,449.0	3,579,365	404.82
2016	1,434.9	3,694,641	388.38
2017	1,612.3	3,796,339	424.71
2018	1,627.1	3,888,657	418.43

For more information, please refer to the annual Report on Endowment Performance: **https://www.mcgill.ca/investments/annual-reports**

Unit value of the MIP is calculated quarterly (July, October, January and April) and income is distributed monthly and adjusted quarterly for capital additions and withdrawals. As at April 30, 2018, $67.3 M in endowment spending was designated as follows:

Figure 10: Distribution of Endowed Spending, at April 2018



Plant Fund

The **plant fund** includes capital **grants** received primarily for the purposes of renovating existing space, addressing **deferred maintenance** projects, and from time to time, constructing new space in addition to purchasing **capital assets**. As well, there are **contributions** in the way of **gifts** and **bequests** as well as **contributions** from student groups.

McGill's **capital budget** includes projects worth $1.9B between 2018-2019 and 2023-2024. The 2019-2020 **budget** for those projects amount to $264.5M, including $41.1M of construction financed by debt, $98M of **capital budget** coming from the **MEES** (including the **deferred maintenance** portion) and $39.3M of IT projects financed by debt. This planned **budget** includes initial amounts related to the potential redevelopment of the Royal Victoria Hospital.

McGill's share of the provincial capital **grant** had been declining in recent years mostly due to the age factor of buildings being maximized at 50 years old. In 2018-2019, the **MEES** changed how the capital fund envelope was distributed and McGill has benefited where it gets a greater percentage of the total envelope because of the age and state of its buildings.

In 2015-2016, a Province-wide exercise led by Bureau de Coopération Inter-universitaire (**BCI**) sought to identify our **deferred maintenance** inventory. Officially, our **deferred maintenance deficit**, in **MEES**-subsidized buildings (excluding downtown residences), is estimated at $728M. Because of limitations in the methodology, this number is an absolute minimum (e.g., it does not include building facades). For the 2019-2029 period, there were 11 **deferred maintenance**-specific projects submitted in the Plan décennal des investissements universitaires (PDIU). The total cost of all these projects is $186M.

Table 12: Major Capital Projects Financed by Bonds in 2019-2020

Project	Planned Spending 2019-2020	Total Cost Estimate
	million of dollars	
McIntyre Garage Repair	11.6	20.5
Network and Telephone System Update	7.8	30.7
Leacock Terrasse Repair	3.8	9.8
Student Information System Evolution	3.3	9.6
Financial System Evolution	3.1	6.6

Overall Borrowing and Debt Position

In February 2015, the Board of Governors approved an initiative to address the University's accumulated backlog of **deferred maintenance**, information technology and space needs, and the Executive Committee approved, on the recommendation of the Finance Committee, for the University to borrow or issue debt up to $400M as a financing plan in support of this initiative.

Consistent with prior years, *Financement-Québec* has asked the University to institute a *régime d'emprunts* for the current period ending June 30, 2019, to borrow from *Financement-Québec* as a way to receive the next installment of the Québec capital **grant.** This maximum borrowing amount for McGill for the period ending June 30, 2019 is $158.6M. Both the annual interest and the capital amount borrowed are repaid by **MEES**. In most circumstances, both the interest and capital are repaid via additional issuances of long-term borrowings. **MEES** requests that each university board adopt a resolution authorizing the university to "borrow" long term. The new debt is issued by *Financement-Québec* to refinance the province's maturing debt, and to reimburse short-term bank borrowings incurred by the University on behalf of the Québec government.

As at January 31, 2019, the University's total borrowings were $1.07B, all of which was long-term debt. Exceptionally at this date there was no bank indebtedness. Included in the long-term debt is $160M of McGill Senior Unsecured Debentures issued in January 2016 and $150M of McGill Senior Unsecured Debentures issued in 2002. The remaining $776.1M is substantially all due from **MEES**, for which **MEES** reimburses interest **expense** to the University for outstanding matured bonds and capital **grant.**

The cost of borrowing is expected to be approximately 1.69% over the course of 2018-2019 and total interest and bank charges **expenses** are forecast to be $2.5M for the year ending April 30th, 2019. The average borrowing rate is expected to rise from 1.69% in 2018-2019 to 2.25% in 2019-2020, and borrowings are expected to increase for purposes of extrapolation of future **budget** estimates. As such, our interest and bank charges **expenses** will be approximately $8.1M.

