Report of the Audit Committee GD15-06

Board of Governors meeting October 8, 2015

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The following items arise from the Audit Committee meeting of October 5, 2015 and are presented to the Board of Governors for its consideration. The report is presented by Governor Michael Boychuk, Chair, Audit Committee.

I. FOR ACTION BY THE BOARD OF GOVERNORS

1. 2014-15 Financial Report to the Board of Governors including Audited Financial Statements on the Fiscal Year ended April 30, 2015 [AD15-02 to AD15-04]

The Audit Committee received an analysis of the financial statements prepared by management, as well as a presentation on some of the highlights of the Financial Report to the Board of Governors. The Committee, in the presence of Deloitte, the external auditors, reviewed the draft audited financial statements for the year ended April 30, 2015.

The Audit Committee received from the external auditors, the external audit report concerning the audit of the financial statements for the year ended April 30, 2015. The external auditors confirmed their opinion that the financial statements present fairly and in all material respects the financial position of the University at April 30, 2015, and that this opinion is without qualification.

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

By resolution, the Committee recommended to the Board of Governors approval of the Auditor's Report and Audited Financial Statements for the fiscal year ending 30 April 2015.

> *Be it resolved that the Board of Governors, on the recommendation of the Audit Committee, approve the 2014-2015 Annual Financial Report to the Board of Governors including the external auditor's report and Audited Financial Statements of The Royal Institution for the Advancement of Learning/McGill University for the year ended April 30, 2015.*

To assist in the review of these statements, the Financial Report to the Board of Governors has been distributed as Appendix A and contains the draft audited financial statements. A supplementary PowerPoint is attached as Appendix B.

2. Extension of Appointment of External Auditors for FY 2016 [AD15-05]

At its meeting on January 31, 2012, the Board of Governors approved the appointment of Deloitte as the University's external auditors for fiscal years ending April 30, 2012, 2013 and 2014, with an option to extend Deloitte's contract up to two additional years.

In accordance with the January 31, 2012 approval, the Committee recommends that the Board extend the appointment of Deloitte as McGill University's external auditors for the fiscal year ending April 30, 2016. This recommendation constitutes the last proposed extension of Deloitte's contract with McGill. A Call for Tenders for audit services for fiscal year starting 2017 will be issued by the University in the near future.

> *Be it resolved that the Board of Governors, on the recommendation of the Audit Committee, approve the extension of the appointment of Deloitte as external auditors of The Royal Institution for the Advancement of Learning/McGill University for the fiscal year ending April 30, 2016.*

I. FOR INFORMATION OF THE BOARD OF GOVERNORS

1. Declaration of Compliance to August 31, 2015 [AD15-01]

In accordance with the Committee's terms of reference, members received a declaration of compliance to August 31, 2015. Members were informed that the University was in compliance with all applicable laws and regulations.

2. Report on Quarterly Financial Results for Fiscal Period Ended July 31, 2015 and Variance Report [AD15-06]

The Committee received a quarterly report on the financial results for the period ended on July 31, 2015 and variance reports.

3. Progress Report on Internal Audits [AD15-07]

The Committee received a progress report on internal audits which have been recently completed and those underway. Members were also briefed on the status of action items from previous audits carried out by Internal Audit.

4. Update on Implementation of Tri-Agency Monitoring Visit and Recommendations [AD15-08]

The Committee was updated on the status of implementing recommendations arising from a monitoring visit conducted by the Tri-Agency in 2010. Members were told that the University was continuing to implement recommendations of the Tri-Agency. The next monitoring visit is planned for February 2016.

5. Report on Signing Authority over $4 million [AD15-09]

In accordance with its terms of reference, the Committee received an annual report on signing authority over $4 million for the year 2014-15.

6. Compensation Policies and Addressing Questions from Government

The Committee was apprised of requests for information concerning executive compensation policy and practices that the provincial government has made to the University. The Committee was apprised of McGill's compensation practices at as they relate to provincial legislation.

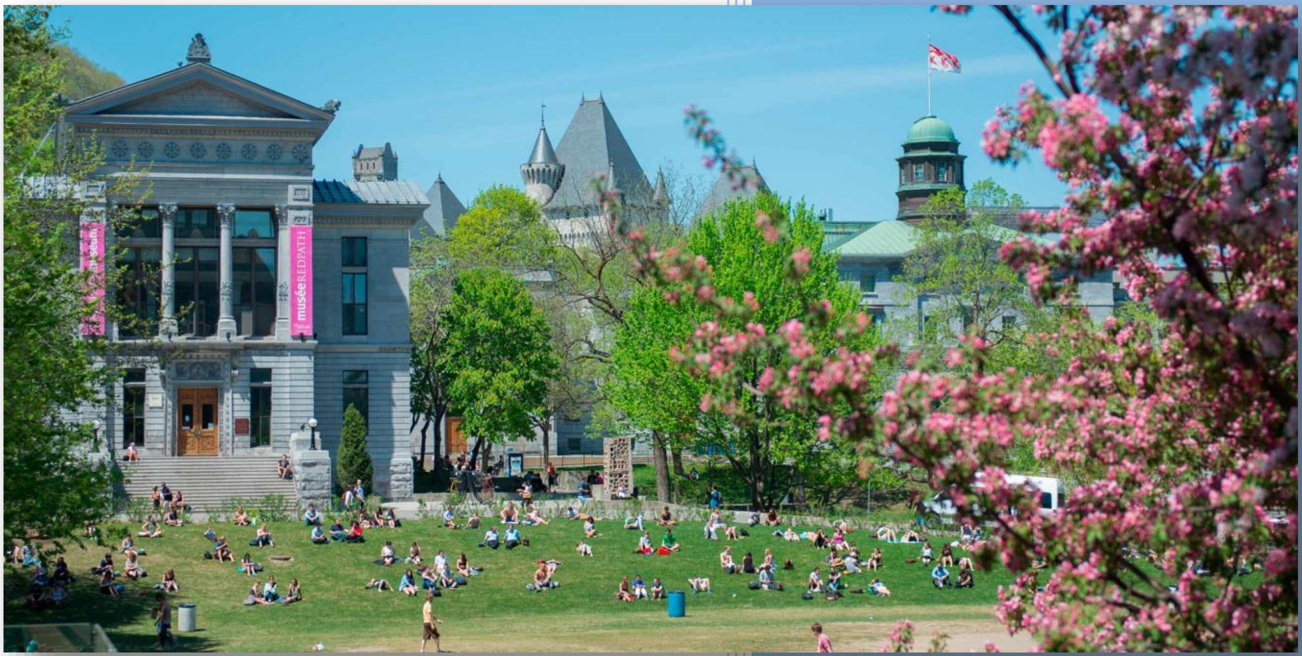
7. Audit Committee Orientation Package: 2015-16

The Committee received an orientation package for the 2015-16 governance year, containing updated reference documents for the Committee's information.

END OF REPORT
October 2015

2014-2015

DRAFT: Annual Financial Report to the Board of Governors



Vice-Principal, Administration and Finance

McGill University

The Mission of McGill University is the advancement of learning through teaching, scholarship and service to society by offering to outstanding undergraduate and graduate students the best education available, by carrying out scholarly activities judged to be excellent when measured against the highest international standards, and by providing service to society in those ways for which we are well-suited by virtue of our academic strengths.

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PART I

Financial Report to the Board of Governors

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.

This report provides a summary of the operational and financial activities of The Royal Institution for the Advancement of Learning/McGill University ("McGill") for the twelve month fiscal period ended April 30, 2015 and includes the audited financial statements of the University as at April 30, 2015, prepared in accordance with Generally Accepted Accounting Principles (GAAP). Our auditors, Deloitte, are prepared to provide a clean opinion further to the Board approval. Section 2 of this Report includes a "Financial Highlights" section, providing more detailed information on the audited financial statements.

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

McGill's overall balance sheet incorporates all assets, liabilities and Net Asset balances as previously reflected, and also includes the assets and liabilities held in trust. In addition, GAAP changes have resulted in recognition of amounts due from the Ministère de l'Éducation, de L'Enseignement Supérieur et de la Recherche (MEESR; previously MESRS) with respect to capital assets which were previously not recorded as a receivable. The overall liabilities also reflect deferred revenue contributions (as described above) which are amortized into income in the future, and liabilities related to vacation, pension, and future employee benefits. The majority of the Long-Term Assets consists of buildings and equipment, and its Net Asset balance is represented as "Investments in Capital Assets." The Endowment related Net Assets balance contains the total investments held in perpetuity for the purpose of earning income for spending, as designated by the respective donors and are considered externally restricted. See Section 2 for more details.

Section 1 of this report includes highlights relating to our students and our professoriate.

1. OPERATIONAL HIGHLIGHTS

OVERALL PERFORMANCE

McGill continues to distinguish itself from peer institutions, as indicated by the following performance highlights from FY 2014-2015:

- The editors of Canada's Top 100 Employers named McGill one of Montreal's Top Employers for the seventh consecutive year. Université de Montréal was the only other university on the list, although the MUHC was also picked a Top Employer. McGill was selected in part because of tuition subsidies to encourage employees to continue their educations, academic scholarships to children of employees, subsidized gym memberships, retirement planning assistance and maternity and parental leave top-up payments.