S&P Global affirmed its AA- (stable) rating in their report dated February 8 2019, unchanged from that of February 2018. Moody's issued its annual rating on January 29, 2019 confirming McGill's rating of Aa2 (stable), on both the Series A ($150M) and Series B ($160M) issuances, unchanged from that of December 2017.

Financial Risks

Stability of the provincial funding policy: 2019-2020 will be the first year of the full application of the updated provincial funding policy. The stability of the **operating grant** parameters – including the management of special envelopes - will impact McGill's **revenue** in coming years. The Québec government could also be influenced by jurisdictions adopting alternative funding policies, such as the Government of Ontario that announced in its **Budget** 2019 that 60% of the **operating grant** of Ontario universities will be linked to performance measures by 2025. In order to mitigate this risk, McGill has undertaken a review of several data sources that allow it to determine its provincial grant to ensure their quality and responsiveness in case of unforeseen policy changes.

Indirect costs of research: In light of the significant increases in research funding announced in Federal Budget 2018, the underfunding of **indirect costs of research** may result in reduced financial flexibility for research-intensive universities in the allocation of their unrestricted revenue. The additional reinvestment of $235M in the Research Support Fund (RSF) in Budget 2018 is insufficient to increase the funding rate in light of the increases in direct funding for research from the Tri-Agencies. Research **activities** entail support costs for institutions, such as facility costs and commercialization support. The U15 – the group of the 15 most research-intensive universities in Canada – estimates the average RSF funding rate for U15 institutions to stand at 20.5% vs. 52.8% for the public universities that are members of the Association of American Universities. McGill's mitigation strategy consists of supporting the efforts of the U15 in addressing this issue with federal policymakers. The U15 tabled in August 2018 a pre-budget submission to House of Commons Standing Committee on Finance which addressed the underfunding of **indirect costs of research.**

Success of the University in deploying its enrolment plan for fall 2019: The ability of McGill to deploy its enrolment plan for fall 2019 represents a **budgetary** risk that is associated with higher uncertainty for both **revenue** and costs. The appointment of a new Registrar and Executive Director, Enrolment Services in 2018-2019 has contributed to the mitigation of this risk. In order to meet the data requirements of strategic enrolment planning, the Analysis, Planning and Budget Unit within the Office of the Provost and Vice-Principal (Academic) has developed a flexible Business Intelligence (BI) and Analytics environment that has proven its capacity to provide McGill's team of Senior Executives with accurate and timely data and business insights on applications, offers of admission and responses from prospective students.

Success of efforts to identify causes of increased hiring, appropriate planning to reach desired staffing levels, and application/monitoring of targeted staffing levels: Labour is the primary driver of **expenses** at the University. The five-year outlook presented in this **budget** assumes no growth in permanent **budget** for staff charged to the **unrestricted fund** over and above salary policy in the next five years. In order to support this outlook, the University is conducting an internal review to examine the causes of increased hiring in 2018-2019. Higher staffing in 2018-2019 was the continuation of a trend that started after the 2013 Voluntary Retirement Program, which aimed at reducing personnel costs to pay for capital projects. The Board of Governors received in February 2019 the 2017-2018 McGill University Staffing Report which identified multiple causes for increased hiring of administrative and support staff in 2017-2018 relative to 2016-2017, including: 1) construction and technology projects; 2) recruitment in HR and IT for the Recruitment to Retirement (R2R) program; 3) Support for McGill's bicentennial fundraising campaign; 4) expansion of services in support of student wellness; 5) creation of new positions to address new reporting requirements and 6) expanded commitments to equity, diversity and inclusion across campus. The University is also conducting a review of the **budgeting** practices of positions by financial and human resources officers across units.

Application of an optimal pricing strategy for tuition fees of deregulated students: McGill must find an optimal balance by charging competitive tuition fees while attracting high-performing applicants. An elasticity study to assess the demand for McGill education from high-performing candidates was completed at the end of 2018-2019.

Effective management of activities expected to be self-financing: A large number of funds associated with ancillary **activities** at the University are expected to be **self-financing** from external **revenue** and not to draw on resources funded from unrestricted **revenue**, which should be allocated in priority to the academic mission of the University. In order to mitigate this risk, the University will review the governance of **self-financing** funds in the coming year.