- McGill maintained its #21 spot in the annual QS World University rankings. This marks the eleventh consecutive year that McGill placed in the QS top 25.

- For the tenth consecutive year, *Maclean's* magazine ranked McGill as the number-one Canadian medical-doctoral programs. Notably, McGill has only the 12th-highest operating budget, as weighted by full-time equivalent student.

- McGill placed 39th in the Times Higher Education World University Rankings, compared to 35 the previous year. McGill, UBC and the University of Toronto are the only Canadian universities in the global top 40.

- In December 2014, Standard & Poor's Ratings Services re-affirmed McGill's credit rating as AA- (stable).

- In March 2015, Moody's Investor Service re-affirmed McGill's credit rating as Aa2 (stable).

- McGill placed 67th in the Academic Rankings of World Universities (also known as the Shanghai Rankings), compared to 58th place last year.

OPERATING HIGHLIGHTS:

- Enrolment (Fall 2014) at 39,497 students; +0.38% over Fall 2013; + 8.1 over Fall 2010

- Tenure Track Academics total approximately 1,654; net change of + 307 over the fiscal periods 2002 to 2015

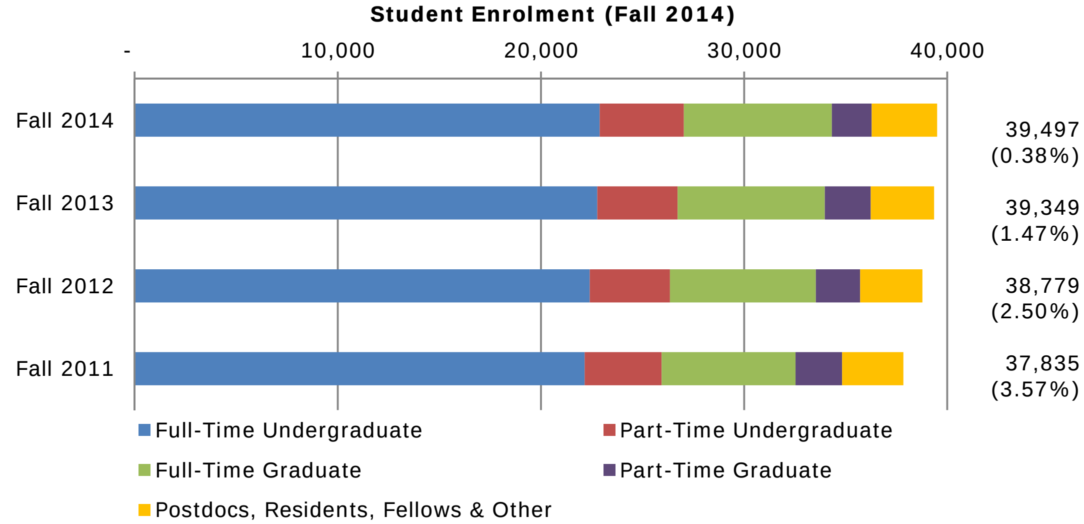
- Approximately 1,100 academic hires over the period 2003 to 2015

STUDENTS

Total student enrolment at McGill in Fall 2014 almost reached the 40,000 mark between its downtown and Macdonald campuses. The majority of the students (76%) are enrolled in full-time undergraduate and graduate programs, as highlighted in the chart below.

Part-time undergraduate and graduate students represent 15%, while the remaining 8% of the population are students associated with post-doctoral studies, medical residents and fellows and other categories of students. Graduate students (full and part-time) accounted for 23% of the total.

Overall, enrolment grew by 0.4% year-over-year (prior year: 0.38%), as highlighted below:



Source: McGill Enrolment Services/Planning and Institutional Analysis

The total student enrolment is distributed amongst our 11 Faculties and our School of Continuing Studies, as depicted in the table below outlining Fall 2014 enrolments.

Enrolment by Faculty (Full-time and Part-time) – Fall 2014

	# of Students	Percentage of Student Population
Agricultural & Environmental Sciences	1,981	5.0%
Arts	8,672	22.0%
Arts & Science (B.A. & B.Sc.)	638	1.6%
School of Continuing Studies	4,578	11.6%
Dentistry	260	0.7%
Education	2,667	6.8%
Engineering	4,615	11.7%
Law	889	2.3%
Medicine(i)	5,593	14.2%
Desautels Faculty of Management	3,082	7.8%
Schulich School of Music	873	2.2%
Religious Studies	107	0.3%
Science	5,542	14.0%
	39,497	100.0%

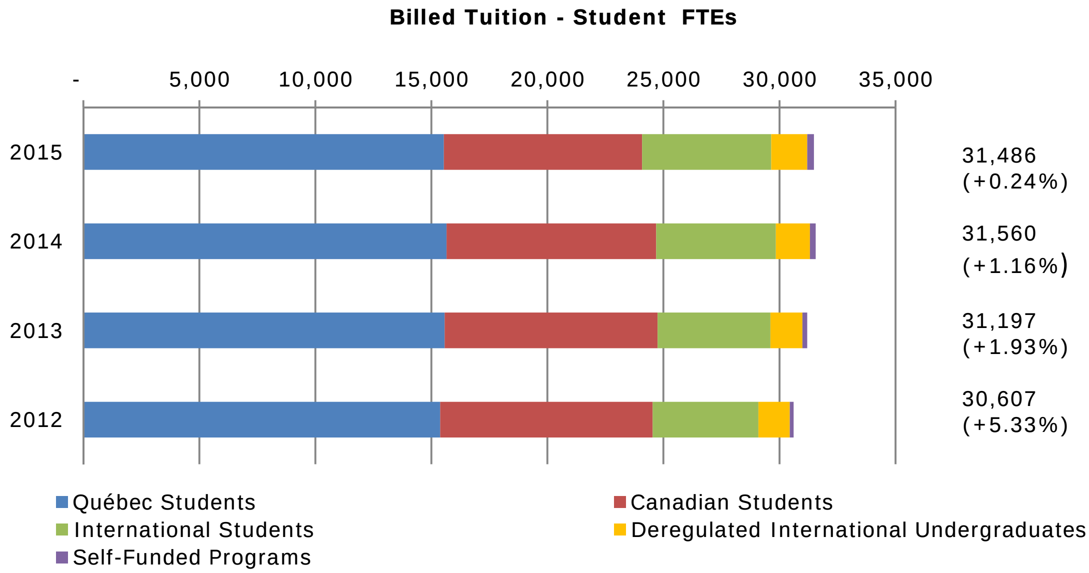
Source: McGill Enrolment Services/ Planning and Institutional Analysis

(i) Total enrolment in Medicine includes 940 undergraduate students registered in the Ingram School of Nursing and the School of Physical and Occupational Therapy (i.e. Bachelor of Nursing, BSC – Rehabilitation Science, and BSC – Nursing). The rest of the undergraduate class account for 765 students, those in the graduate program total 2,172 students, post-docs total 355 students, and residents and fellows make up the remaining 1,361 students.

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

The MEESR funding model funds students at various amounts based on their discipline of study. For example, in fiscal 2015, an undergraduate student in Arts (classified as *Lettres* by MEESR) is currently funded at an annual amount of $5,126. On the other hand, an undergraduate student in Dentistry (classified as *Médicine dentaire* by MEESR) is currently funded at $29,349 per year.

Tuition and Fees



Source: McGill Financial Services

Overall, the total numbers of full-time equivalent (FTE) students was below budget by approximately 2.37%. The overall number of international FTEs (excluding those exempt from the supplement) increased by 5.83% to 5,222 (compared to a budget of 5,063) from 4,935 in the prior year.

The tuition fee (regulated by MEESR) for a full-time Québec student in 2014-15 was $2,273 ($75.77 per credit), an increase of 2.2% from 2013-2014. The fee for a full-time out-of-province Canadian student was $6,641 ($221.36 per credit including supplements), a 6.5% increase from 2013-14. The fee for an International student in 2014-15 ranged from $15,348 ($511.59 per credit) to $37,750 (for MBA) including supplements, depending on the program. Currently, MEESR regulations require all Canadian Masters students to pay the out-of-province supplement, while Canadian Ph.D. students are exempt.

Since 2013-14, fee increases for regulated tuition have been limited to a cost of living index based on the “change in household disposable income for Quebec residents” (2.2% increase in the Quebec base rate of tuition in 2014-15 based on the reference period for this index of 2011-2012). These tuition amounts include amounts required to be contributed to by the Province’s financial aid regime.

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

All tuition fee supplements paid to McGill University by Canadian and International students are deducted from the University’s operating grant. The total supplements deducted from our operating grants amounted to $72.2 million (2014: $83.1 million), representing 31% of all tuition collected. The government does provide a limited number of differential fee waivers for international students at the Graduate level which are administered through the Graduate & Postdoctoral Studies Office.

As well, students from “francophonie” countries are exempt from paying the supplements further to bilateral agreements between Québec and those countries. All MBA (except students admitted prior to 2010), certain specialized Masters in Management programs and a small number of students registered in distance programs outside of Quebec pay a self-funded tuition rate.