Accuracy of estimates of capital projects costs: The accuracy of estimates of capital project costs depend on the ability of the University to track costs of all inputs to capital projects. This risk applies especially to IT projects, which are very different in nature from other capital projects. A high proportion of construction project costs are directly attributable to work performed by external service providers. However, for IT project costs, a significant amount of work is typically performed by internal staff, including staff outside IT Services who allocate time to defining business needs and requirements, developing specifications, performing testing and validation of new IT systems, and participating in the governance of IT projects. While the costs of IT Services staff is often charged to the project costs and gets capitalized, this is often not the case for the labour cost of staff outside IT Services, which ends up being charged to the unrestricted fund of their respective units.

Administrative and contributory costs of donations: Philanthropic partners may express interest in contributing to McGill's success with the understanding that their **donations** are managed in a particular way. Such management may entail administrative costs that are not necessarily captured in agreements between donors and the University. Donors may also wish to see the University provide resources to the initiative that their contribution supports. The University is working towards developing a framework to manage such requests.

Financial market risks: The University manages financial market risks through its Financial Risk Management Policy which is primarily concerned with three types of financial market risks: interest rate risk, foreign exchange risk and commodity risk (primarily related to energy). The Policy provides senior executives of the University with the authority to use derivative instruments to mitigate exposure to these risks.

APPENDIX 1: BUDGET AND FORECAST 2018-2019, UNRESTRICTED FUND, BEFORE RECLASSIFICATIONS

Unrestricted Fund ($000's)	2018-2019 Budget	2018-2019 Forecast	Change ($)	Change (%)
Revenue				
Grants- Québec	350,845	360,090	9,245	2.6%
Tuition & Fees	332,138	350,000	17,862	5.4%
Sales of Goods & Services	139,884	147,630	7,746	5.5%
Grants- Canada	30,438	30,970	532	1.7%
Investment and Interest Income	10,309	13,330	3,021	29.3%
Gifts & Bequests	7,249	9,490	2,241	30.9%
Total Revenue	**870,863**	**911,510**	**40,647**	**4.5%**
Expenses				
Salary:				
Salary-Academic	286,418	283,590	(2,828)	-1.0%
Salary-Administrative & Support	233,526	242,120	8,594	3.7%
Benefits	112,981	107,610	(5,371)	-4.8%
Student Aid	32,574	33,730	1,156	3.5%
Salary- Student	15,201	14,800	(401)	-2.6%
Adjustments to pay period	1,825	-	-	-
Total Salary	682,525	681,850	675	0.1%
Non-Salary:				
Building Occupancy Costs	32,709	44,310	11,601	35.5%
Materials, Supplies & Publications	29,288	34,470	5,182	17.7%
Contract Services	26,076	32,140	6,064	23.3%
Energy	18,213	19,540	1,327	7.3%
Cost of Goods Sold & Services Rendered	17,851	18,260	409	2.3%
Hardware and Software Maintenance	11,116	11,490	374	3.4%

Travel	9,356	11,170	1,814	19.4%
Professional Fees	10,491	10,590	99	0.9%
Interest and Bank Charges	3,720	2,870	(850)	-22.8%
Contributions to Partner Institutions	11,159	10,730	(429)	-3.8%
Other Non-Salary Expenses	46,897	29,030	(17,867)	-38.1%
Total Non-Salary	216,876	224,600	7,724	3.6%
Total Expenses	**899,401**	**906,450**	**8,399**	**0.9%**
Excess (deficiency) of revenue over expenses	**(28,538)**	**5,060**	**33,598**	**-**
Inter-fund Transfers				
(negative is a debit, positive is a credit)				
Inter-fund Transfers	13,503	(5,440)	(8,063)	-60%
(Capitalization) Decapitalization of Current Year Investment Income	(407)	(170)	237	-58.2%
Total Inter-fund Transfers	**13,096**	**(5,610)**	**(18,706)**	**-**
Increase (Decrease) in Net Assets	**(15,442)**	**(550)**	**14,892**	**-**
Net Assets, Beginning of Year	**(352,959)**	**(352,959)**	**-**	**-**
Net Assets, End of Year	**(368,401)**	**(353,509)**	**-**	**-**

Note: Those items are not included in the budget nor the forecast: (1) Unrealised gains (losses); (2) Book-to-Market Adjustments; (3) pension liability and post-employment benefit restatement; (4) accruals for vacation, pension obligation and post-employment benefits.