In fiscal 2008, the government permitted the deregulation of international tuition relating to specific undergraduate disciplines, including Management, Science, Engineering, Law, Mathematics and Computer Science. All other international tuition fees in excess of the Québec (regulated) basic tuition fee ($2,273) are effectively remitted in their entirety to the Québec government via a "claw-back" supplement in the annual operating grants.

MEESR has defined *Frais Institutionnels Obligatoires* (FIOs), which essentially represent those administrative fees charged by universities to students in addition to tuition. MEESR’s objective was to limit the annual increase in these fees, based on the total of all these fees. In the past, McGill FIOs did not include “fees” charged to graduate students for additional sessions and at the same time, McGill considered these charges as tuition and not fees. However, MEESR has dictated otherwise and required a change in how these students are charged. The annual increase for McGill in 2014-15 was limited to 2.2%, unless specific agreements are acknowledged by both McGill and the affected student groups/representatives.

The total “FIO’s” revenue amounted to $32.9 million (2014: $32.4 million). In addition to FIOs, other student fees charged for non-credit courses, student services, Athletics, and other activities totaled $21.9 million (2014: $21.0 million). These fees, combined with tuition, totaled $258.5 million (2014: $245.2 million) and represent 33.3% (2014: 32.0%) of operating revenues.

Academic Program Developments

During the year, a number of teaching program developments were reviewed and approved by the University (this list does not include programs requiring approval by MEESR):

New programs by Faculties

Agricultural and Environmental Studies	B.Sc. (Ag. Env. Sc.) B. Sc. (F.Sc.) B. Eng. (Bioresource)	Agribusiness Entrepreneurship, Minor (18 cr.) Agribusiness Entrepreneurship, Minor (18 cr.) Agribusiness Entrepreneurship, Minor (18 cr.)
Arts	B.A. M. S.W. M. Ist.	Medieval Studies, Minor (18 cr.) Gender and Women's Studies, Non-thesis (45 cr.) Project, Non-thesis (48 cr.) Graduate Certificate in Digital Archives Management (15 cr.) Graduate Certificate in Information and Knowledge Management (15 cr.)
School of Continuing Studies		Professional Development Certificate in English for Healthcare (20 CEUs) Professional Development Certificate in English for Social Services (20 CEUs) Professional Development Certificate in English for Healthcare Administration (20 CEUs) Diploma in Entrepreneurship (30 cr.) Professional Development Certificate in Project Management (32.5-44.5 CEUs)
Management	B. Com.	General Management; Concentration in Information Systems - Digital Innovation (15 cr.)
Medicine	M.Sc.	Family Medicine; Bioethics (45 cr.) Family Medicine; Medical Education (45 cr.)
Science	Bsc.	Chemistry; Measurement, Major (62 cr.) Chemistry; Measurement, Honours (74 cr.)

Program retirements by Faculties

Arts	M.A.	Sociology; Social Statistics; Non-Thesis (45 cr.)
School of Continuing Studies		Certificate in Condominium Management (16 CEUs) Certificat en gestion de copropriété (16 CEUs) Diploma in Management; Operations Management (30 cr.) Graduate Certificate in Operations Management (15 cr.) Graduate Certificate in Health Management (15 cr.) Graduate Certificate in Health Care
Education		Certificat d'Études Supérieures en enseignement immersif (15 cr.) Certificate in Education for First Nations and Inuit Physical Education (60 cr.)
Management	B. Com,	General Management; Concentration in Information Systems (15 cr.)
Medicine	M.Sc.	Experimental Medicine; Family Medicine (45 cr.)
	M. Eng.	Biomedical Engineering; Bioinformatics (45 cr.)
	Ph.D.	Biomedical Engineering; Bioinformatics (0 cr.)

Source: Office of the Deputy Provost (Student Life and Learning)

Graduation

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

Graduation	2013-2014	2012-2013
Undergraduate	5,767	5,863
Masters	1,716	1,624
Doctoral	475	483
Certificates & Diplomas (Grad)	747	646
CE Non-credit Certificates	225	228
	8,930	8,844

Degrees Awarded, by Faculty	2013-2014	2012-2013
Agricultural & Environmental Sciences	490	489
Arts	2,079	1,977
Arts & Science (B.A. & Sc.)	115	124
School of Continuing Studies	1,165	1,089
Dentistry	71	72
Education	649	750
Engineering	862	858
Law	226	210
Medicine	999	970
Desautels Faculty of Management	805	820
Schulich School of Music	205	206
Religious Studies	13	10
Science	1,251	1,269
	8,930	8,844

Source: McGill Enrolment Services/ Planning and Institutional Analysis

International Students

In 2014, McGill welcomed over 9,500 International students from a variety of countries around the world, of whom 83% are from the countries listed below.

International Students - Full-time and Part-time Top 20 Countries	Fall 2014
1. USA	2,238
2. France	1,578
3. China	1,331
4. India	443
5. Saudi Arabia	315
6. South Korea	262
7. United Kingdom	223
8. Pakistan	209
9. Iran	188
10. Turkey	156
11. Japan	144
12. Germany	140
13. Bangladesh	119
14. Mexico	115
15. Brazil	102
16. Australia	91
17. Italy	82
18. Egypt	77
19. Lebanon	69
20. Taiwan	67
Sub-total:	7,949

Source: McGill Enrolment Services/ Planning and Institutional Analysis

Student Mobility and Student Exchange Programs

The student mobility and exchange programs, approved by Senate, include the following:

New student exchange partnerships - general:

- University of Maryland, USA
- University of Cape Town, South Africa
- University of Bologna, Italy (expansion of our current agreement)
- Shanghai Jiao Tong University, PRC (expansion of our current agreement)
- King's College London, UK
- London School of Economics, UK
- Paris I Panthéon-Sorbonne, France
- Università di Roma, Sapienza, Italy
- Durham University, UK

New student exchange partnerships - faculty:

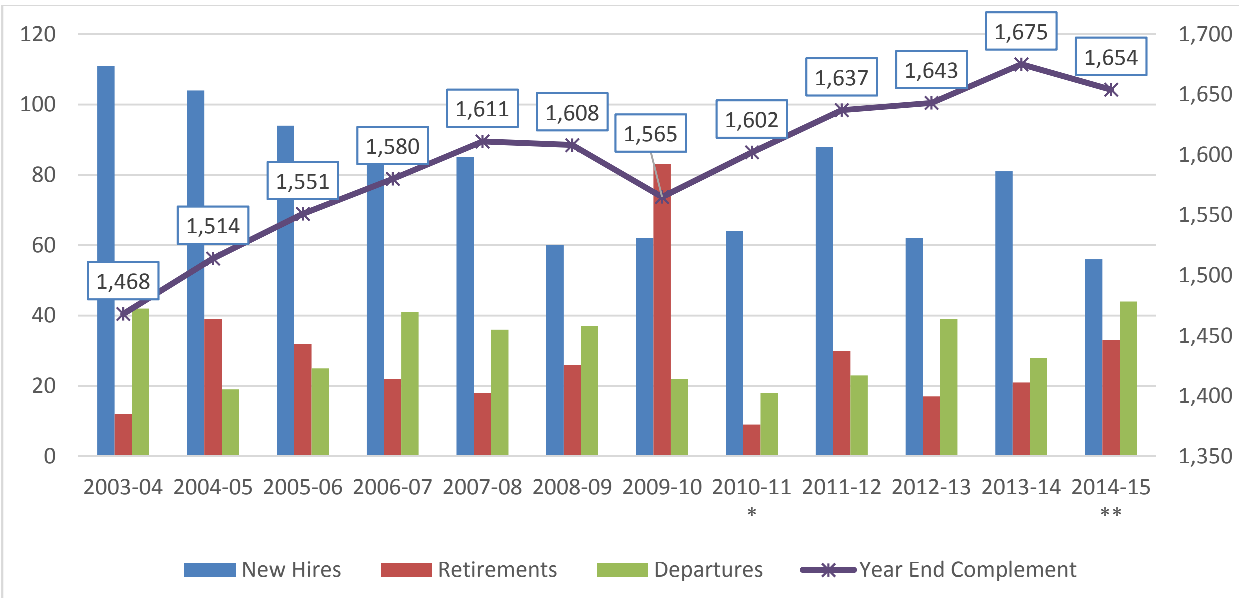
- The School of Oriental and African Studies, University of London, UK (Arts)
- Fundaçao Getulio Vargas – EBAPE, Brazilian School of Public and Business Administration, Brazil (Management)
- Católica Lisbon School of Business and Economics, Portugal (Management)
- Università degli studi di Trento, Facoltà di Giurisprudenza (Law)
- Panthéon-Assas Paris II, France (Law)
- Université Pierre Mendes-France Grenoble II, France (Law)
- Aix-Marseilles Université, France (Law)
- Université Laval (McGill Institute for the Study of Canada)

Source: Office of the Deputy Provost (Student Life and Learning)

TENURE-TRACK ACADEMIC STAFF

Our academic staff ranks have continued to grow to support the new programs and program offerings to students. The academic renewal program, which started in the early 2000s, has produced many new faculty members, coming from all over the world in various fields of study. Currently, the total number of tenure-track academics is approximately 1,620, as compared to approximately 1,271 (fiscal 2000) prior to the academic renewal program. Over the past three years, the progression of net new hires has continued, as depicted in the following graph.

Tenure-Track Academics - Hiring, Departures
Net Change (2003 to 2015): + 307



*11 month year
**3 for 4 tenure track replacement plan

Source: McGill Academic Personnel Office/ Planning and Institutional Analysis

During fiscal 2015, a total of 56 new tenure-track academics were appointed, ranging from assistant to full professors across the various faculties. Four tenure-track librarians were also appointed, as outlined in the following table.

New Tenure-Track by Faculty/Unit	FY2015	FY2014
Agricultural & Environmental Sciences	5.0	4.0
Arts	11.0	13.0
Dentistry	0.0	0.5
Education	3.0	8.0
Engineering	3.0	11.0
Law	2.0	3.0
Desautels Faculty of Management	5.0	8.0
Medicine	14.0	16.5
MSE (multi-Faculty)	0.0	0.5
Schulich School of Music	3.0	2.0
Religious Studies	1.0	1.0
Science	9.0	12.5
Faculties	**56.0**	**80.0**
Librarians	4	5
	60.0	**85.0**

Source: McGill Office of Associate Provost (Budget & Resources)

Other Academic Staff (as at May 1st)	2015		
	Full-Time	Part-Time	Total
Research Associates & Assistants	364	102	466

Source: McGill Human Resources

Teaching Awards

The Principal's Prize for Excellence in Teaching, established to recognize excellence in teaching and its importance to the academic experience of students at McGill University, is traditionally awarded at Fall Convocation at the Faculty Lecturer, Assistant Professor, Associate Professor and Full Professor ranks.

ACCOMPLISHMENTS

Our academic staff continue to perform at exceptional levels and are awarded many honours. Fiscal 2015 was no exception, as a number of them were recognized for their distinctive work and accomplishments as highlighted below:

Recipient	Distinction
Ehab Abouheif (Biology)	NSERC E.W.R. Steacie Memorial Fellowship
François Barthelat (Mechanical Engineering)	Découverte de l'année, Québec Science magazine
Lisa Barg (Music)	Philip Brett Award, American Musicological Society
Susan Bartlett (Medicine)	Woman of Distinction Award, Women's Y Foundation
Vikram Bhatt (Architecture)	Margloese National Design for Living Prize, University of British Columbia
Robert Brandenberger (Physics)	Simons Fellowships, Simons Foundation
Phil Branton (Biochemistry)	Order of Canada
Howard Chertkow (Neurology & Neurosurgery)	Canadian Academy of Health Sciences New Fellow
Aashish Clerk (Physics)	• NSERC E.W.R. Steacie Memorial Fellowship • Royal Society of Canada College of New Scholars, Artists and Scientists
Richard Cruess (Medicine)	Order of Canada
Claudio Cuello (Pharmacology & Therapeutics)	Chancellor's Award Lecture, Louisiana State University
Henri Darmon (Mathematics)	Simons Fellowships, Simons Foundation
Keshav Dasgupta (Physics)	Simons Fellowships, Simons Foundation
Jeffrey Derevensky (Psychology)	Canadian Psychological Association Elected Fellow
Myriam Denov (Social Work)	SSHRC Trudeau Fellowship
Suzanne Fortier (Principal & Vice-Chancellor)	Honorary doctorate, University of Glasgow
William Foulkes (Medicine)	O. Harold Warwick Award, Canadian Cancer Society

Recipient	Distinction
Paul François (Physics)	Simons Investigator, Simons Foundation
Martha de Francisco (Music)	Woman of Distinction Award
Philippe Gros (Biochemistry)	McLaughlin Medal, Royal Society of Canada
Charles Gale (Physics)	Humboldt Research Award
Serge Gauthier (Medicine)	Order of Canada
Gabriella Gobbi (Neurobiological Psychiatry)	Premio Venezia Award
Laurie Gottlieb (Nursing)	Book of the Year Award, American Journal of Nursing
Simon Gravel (Human Genetics)	Sloan Fellowships
John Grew (Music)	Order of Canada
Ma'n H. Zawati (Genomics & Policy)	World Science Forum
Russell Hepple (Kinesiology & Physical Education)	Nesbitt McMaster Award for Excellence in Medicine and Surgery, Montreal General Hospital Foundation
Robert Hess (Ophthalmology)	H. Barry Collin Research Medal, Optometry Australia
Brigitte Kefir (Psychiatry)	L'Oreal Women in Science Award
Victoria Kaspi (Astrophysics)	• American Academy of Arts and Sciences • Killam Prize in the Natural Sciences • American Physical Society Fellow
Niky Kamran (Mathematics & Statistics)	CRM-Fields-PIMS Prize
Irah King (Microbiology & Immunology)	Bhagirath Singh Early Career Award in Infection and Immunity (CIHR-III)
Margaret Lock (Medical Anthropology)	American Academy of Arts and Sciences
Michel L. Tremblay (Biochemistry)	Ordre National du Québec
Paul Lasko (Biology)	Prix Armand-Frappier (Prix du Québec)
Robert Leckey (Law)	Global Young Academy Membership
Lorenz Lüthi (History)	New Directions Fellowship

Recipient	Distinction
Steve Maguire (Marcel Desautels Institute for Integrated Management) and team	Dr. Alfred N. and Lynn Manos Page Prize for Integration of Sustainability Issues in Business Curricula
Peter McPherson (Medicine)	Royal Society of Canada: Academy III: Academy of Sciences
Michael Meaney (Psychiatry, Neurology & Neurosurgery)	• Prix Wilder-Penfield, Prix du Québec • Klaus J. Jacobs Research Prize
Robert Mellin (Architecture)	Order of Canada
Brenda Milner (MNI)	Dan David Prize
Jeffrey Mogil (Psychology)	Mayday Pain and Society Fellowship
Silvia Monti De Flores (Psychiatry)	American Psychiatric Association Distinguished Fellow
Krista Muis (Education)	Richard E. Snow Award Early Career Contributions, American Psychological Association
David Mulder (Surgery)	James H. Graham Award, Royal College of Physicians and Surgeons of Canada
Martin Olivier (Microbiology & Immunology)	Canadian Society for Immunology Investigator Award
Madhukar Pai (Medicine)	Royal Society of Canada College of New Scholars, Artists and Scientists
Alain Pinsonneault (Desautels Faculty of Management)	Association for Information Systems Fellow
Ervin Podgorsak (Medicine)	Order of Canada
Judes Poirier (Psychiatry)	Découverte de l'année, Québec Science magazine
Constantin Polychronakos (Medicine)	Royal Society of Canada: Academy III: Academy of Sciences
Barry Posner (Medicine)	Ordre National du Québec
Lawrence Rossy (Medicine)	Ordre National du Québec
Hosahalli S. Ramaswamy (Agricultural & Environmental Sciences)	Marvin Tung Award, Institute for Thermal Processing Specialists
Bruce Reed (Computer Science)	Humboldt Research Award
Janet Rennick (Nursing)	Prix Florence, L'Ordre des infirmières et infirmiers du Québec

Recipient	Distinction
Brent Richards (Medicine)	Jody Ginsberg Youth Investigator Award, the Canadian Society of Endocrinology and Metabolism
Nigel Roulet (Geography)	Royal Society of Canada: Academy III: Academy of Sciences
Guy Rouleau (MNI)	Prix d'excellence du College de médecins du Québec
Kevin Schwartzman (Medicine)	Canadian Association of Medical Education Certificate of Merit Award
Michael Shevell (Pediatrics, Neurology & Neurosurgery)	Hower Award, Child Neurology Society
Lionel Smith (Law)	Killam Fellowship
Nahum Sonenberg (Biochemistry)	National Academy of Sciences
Yvonne Steinert (Medicine)	President's Award for Exemplary National Leadership in Academic Medicine
Nathalie Tufenkji (Chemical Engineering)	Woman of Distinction Award, Women's Y Foundation
Robyn Tamblyn (Medicine)	Order of Canada, John P. Hubbard Award, National Board of Medical Examiners
Wendy Thomson (Social Work)	Woman of Distinction Award, Women's Y Foundation
Nico Trocmé (Social Work)	SSHRC Connection Award
Gustavo Turecki (Psychiatry)	Découverte de l'année, Québec Science magazine
Brigitte Vachon (Physics)	Woman of Distinction Award
Mark Wainberg (Microbiology & Immunology)	• Cubist-ICAAC Award • John G. Fitzgerald Award, Canadian Association for Clinical Microbiology and Infectious Diseases
H. Bruce Williams (Medicine)	Order of Canada
Daniel Wise (Mathematics & Statistics)	• Oswald Veblen Prize in Geometry, American Mathematical Society • Royal Society of Canada Fellowship

Source: Communications Services (Communications & External Relations), Research and International Relations

The support network required to assist both students and professors is varied and comes from a variety of individuals working in different capacities around the University. A total of 3,561 individuals work to support the academic and research mission of the University, as at May 1, 2015, highlighted below:

	2015		
	Full-Time	Part-Time	Total
Management	1,694	62	1,756
Clerical	792	54	846
Technical	370	41	411
Trades/Services	398	47	445
Library Assistants	83	-	83
Other (nurses, residences, Gault Estate)	19	1	20
	3,356	205	3,561

Source: McGill Human Resources

Administrative Staff Awards

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

2. FINANCIAL HIGHLIGHTS

REPORTING PERIOD - 12 MONTH YEAR - ENDED APRIL 30, 2015

The reported revenue and expenditures represent twelve months of operations ended April 30, 2015.