APPENDIX 2: BUDGET 2019-2020, UNRESTRICTED FUND, BEFORE RECLASSIFICATIONS

Unrestricted Fund ($000's)	2018-2019 Forecast	2019-2020 Budget	Change $
Revenue			
Grants- Québec	360,090	359,822	(268)
Tuition & Fees	350,000	358,037	8,037
Sales of Goods & Services	147,630	146,729	(901)
Grants- Canada	30,970	32,000	1,030
Investment and interest income	13,330	13,547	217
Gifts & Bequests	9,490	9,867	377
Total Revenue	**911,510**	**920,002**	**8,492**
Expenses			
Salary:			
Salary-Academic	283,590	294,096	10,506
Salary-Administrative & Support	242,120	251,084	8,964
Benefits	107,610	110,040	2,430
Student Aid	33,730	34,230	500
Salary-Student	14,800	15,130	330
Total Salary	681,850	704,580	22,730
Non-Salary:			
Building Occupancy Costs	44,310	43,130	(1,180)
Materials, Supplies & Publications	34,470	33,560	(910)
Contract Services	32,140	31,290	(850)
Energy	19,540	19,020	(520)
Cost of Goods Sold & Services Rendered	18,260	17,780	(480)
Hardware and Software Maintenance	11,490	11,190	(300)

Travel	11,170	10,870	(300)
Professional Fees	10,590	10,310	(280)
Interest and Bank Charges	2,870	2,790	(80)
Contributions to Partner Institutions	10,730	10,837	107
Other Non-Salary Expenses	29,030	27,873	(1,157)
Total Non-Salary	224,600	218,650	(5,950)
Total Expenses	**906,450**	**923,230**	**16,780**
Excess (deficiency) of revenue over expenses	**5,060**	**(3,228)**	**(8,288)**
Inter-fund Transfers			
(negative is a debit, positive is a credit)			
Inter-fund Transfers	(5,440)	(5,440)	-
Internal Loan Repayments			
(Capitalization) Decapitalization of Current Year Investment Income	(170)	-	170
Total Inter-fund Transfers	**(5,610)**	**(5,440)**	**170**
Increase (Decrease) in Net Assets	**(550)**	**(8,668)**	

Note: Those items are not included in the budget nor the forecast: (1) Unrealised gains (losses); (2) Book-to-Market Adjustments; (3) pension liability and post-employment benefit restatement; (4) accruals for vacation, pension obligation and post-employment benefits.

APPENDIX 3: BUDGET 2019-2020, UNRESTRICTED FUND, MULTI-YEAR OUTLOOK, FINANCIAL STATEMENTS PRO FORMA

Unrestricted Fund ($000's)	2016-2017 Actuals	2017-2018 Actuals	2018-2019 Forecast	2019-2020 Budget
Revenue				
Grants- Canada	28,865	28,422	30,970	32,000
Grants- Québec	313,869	337,809	360,090	359,822
Grants – United States	-	-	-	-
Grants -Other	-	-	-	-
Contracts	-	-	-	-
Tuition & Fees	294,314	319,673	350,000	358,037
Sales of Goods & Services	138,384	143,888	146,330	145,979
Gifts & Bequests	7,907	8,077	9,490	9,867
Foreign Exchange Gain	2,657	1,728	1,300	750
Investment and interest income	6,761	17,339	13,330	13,547
Unrealized Gains (Losses) (1)	4,979	(3,909)	-	-
Total Revenue	**797,736**	**853,027**	**911,510**	**920,002**
Expenses				
Salary:				
Salary-Academic	265,944	274,780	283,590	294,096
Salary-Administrative & Support	214,705	247,288	242,040	251,084
Student Aid	12,258	14,726	14,800	15,130
Salary-Student	30,055	32,269	33,730	34,230
Benefits	87,584	95,759	108,010	110,040
Total Salary	610,546	664,822	682,170	704,580
Non-Salary:				
Materials, Supplies & Publications	13,069	14,849	11,320	11,207
Contributions to Partner Institutions	11,983	10,298	10,730	11,266