Generally Accepted Accounting Principles (GAAP)

In adopting GAAP in fiscal 2010, the four predecessor funds, which include the Operating (Unrestricted), Restricted, Plant, and Endowment Funds, are combined in one column to present the total assets, liabilities, and fund balances of the University.

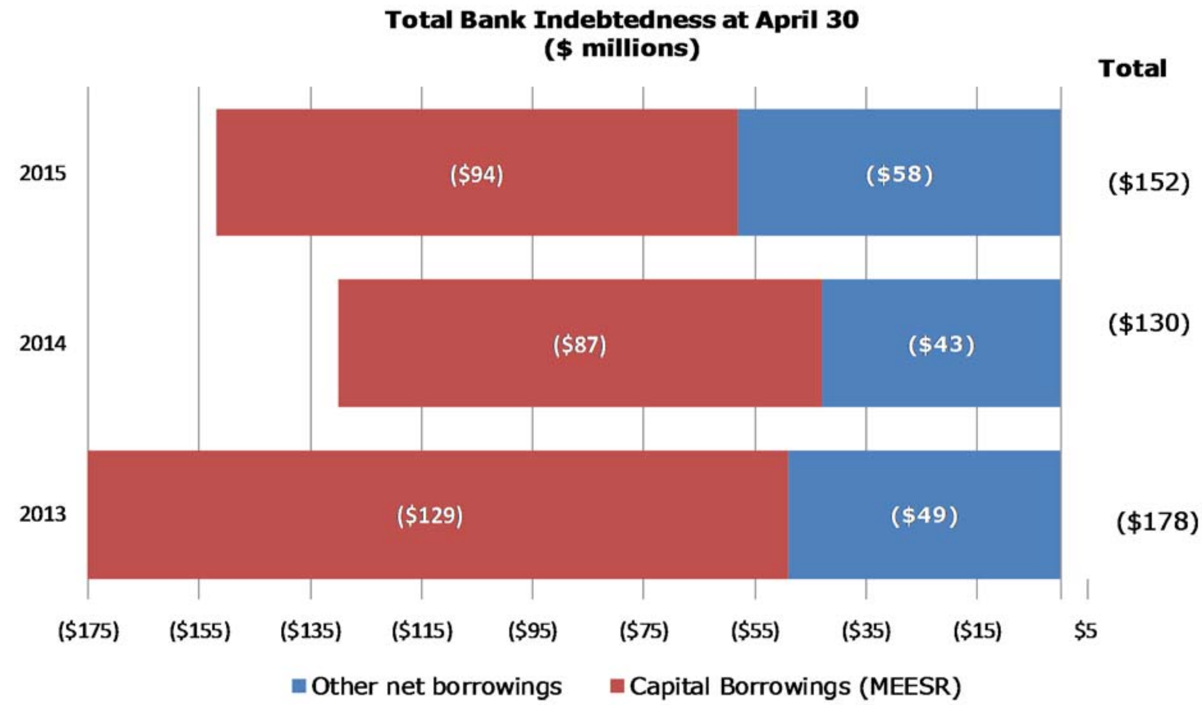
In fiscal 2015, the University adopted, retrospectively, Section 3463 of the CPA Canada Handbook – Accounting titled "Reporting employee future benefits by not-for-profit organizations". Section 3463 eliminates the deferral and amortization as a choice of accounting method for accounting for defined benefit. It also requires that changes in the fair value of plan assets and changes in the valuation for defined benefits, including the costs of past services, actuarial gains and losses and gains and losses of a regulation or a compression, are recognized immediately in the statement of changes in net assets. Therefore, the asset or liability for defined benefits recognized in the balance sheet reflects the obligation in respect of the defined benefit net of the fair value of plan assets adjusted for any valuation impairment at the reporting date. In addition, Section 3463 requires the separate identification of revaluations and other elements of the other costs associated with the pension plan, which increases the visibility of the impact of periodic reassessments. These items are presented separately in the statement of revenue and expenses, and changes in net assets.

Furthermore, the expected return on plan assets is no longer applied to the fair value of the assets to calculate the costs of benefits. Under Section 3463, the same discount rate must be applied to the accrued benefit obligation and the plan assets to establish the financial cost. The discount rate will continue to be determined based on the market interest rate for higher quality debt instruments with cash flows that match the timing and amount of payments provided for services or rates of interest inherent to the amount for which the obligation under the defined benefit could be settled. See note 2 to *the Audited Financial Statements.*

Balance Sheet Assets and Liabilities

1. *Net cash position*

The Board of Governors has authorized a maximum of $300 million in bank borrowing from available credit facilities totaling $350 million (see Note 8 in the *Audited Financial Statements*). As at April 30, 2015, McGill had a bank indebtedness of $ 151.6 million, as compared to $129.9 million one year earlier. Operating Bank indebtedness, net operating of cash and short-term investments excluding endowment investments of $10.2 million (2014: $76.0 million) held for operations, was $72.4 million (2014: $99.3 million). This bank indebtedness continues to be primarily required to temporarily finance borrowings owed by the *Ministère de l'Éducation, de L'Enseignement Supérieur et de la Recherche* (MEESR) to McGill. As at April 30, 2015, the total capital borrowings owed from MEESR amounted to $94.3 million (2014: $87.2 million). These amounts include annual capital and deferred maintenance grants, as well as other specific capital grants and prior year financings which the University has temporarily refinanced on behalf of MEESR. The following chart outlines the progression of the Net Bank Indebtedness position over the last three years, as compared to the level of temporary capital borrowing on behalf of MEESR. The timing of the issuance of long-term debt to reimburse the temporary borrowings is dictated by MEESR.



Source: McGill Financial Services

2. *Total receivables*

a) Short-term receivables (Financial Statements, Note 4)

Short-term receivables amount to $289.7 million (2014: $352.5 million), including $155.4 million (2014: $156.6 million) relating to research grants and contracts and $60.6 million (2014: $94.2 million) in capital grants receivables (i.e. short term portion of long term debt, see Section 2b below). The grants and contracts related to research represent amounts awarded to the University which will be received within the next year. The total amount is represented as follows:

($ millions)	2015	2014
Operating	29.4	39.9
Student Loans	4.3	4.0
Investment Income	2.3	1.9
Government Grant	37.7	55.9
Capital Grant	60.6	94.2
Grants & Contracts Related to Research	155.4	156.6
Total:	289.7	352.5

The Government (MEESR) grant receivable of $37.7 million relates to the operating grant.

b) Long-term receivables (Financial Statements, Note 5 and 6)

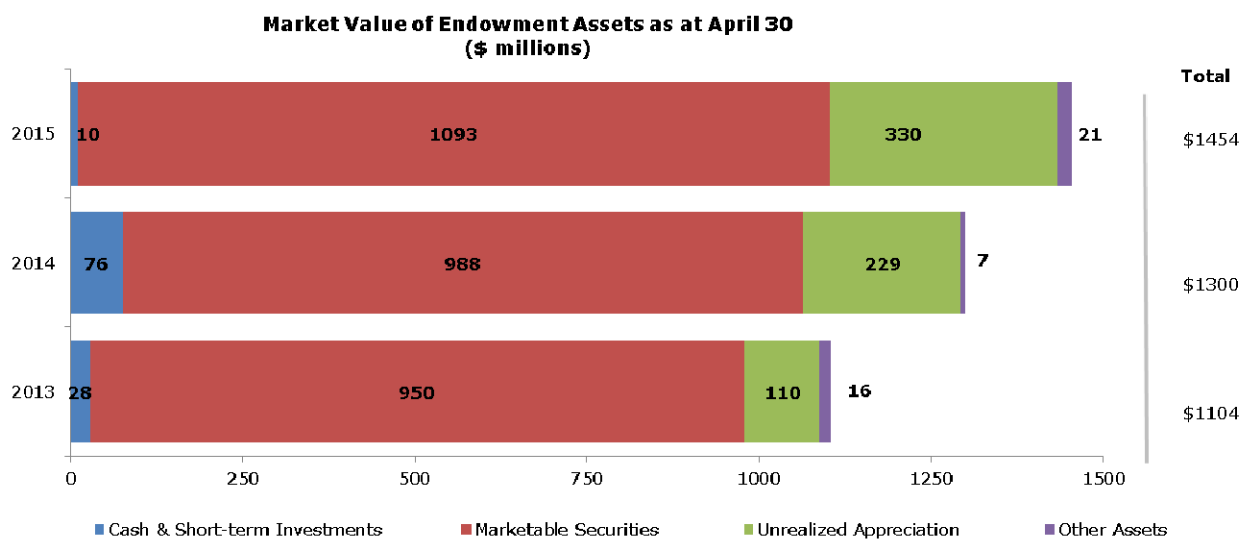
In conforming to GAAP, a receivable is recorded relating to current and prior year capital grants (MEESR) amounting to $789.5 million (2014: $736.1 million). This amount effectively includes $711 million associated with the long-term debt issued on behalf of MEESR (i.e. total debt, excluding $150 million of McGill Debentures).