Contract Services	14,303	14,066	21,735	19,561
Professional Fees	11,118	10,944	9,110	9,019
Travel	10,391	10,404	11,320	11,207
Cost of Goods Sold & Services Rendered	19,361	19,147	19,320	19,127
Building Occupancy Costs	22,702	29,712	41,345	39,691
Energy	18,743	18,535	19,470	19,275
Other Non-Salary Expenses	10,083	12,274	21,100	19,030
Hardware and Software Maintenance	9,925	11,070	11,480	11,365
Amortization	-	-	-	-
Interest and Bank Charges	2,145	2,370	2,870	2,841
Total Non-Salary	143,823	153,669	179,800	173,590
Total Expenses	**754,369**	**818,491**	**861,970**	**878,170**
Excess (deficiency) of revenue over expenses	43,367	34,536	49,540	41,832
Inter-fund Transfers				
(negative is a debit, positive is a credit)				
Net change in fund balance	-	-	-	-
Pension and Post-employment re-measurement	8,295	28,271	-	-
Inter-fund Transfers	5,755	(5,632)	(3,110)	(3,000)
Internal Loan Repayments	(7,539)	(4,706)	(4,420)	(5,000)
Capital purchases via inter-fund transfers	(38,204)	(39,051)	(40,060)	(40,000)
Over (under) Distributed Endowment Income	(1,285)	(3,306)	(2,500)	(2,500)
Book to Market Adjustment [1]	(4,979)	3,909	-	-
(Capitalization) Decapitalization of Current Year Investment Income	(378)	0	-	-
Total Inter-fund Transfers	**(38,335)**	**(20,515)**	**(50,090)**	**(50,500)**
Increase (Decrease) in Net Assets	**5,032**	**14,021**	**(550)**	**(8,668)**
Net Assets, Beginning of Year	**(324,965)**	**(319,933)**	**(305,912)**	**(306,462)**
Net Assets, End of Year	**(319,933)**	**(305,912)**	**(306,462)**	**(315,130)**

Note: [1] Unrealised gains (losses) and the offsetting Book-to-Market Adjustment are not forecasted or budgeted.

APPENDIX 4: BUDGET 2019-2020, RESTRICTED FUND, MULTI-YEAR OUTLOOK, FINANCIAL STATEMENTS PRO FORMA

Restricted Fund ($000's)	2016-2017 Actuals	2017-2018 Actuals	2018-2019 Forecast	2019-2020 Budget
Revenue				
Grants- Canada	162,109	160,983	168,546	173,603
Grants- Québec	43,186	35,134	36,782	37,885
Grants – United States	6,440	6,100	6,,386	6,578
Grants -Other	36,352	48,071	50,325	51,835
Contracts	17,363	16,264	17,027	17,538
Tuition & Fees	-	-	-	-
Sales of Goods & Services	6,379	7,164	7,500	7,725
Gifts & Bequests	51,662	45,237	47,358	48,779
Foreign Exchange Gain	-	-	-	-
Investment and interest income	48,909	66,051	69,149	71,223
Unrealized Gains (Losses) (1)	-	13	-	-
Total Revenue	**372,400**	**385,017**	**403,073**	**415,165**
Expenses				
Salary:				
Salary-Academic	68,805	72,225	78,716	81,077
Salary-Administrative & Support	23,905	25,330	27,606	28,435
Student Aid	25,126	25,104	27,360	28,181
Salary-Student	81,447	86,348	94,108	96,931
Benefits	17,711	21,053	22,945	23,633
Total Salary	216,994	230,060	250,736	258,258
Non-Salary:				
Materials, Supplies & Publications	28,829	30,592	30,023	30,923
Contributions to Partner Institutions	39,239	32,273	31,672	32,622
Contract Services	10,956	8,638	8,477	8,732

Professional Fees	11,739	12,602	12,367	12,738
Travel	17,069	16,899	16,584	17,082
Cost of Goods Sold & Services Rendered	-	-	-	-
Building Occupancy Costs	4,540	5,218	5,121	5,274
Energy	561	523	513	529
Hardware and Software Maintenance	526	913	896	923
Amortization	-	-	-	-
Interest and Bank Charges	2	3	3	3
Other Non-Salary Expenses	27,255	29,578	29,027	29,898
Total Non-Salary	140,716	137,239	134,684	138,725
Total Expenses	**357,310**	**367,299**	**385,420**	**396,983**
Excess (deficiency) of revenue over expenses	**14,690**	**17,718**	**17,653**	**18,183**
Inter-fund Transfers				
(negative is a debit, positive is a credit)				
Net change in fund balance	-	-	-	-
Inter-fund Transfers	10,713	(1,008)	(1,004)	(1,000)
Internal Loan Repayments	(11,719)	(3,490)	(3,477)	(4,000)
Capital purchases via inter-fund transfers	(13,684)	(13,220)	(13,171)	(13,000)
Over (under) Distributed Endowment Income	-	-	-	-
Book to Market Adjustment [1]	-	-	-	-
(Capitalization) Decapitalization of Current Year Investment Income	-	-	-	-
Total Inter-fund Transfers	**(14,690)**	**(17,718)**	**(17,652)**	**(18,000)**
Increase (Decrease) in Net Assets	**-**	**-**	**-**	**183**
Net Assets, Beginning of Year	**(119)**	**(119)**	**(119)**	**(119)**
Net Assets, End of Year	**(119)**	**(119)**	**(119)**	**(64)**