Other loan receivables amount to $10.2 million (2014: $11.8 million) and include amounts owed by third parties relating to construction projects.

3. Marketable securities at market value (Financial Statements, Note 18)

Total marketable securities amount to $1,485.8 million (2014: $1,270.1 million) and includes $1,423.4 million (2014: $1,217.0 million) relating to endowment investments. In addition, $56.7 million (2014: $46.0 million) relates to an investment purchased from proceeds of the 2002 McGill Bond issue. This investment is expected to be valued at $150 million by 2042 in order to extinguish the related debt at that time. The remaining $5.7 million (2014: $7.1 million) relates to other operating funds invested temporarily in marketable securities, including $5.3 million associated to a gift which is being invested temporarily.

The total endowment assets managed as part of the McGill Investment Pool amount to $1,454.2 million (2014: $1,299.5 million), including the $1,423.4 million in marketable securities mentioned above (see Section Endowment Gifts, page 38). The following chart outlines the significant assets included in the $1,454.2 million.



Source: McGill Audited Financial Statements

Other assets, totaling $21 million (2014: $7 million) include accrued income, staff mortgages, and other receivables.

4. Capital assets (Financial Statements, Note 7)

Total capital assets amount to $1.341 billion (2014: $1.306 billion) and include various asset categories as outlined in Note 7 of the *Audited Financial Statements*.

Capital assets additions (including those under development) during the year totaled $143.2 million (2014: $140.7 million), of which $60 million (2014: $61.2 million) was related to buildings and renovations, including assets under development.

Of the total gross capital cost additions to buildings and renovations, the largest increase experienced was for the McIntyre Medical Building ($7.4 million), Douglas Hall residence ($4.8 million), Chancellor Day Hall ($4.1 million), the Wong Building ($3.9 million) and the Macdonald Stewart Library Building ($3.1 million) with others under $3 million each.

The table below outlines the significant asset additions during the year, by asset category:

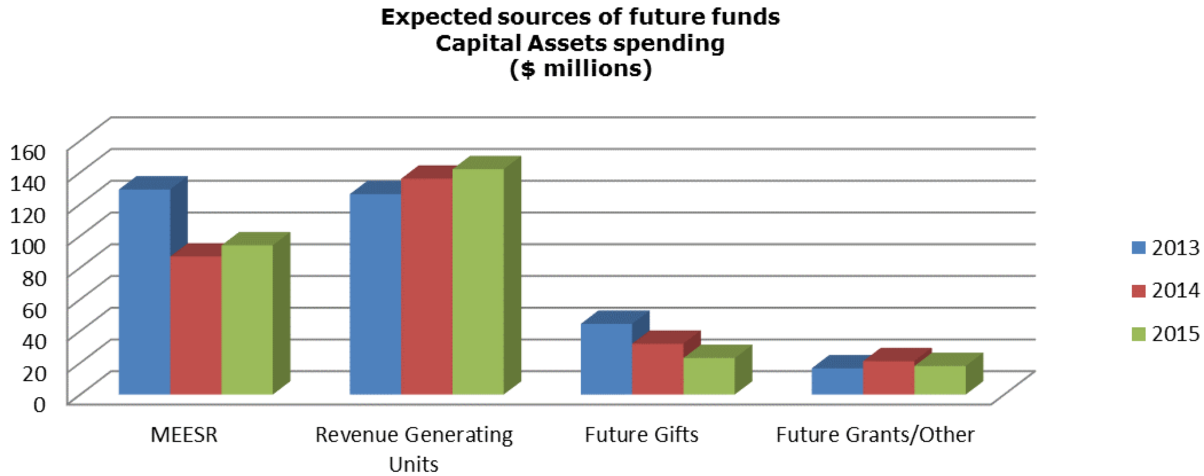
($ millions)	2015	2014
Land and Land Improvements	9.2	0.7
Buildings and Renovations	60.0	61.2
Leasehold Improvements	6.7	5.9
Equipment (Including Intangibles)	48.8	57
Library Books	18.3	15.8
Other Assets	0.2	0.1
Total:	143.2	140.7

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

As at April 30, 2015, temporary capital asset borrowings on behalf of MEESR amounted to $94.3 million (2014: $87.2 million) and related to approved outstanding capital and other specific capital grants. A total of $23.1 million (2014: $32.1 million), is expected from future donations on buildings including the Montreal Neurological Institute (MNI), Dental Clinic, the Bronfman Building, the Chancellor Day Hall, and the Gelber Law Library.

In addition to the above, revenue-generating projects (such as residences, parking, etc.) are expected to generate annual capital and interest repayments for its share of the $150 million bond debenture issue. As at April 30, 2015, a total of $141.9 million (2014: $135.8 million) is expected to be recovered from revenue-generating units, including the three former hotel acquisitions since 2002 which are to be used as student residences.

The following bar chart outlines the three years of outstanding sources of funding, which when received, will reduce short-term borrowings.



Source: McGill Financial Services

5. *Current liabilities*

Excluding bank indebtedness, total current liabilities amount to $264.1 million (2014: $305.2 million), including accounts payable/accruals totaling $181.4 million (2014: $185.9 million). The decrease in accruals is essentially due to a decrease in the provision for pay equity settlement which has yet to be finalized with respect to the years 2001 to 2015 as well as a decrease in early retirement settlements.

As a result of pay equity legislation, the University is required to calculate any adjustments and submit them to the Commission for approval. In 2001, McGill conducted and completed a pay equity exercise and on November 21, 2001, posted a pay equity plan in accordance with the Pay Equity Act. All salary adjustments calculated under the plan were paid in five installments during the period spanning 2001 to 2005. In 2002, several McGill employees represented by MUNACA deposited complaints regarding the plan with the Pay Equity Commission. Despite the fact that these complaints were filed outside of the applicable delay, in 2004, the Pay Equity Commission notified the University of its decision to investigate the Plan on its own initiative. Subsequently, McGill and MUNACA entered into a conciliation process with the Pay Equity Commission in order to arrive at an agreement concerning the implementation of the plan on November 21, 2001, specifically with respect to the method of analysis used at the time of implementation and maintenance of pay equity. During the period from February 2014 to May 2015, the University processed all retroactive pay equity payments for all groups of employees involved. These payments cover the requirements of the 2001 and 2005 pay equity maintenance as required by law. The University has just started working on the December 31, 2010 pay equity maintenance and hope that payments could be made during 2016. Then, the University must produce the December 31, 2015 pay equity maintenance as required by the legislation. At this point, only estimates of the possible costs were made since there is always a possibility that unions or employees could contest the results.

Unearned revenue of $22.1 million (2014: $25.1 million) also forms part of this category and includes tuition fees paid for the Summer 2015 semester.

The short-term portion of the long-term debt, as described in Section 7 below, totals $60.6 million (2014: $94.2 million) and is expected to be re-financed by MEESR in fiscal 2016. MEESR has confirmed $64 million in refinancing for fiscal 2016.

6. *Deferred contributions (Financial Statements, Notes 10 and 11)*

With the adoption of the GAAP deferral method, restricted contributions/revenues are deferred until the matching expense is incurred. In the case of restricted contributions received for non-capital expenses, the total deferred contribution as at April 30, 2015 amounted to $412.2 million (2014: $413.9 million). These revenues will be recognized in the future when the associated non-capital expenditure is incurred and reflects an overall decrease in research revenue inflows during the year.

With respect to deferred capital contributions, the April 30, 2015 total was $838.8 million (2014: $825.1 million) and reflects increased funding for Capital Assets. These revenues will be recognized in the future as the underlying assets are amortized annually.

7. *Long-term debt (Financial Statements, Note 12)*

Total MEESR issued debt increased by a net $11 million (2014: net $59.9 million) as a result of new *Financement Québec Promissory Notes* (Notes) issued by MEESR totaling $105 million (2014: $219.0 million). This was in part used to repay matured bonds and repayment of previously issued notes totaling $92.6 million (2014: $157.5 million). Other bank debt repayments amounted to $1.6 million (2014: $0.5 million) on debt previously issued by other provincial ministries and other parties.

The remaining component relates to the change in bond discounts which totaled $0.2 million at April 30, 2015, as compared to $0.2 million in the prior year. These bond discount costs are associated with the 2002 issue of the $150 million McGill Debentures and are being amortized over the life of the 40-year bond. The GAAP presentation now requires bond discounts to be shown as a reduction of long-term debt, rather than a capital asset.

8. *Long-term liabilities – Employee future benefits (Financial Statements, Note 13)*

In conformity with GAAP, compensation related liabilities have been recorded retrospectively in accordance with Section 3463 of the *CPA Handbook – Accounting* entitled “Reporting employee future benefits by not-for-profit organizations”. These include pension obligations that have been confirmed by actuaries to total $96.7 million (2014: $100.8 million), and post-employment benefits of $104.4 million (2014: $112.0 million)

As explained in Note 2 to the Audited financial statements, the retrospective application of the new standard has resulted in a decrease of $63.1 million in the Unrestricted Net Assets reported last year as at April 30, 2014, for an adjusted deficiency balance as at April 30, 2014 of $366.8 million.