Note:: [1] Unrealised gains (losses) and the offsetting Book-to-Market Adjustment are not forecasted or budgeted.

APPENDIX 5: PRO-BUDGET 2019-2020, PLANT FUND, MULTI-YEAR OUTLOOK, FINANCIAL STATEMENTS PRO FORMA

Plant Fund ($000's)	2016-2017 Actuals	2017-2018 Actuals	2018-2019 Forecast	2019-2020 Budget
Revenue				
Grants- Canada	15,616	15,572	8,697	19,258
Grants- Québec	54,301	58,295	62,721	64,602
Grants – United States	-	-	-	-
Grants -Other	-	-	-	-
Contracts	-	-	-	-
Tuition & Fees	-	-	-	-
Sales of Goods & Services	413	322	258	266
Gifts & Bequests	6,094	6,066	5,942	6,120
Foreign Exchange Gain	-	-	-	-
Investment and interest income	2,810	2,814	(4,685)	-
Unrealized Gains (Losses) (1)	(2,525)	5,141	-	-
Total Revenue	**76,709**	**88,210**	**82,933**	**90,247**
Expenses				
Salary:				
Salary-Academic	-	-	-	-
Salary-Administrative & Support	-	-	-	-
Student Aid	-	-	-	-
Salary-Student	-	-	-	-
Benefits	-	-	-	-
Total Salary	-	-	-	
Non-Salary:				-
Materials, Supplies & Publications	-	-	-	-
Contributions to Partner Institutions	-	-	-	-
Contract Services	-	-	-	-

Professional Fees	-	-	-	-
Travel	-	-	-	-
Cost of Goods Sold & Services Rendered	-	-	-	-
Building Occupancy Costs	-	-	-	-
Energy	-	-	-	-
Hardware and Software Maintenance	-	-	-	-
Amortization	115,475	127,122	137,699	141,830
Interest and Bank Charges	34,218	35,403	35,230	36,287
Other Non-Salary Expenses	2,303	456	429	442
Total Non-Salary	151,996	162,981	173,357	178,558
Total Expenses	**151,996**	**162,981**	**173,357**	**178,558**
Excess (deficiency) of revenue over expenses	**(75,287)**	**(74,771)**	**(67,564)**	**(64,765)**
Inter-fund Transfers				
(negative is a debit, positive is a credit)				
Gift In-Kind	731	542	-	-
Inter-fund Transfers	453	396	323	319
Internal Loan Repayments	19,258	8,196	7,897	9,000
Capital purchases via inter-fund transfers	51,888	52,271	53,231	53,000
Over (under) Distributed Endowment Income	-	-	-	-
Book to Market Adjustment [1]	-	-	-	-
(Capitalization) Decapitalization of Current Year Investment Income	-	-	-	-
Total Inter-fund Transfers	**72,330**	**61,405**	**61,451**	**62,319**
Increase (Decrease) in Net Assets	**(2,957)**	**(13,366)**	**(28,973)**	**(25,992)**
Net Assets, Beginning of Year	**261,967**	**259,010**	**245,644**	**216,671**
Net Assets, End of Year	**259,010**	**245,644**	**216,671**	**190,679**