Both of these liabilities were confirmed by independent external actuaries and incorporate appropriate assumptions relating to each of the valuation exercises. At April 30th, 2015 the actuary updated certain Pension assumptions, in accordance with the new CPA Handbook section 3463. See Note 13 for further pension plan details.

9. *Net Assets (Financial Statements, Note 14 and 15)*

Net assets in a not-for-profit environment represents capital which is invested in assets and/or surpluses (deficits) pertaining to core missions. GAAP classifies net assets in various categories according to any restrictions imposed on future spending, including *Invested in Capital Assets, Externally Restricted, Internally Restricted, and Unrestricted*. The Invested in Capital Assets represents the accumulated amounts contributed to the University for the purpose of acquiring long-term capital assets. Externally and Internally Restricted balances are amounts available for future purposes and are affected by the nature of the restriction imposed by external or internal parties. Unrestricted Net Assets balances represent the total amount of accumulated surpluses (deficits), assuming all internally restricted balances are spent in the future.

At April 30, 2015, McGill had a balance of $267.6 million (2014: $240.3 million) in Invested in Capital Assets, $1,400.6.0 million (2014: $1,248.0 million) associated with Externally Restricted balances associated with Endowments, $69.2 million (2014: $66.5 million) of Internally Restricted balances, of which $35.5 million (2014: $34.4 million) related to Endowments. Finally, a negative $(358.0) million (2014: $(366.8) million) in Unrestricted Net Assets balances existed at April 30, 2015. Together, Unrestricted and Internally Restricted Net Assets (excluding Endowments) total $(324.3) million (2014: $(271.7) million) and represent the "accumulated deficit" of the University.

University's GAAP Operating Net Assets as at April 30, 2015 ($ million)

Unrestricted Net Assets	$ (358.0)
Internally Restricted Net Assets	$ 33.7
Net Assets (deficiency) - as at April 30, 2015 (i)	$ (324.3)

(i) Represented on the Balance Sheet as the sum of "Internally Restricted and Unrestricted" Net Assets relating to the Operating Fund.

The fiscal 2015 Net Assets (deficiency) balance has decreased as at April 30, 2015.

The fiscal 2015 operating surplus of $8.1 million compares favourably to the original $4.2 million fiscal 2015 forecasted surplus, in large part due to revenues exceeding forecast by $3.0 million in addition to a net decrease in expenses compared to forecast of $38.8 million and an increase in inter-fund transfers of $ 37.9 million, which includes the retrospective adjustment to the post-employment obligation of $24.8 million recorded in the statement of net assets.

10. Statement of Changes in Net Assets

Endowment contributions totaled $43.5 million (2014: $41.0 million) and are now reflected as an increase in Net Assets as part of this statement, as compared to being included in the overall revenue in the past. A summary of total Endowment asset growth is included in the section “Endowment Gifts,” page 37 of this report.

The Statement of Changes in Net Assets also includes net investment income earned from Endowment investments resulting in a gain of $105.8 million (2014: gain of $145.4 million), which effectively represents unrealized gains on investments, net of amounts distributed of earnings in excess for endowed spending.

Finally, the Statement also highlights transfers between the versions net asset categories, as they relate to Internally Restricted Fund balances, or contributions made for investments in capital assets.

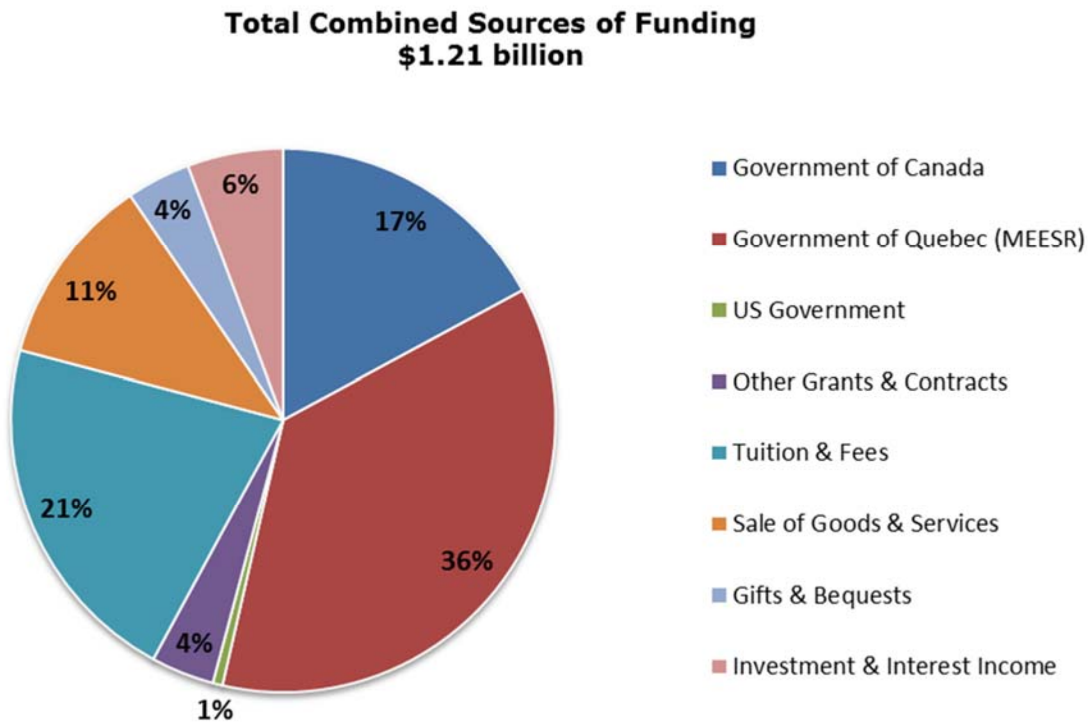
OVERALL SOURCES OF REVENUES AND EXPENSES (fiscal year ended April 30, 2015)

In accordance with GAAP the presentation outlines the change in revenues and expenses for any particular year in the line item *Excess (deficiency) of revenue over expenses,* which do not include inter-fund transfer items which are required to be considered in arriving at the change in Net Assets balance for each year. Prior to GAAP, contributions to capital assets were presented as part of the expenses rather than as an inter-fund. This and other transfers, including endowment income not available for spending, must be considered when evaluating the change in "operating accumulated deficit" – see Statement of Net Assets. As discussed above, the presentation of endowed gifts now requires it to be disclosed as an increase in Net Assets balance and not to be considered as part of the revenues available to support expenses.

The current year's total revenue on a GAAP basis was $1.21 billion (2014: $1.18 billion). With the adoption of the deferral method of accounting for restricted contributions, the Statement of Revenue and Expenses depicts one annual column for both total revenues and total expenses representing the Operating, Restricted, Plant, and Endowment funds used internally to manage McGill's operations. Internally each fund is evaluated on its own merits

Revenues associated with future expenses (e.g. research or capital) are deferred on the Balance Sheet (see deferred contributions/deferred capital, page 24) until such expenses are incurred. The previous GAAP choice resulted in the recognition of revenues in the year earned/awarded, regardless of when the expense was incurred. GAAP presentation rules require that *Gifts and bequests* for endowed purposes, totaling $42.6 million (2014: $40.4 million), be shown as part of the change in Net Assets (externally restricted for endowed purposes) and not as revenue.

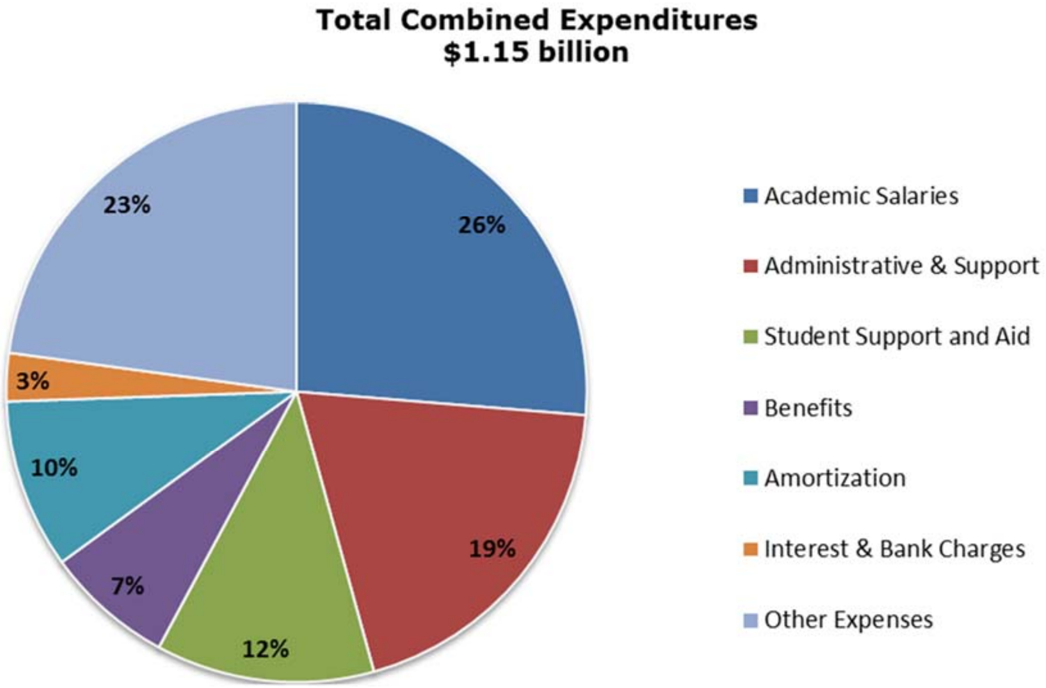
The chart below summarizes all sources of revenues totalling $1.21 billion (2014: $1.18 billion), excluding endowment gifts of $42.6 million (2014: $40.4 million).