APPENDIX 6: BUDGET 2019-2020, ENDOWMENT FUND, MULTI-YEAR OUTLOOK, FINANCIAL STATEMENTS PRO FORMA

Endowment Fund ($000's)	2016-2017 Actuals	2017-2018 Actuals	2018-2019 Forecast	2019-2020 Budget
Revenue				
Total Revenue	-	-	-	-
Expenses				
Total Expenses	-	-	-	-
Excess (deficiency) of revenue over expenses	-	-	-	-
Inter-fund Transfers				
(negative is a debit, positive is a credit)				
Net change in fund balance	187,564	(23,526)	28,889	29,467
Endowment contributions and gifts in kind	-	23,390	36,681	-
Inter-fund Transfers	(16,921)	6,244	3,791	3,681
Internal Loan Repayments	-	-	-	-
Capital purchases via inter-fund transfers	-	-	-	-
Over (under) Distributed Endowment Income	1,285	3,306	2,500	2,500
Book to Market Adjustment (1)	4,979	(3,909)	-	-
(Capitalization) Decapitalization of Current Year Investment Income	378	-	-	-
Total Inter-fund Transfers	**177,285**	**5,505**	**71,861**	**35,648**
Increase (Decrease) in Net Assets	**177,285**	**5,505**	**71,861**	**35,648**
Net Assets, Beginning of Year	**1,422,156**	**1,599,441**	**1,604,946**	**1,676,807**
Net Assets, End of Year	**1,599,441**	**1,604,946**	**1,676,807**	**1,712,455**

APPENDIX 7: BUDGET 2019-2020, ALL FUNDS, FINANCIAL STATEMENT PRO FORMA

For the twelve month period ending: April 30, 2020 ($ 000's)					
	Unrestricted Fund	**Restricted Fund**	**Plant Fund**	**Endowment Fund**	**All Funds**
Revenue					
Grants					
Canada	32,000	173,603	19,258	-	224,861
Québec	359,822	37,885	64,602	-	462,309
United States	-	6,578	-	-	6,578
Other Sources	-	51,835	-	-	51,835
Contracts	-	17,538	-	-	17,538
Tuition & Fees	358,037	-	-	-	358,037
Sales of Goods & Services	145,979	7,725	266	-	153,970
Gifts & Bequests	9,867	48,779	6,120	-	64,767
Foreign Exchange Gain	750	-	-	-	750
Investment and Interest Income	13,547	71,223	-	-	84,770
Unrealized Gains (Losses) (1)	-	-	-	-	-
Total Revenue	**920,002**	**415,165**	**90,247**	**-**	**1,425,414**
Expenses					
Salary:					
Academic	294,096	81,077	-	-	375,173
Administrative & Support	251,084	28,435	-	-	279,519
Student	15,130	28,181	-	-	43,311
Student Aid	34,230	96,931	-	-	131,161
Benefits	110,040	23,633	-	-	133,673
Total Salary	704,580	258,258	-	-	962,838
Non-Salary:					
Materials, Supplies & Publications	11,207	30,923	-	-	42,130
Contributions to Partner Institutions	11,266	32,622	-	-	43,888

Contract Services	19,561	8,732	-	-	28,293
Professional Fees	9,019	12,738	-	-	21,757
Travel	11,207	17,082	-	-	28,289
Cost of Goods Sold & Services Rendered	19,127	-	-	-	19,127
Building Occupancy Costs	39,691	5,274	-	-	44,966
Energy	19,275	529	-	-	19,804
Other Non-Salary Expenses	19,030	29,898	442	-	49,370
Hardware and Software Maintenance	11,365	923	-	-	12,288
Amortization	-	-	141,830	-	141,830
Interest and Bank Charges	2,841	3	36,287	-	39,131
Total Non-Salary	173,590	138,725	178,558	-	490,873
Total Expenses	**878,170**	**396,983**	**178,558**	**-**	**1,453,710**
Excess (deficiency) of revenue over expenses	**41,832**	**18,183**	**(88,311)**	**0**	**(28,297)**
Inter-fund Transfers					
(negative is a debit, positive is a credit)					
Net change in fund balance	-	-	-	29,467	29,467
Pension Liability and Post-Employment re-measurements	-	-	-	-	-
Inter-fund Transfers	(3,000)	(1,000)	319	3,681	-
Internal Loan Repayments	(5,000)	(4,000)	9,000	-	-
Capital purchases via inter-fund transfers	(40,000)	(13,000)	53,000	-	-
Over (under) Distributed Endowment Income	(2,500)	-	-	2,500	-
Book to Market Adjustment (1)	-	-	-	-	-
(Capitalization) Decapitalization of Investment Income	-	-	-	-	-
Total Inter-fund Transfers	**(50,500)**	**(18,000)**	**62,319**	**35,648**	**29,467**
Increase (Decrease) in Net Assets	**(8,668)**	**183**	**(25,992)**	**35,648**	**1,170**
Net Assets, Beginning of period	**(306,462)**	**(119)**	**216,671**	**1,676,807**	**1,586,897**
Net Assets , end of period	**(315,130)**	**64**	**190,679**	**1,712,455**	**1,588,067**

APPENDIX 8: UNIVERSITY SIGNIFICANT ACCOUNTING POLICIES

The University's audited financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") using the deferral method.

The following significant accounting policies are included in the annual audited Financial Statements of the University:

1. Revenue Recognition

The University follows the deferral method of accounting for contributions, which include **gifts** and **bequests**, contracts and government grants. Research grants are recognized as **revenue** in the year in which related **expenses** are recognized.

Interest and dividend **revenue** is recorded on an **accrual** basis. Realized gains or losses on sales of **investments** are recorded when securities are sold based on the cost. Unrealized gains and losses related to the change in market value are recorded as **investment** income.

2. Capital assets

Capital assets are recorded at cost. Purchases made using **restricted funds** are **capitalized** directly in the **Plant Fund. Restricted Fund contributions** will be recorded in the **Plant Fund** as deferred contributions and recognized as **revenue** simultaneous to the **amortization expense**. 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.

3. Grants receivable

Under GAAP, these amounts meet the criteria of an **asset.** An offsetting liability is recorded as a corresponding deferred contribution.

4. Pledges

Donation pledges are not recognized until received and are disclosed in the notes to the financial statements, consistent with other Canadian Universities and accounting standards for not-for-profit organizations.

5. Discounting of Long-Term Grants Receivable

Under GAAP, long-term receivables are discounted to their present value. A rate based on risk of the counter party will be agreed to.

6. Deferral of Research and Capital Grants

Under the deferral method, unspent research and capital **grants** are recorded as deferred contributions, rather than as **grant revenue**. **Revenue** recognition occurs in the year as related **expenses** are incurred.

7. Long-term debt

Long-term debt is presented at the gross value of all outstanding debt.

8. Unused Vacation Days, Post-Retirement Benefit Obligations, and Accrued Pension Liabilities

In the case of unused vacation days, post-retirement benefit obligations, and accrued pension liabilities, **accruals** are recorded over the periods of service. An actuarial accounting valuation is performed annually at year-end to determine the amounts related to the pension liability and the post-employment benefit obligation. The valuation will use estimates and assumptions as agreed to by management. The tri-annual actuarial valuation for the pension plan was last performed as at December 31, 2017.

APPENDIX 9: GLOSSARY

Accrual: The **accrual** accounting method 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.**

Activity: Production under the responsibility, control and management of an institutional units, that uses inputs of labour, capital, and goods and services to produce outputs of goods and services.

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.

Asset: A tangible or intangible item of positive value to the University (e.g., cash, government receivables, a building, or a piece of equipment).

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.

Budget Reclassification: Action of moving **budget** from one **budget expense** category to another one. This typically happen throughout the **fiscal year** when a global amount for a given initiative is budgeted but the detailed breakdown is not yet available. Often, the **budget** will be classified in a residual **budget expense** category (e.g., other non-salary **expenses**).

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.**

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.

Expense: Decreases in economic resources, either by way of outflows or reductions of **assets** or incurrences of liabilities, resulting from an entity's ordinary **revenue** generating or service delivery **activities**.

Fiscal Year (FY): Twelve consecutive months used for accounting purposes. As of 2011-2012 the 12-month financial year starts on May 1 and ends on April 30.

Forfaitaire: (also called tuition supplement) 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.

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 Québec 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, grants, 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 Québec 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-track: Academic appointment that includes future consideration for **tenured** status.

Unrestricted Fund: Fund containing unrestricted **revenue** to be used primarily to fund **activities** supporting the core teaching and research activities. The University can allocate unrestricted **revenue** at its discretion, subject to legislation and government regulation. University **revenue** are primarily from **grants**, tuition and fees, overhead on research **grants**, **Investment** and endowment income, and annual **gifts.** The Unrestricted Fund covers most operating expenses, and is used as the residual source of funding for capital projects and repayment of financial liabilities when no other source of funding is available.

Year-End Audit Adjustments: Costs related to major institutional obligations – unused vacation days, post-retirement benefit obligations, and accrued pension liabilities – for which we are required to record **accruals** over the periods of service. These three adjustments explain the difference between the GAAP **Accumulated Deficit** and the University Financed **Accumulated Deficit.** These adjustments are also excluded from the calculation of annual operating results in determining eligibility for the provincial **conditional grant.**