Source: McGill Audited Financial Statements

Total combined expenses incurred to support McGill's activities were $1.15 billion in 2015 (2014: $1.12 billion). All amounts presented exclude inter-fund transfers. GAAP requires that the related funding contribution for capital assets be shown as inter-fund transfers, and the asset be capitalized and amortized over their useful lives. Another significant fluctuation in expenses results from the recognition of annual non-cash expenses relating to pension obligations and post-employment benefit obligations. These liabilities have been described above in Section 8.

The following pie chart illustrates the breakdown of the total expenses.



Source: McGill Audited Financial Statements

SOURCES OF REVENUES

1. *Total Grant revenue - all sources*

Grant revenue used to support the teaching and research mission of the University totaled $688 million in 2015 (2014: $691 million), which represents 56.4% (2014: 58.5%) of total revenues. Per GAAP, research revenue is recorded to the extent that research operating and amortization expenses are incurred. The following table outlines grant revenues from the various sources, whether operating (unrestricted), restricted, or capital in nature.

	2015				
Purpose	Quebec	Canada	US	Other Sources	2015
Operating	341	-	-	-	341
Capital	60	16	-	-	76
Indirect Costs (Operating)	-	26	-	-	26
Research (Restricted) Grants	31	150	7	27	215
Other Restricted Grants	13	16	-	1	30
Total:	445	208	7	28	688

	2014				
Purpose	Quebec	Canada	US	Other Sources	2014
Operating	353	-	-	-	353
Capital	58	17	-	-	75
Indirect Costs (Operating)	-	25	-	-	25
Research (Restricted) Grants	30	147	8	24	209
Other Restricted Grants	11	17	-	1	29
Total:	452	206	8	25	691

a) *Operating grants*

These include amounts received from MEESR to operate the University and are based on a valuation of the total student population reported during the year. Other annual operating grants include amounts for graduation premiums, indirect cost support, and specific initiatives. As part of the calculation of the operating grant, MEESR reduces the grants for any recoveries or “supplements” charged (and collected) by the universities from Canadian and International students. Certain students are exempt from being charged supplements due to international treaty agreements or other regulations in force. The supplements “returned” to MEESR in fiscal 2015 total $34.9 million (2014: $31.9 million) and $37.3 million (2014: $51.5 million) for Canadian and International students, respectively. MEESR has eliminated the recovery of international supplements associated with 6 specific disciplines over a five year period which ended in Fiscal 2014, as both the return of supplement and the annual grant support to these students has now been discontinued. Discussions will recommence in order to extend this practice to all International students. In the meantime, universities can charge what they deem appropriate to students in the 6 disciplines, which are Management, Science, Engineering, Law, Mathematics, and Computer Science.

In addition to the above supplements, MEESR also “claws-back” $9.0 million (2014: $8.6 million) in student aid contributions, indirectly collected via tuition fees. These amounts are accumulated and distributed by the Province’s financial aid system.

The decrease in operating MEESR grants of $11.1 million reflects the $7 million decrease in enrolment grant accrual, the elimination of compensation for tuition freeze of $8.8 million and the abolition of the envelope for the deregulated international students in the six disciplines amounting to $4.7 million and other grant reductions of $2.6 million. These decreases were offset by a reduction in MEESR recoveries of $10.5 million.

b) Capital grants

Consist of annual or specific capital grants received by the University. Annually, McGill University receives approximately $20 million and $25 million for capital and deferred maintenance grants, respectively. The latter is part of a 15-year commitment announced in fiscal 2008.

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

c) Federal Indirect Cost of Research Grant

In 2001-02, the federal government created a new funding source for Canadian universities in an effort to address the growing indirect costs associated with research. McGill's share of this total in fiscal 2015 was $25.8 million (net of $7.7 million allocated to its affiliated hospitals). This amount is below 20% of the total direct cost of research and inferior to the minimum required 40%; MEESR is funding indirect costs (included in operating grants) associated with Québec-sponsored research at levels ranging from 50% to 65% (e.g., social science to medical research).

The net amount retained by McGill to cover indirect costs will vary depending on where the research activity is actually carried out.

	2015	2014
Federal Grant	25,788	24,840
Amount Due to Hospitals	(7,653)	(7,219)
Total:	18,135	17,621

Source: McGill Audited Financial Statements

d) Research grants and contracts

McGill is considered one of Canada’s top research intensive universities. Annually, the University attracts research grants and contracts from various governments, foundations, corporations, and other sources. The overall research activity is generally summarized in two main streams: direct research grants and contracts and infrastructure grants. The direct research grants and contracts are primarily characterized by annual grant awards from the federal tri-council, provincial granting councils, or other grant sponsors from Canada or other countries. Since the early 2000s, both the provincial and federal levels of government have also created new pools of resources to fund research infrastructure: Canada via the *Canadian Foundation for Innovation* (CFI), and Québec through various matching programs. Overall, the breakdown of activities, including research contracts but excluding Federal student aid of $15.9 million (2014: $16.2 million), classified as “Restricted Grants” (See Section e below), is highlighted below:

	2015	2014
Represented by:		
Direct Funded Research Grants	192,243	175,697
Infrastructure Grants	23,257	32,052
Subtotal:	215,500	207,749
Research Contracts	18,110	19,609
Total grants and contracts:	233,610	227,358

Source: McGill Financial Services

e) Other restricted grants

In order to support research activities, both the federal and provincial governments have awarded McGill students with scholarships and other support. Specifically, the federal government awarded approximately $15.9 million (2014: $16.2 million) while the provincial government awarded $2.5 million (2014: $2.2 million) for similar purposes. In addition, the provincial government funded other activities and programs, including $5.6 million (2014: $5.5 million) for teaching costs in the affiliated hospitals, and $3.5 million (2014: $4.2 million) for student placement, bursaries for abroad, and other restricted activities.

2. Tuition and fees

The second largest source of revenue for the University is tuition and fees totaling $258.4 million (2014: $245.2 million), which accounts for 22.4% (2014: 21.7%) of total revenues, excluding investment income and fair impacts value. Tuition is derived from both credit courses (i.e. students are funded by the province) and non-credit courses, which are considered to be self-financing and the University is free to charge what the market will bear. In addition to tuition, the University charges fees for various services and activities, and is included in the chart below.

	2015	2014
Quebec	35.2	34.7
Canadian (i)	52.5	52.1
International (ii)	115.9	104.5
Non-Credit courses	4.9	4.4
Administrative fees	34	34
Student Services & Athletics	15.9	15.5
Total:	258.4	245.2

(i) Including $1.9 million (2014: $2.0 million) in fees exempt from Supplements
(ii) Including $4.3 million (2014: $3.8 million) in fees exempt from Supplements.
Total also includes $48.4 million (2014: $43.0 million) of deregulated fees charged to undergraduate students.

The fiscal 2015 total compares to a budget of $254.5 million, which included increases in tuition fees of 2.2%. The variance to budget is partially attributed to increased tuition revenue for deregulated and self-funded tuition as well additional administrative and student fees.

3. Sale of goods and services

The University generates these revenues by operating units from various activities across its two campuses. Included in the total $138.7 million (2014: $130.7 million) in revenues, are those generated (from third parties) primarily by ancillary type services, including residences, food services, the Bookstore, and others, totaling $88.7 million (2014: $89.3 million). Other academic and support units generated the remainder of revenues from the sale to third parties of various goods and services.

4. Investment and interest income

The investment and interest income, and changes in fair value of investments and financial instruments, recorded on a GAAP basis totals $65.6 million (2014: $52.2 million) and includes, in large part, non-distributed income derived from endowment investments, which are deferred to future periods to support future distributions. These restricted amounts are included in the total increase in Net Assets, which totaled $105.8 million in fiscal 2015 (2014: $145.4 million).

As per our policy, any earnings in excess of distributions to unit holders, and any unspent distributions, are transferred back to the Endowment Fund and included as part of the increase in Net Assets mentioned above. Although these revenues are technically included in the "Excess of Revenues and Expenses," they are not available for spending as they are transferred back to the Endowment Fund.

Overall, the total change in the Endowment (net of Distributions and fees) resulted in a 12.0% (2014: 17.7%) growth in the fund. Of the total, 3.3% (2014: 3.7%) was generated from new endowment gifts received in the year. See page 35.

Also, as at April 30, 2015, the accumulated unspent investment income, held as part of Endowment Assets amounted to $124.0 million (2014: $123.3 million) and represents 2.6 years (2014: 2.8 years) of current annual distributions.

5. Other sources of revenue

The remaining sources of revenue include research contracts $18.2 million (2014: $19.7 million) and gifts and bequests $46.4 million (2014: $45.0 million), excluding endowment gifts (see Statement of Net Assets).

EXPENSES REQUIRED TO FULFILL THE UNIVERSITY'S MISSION

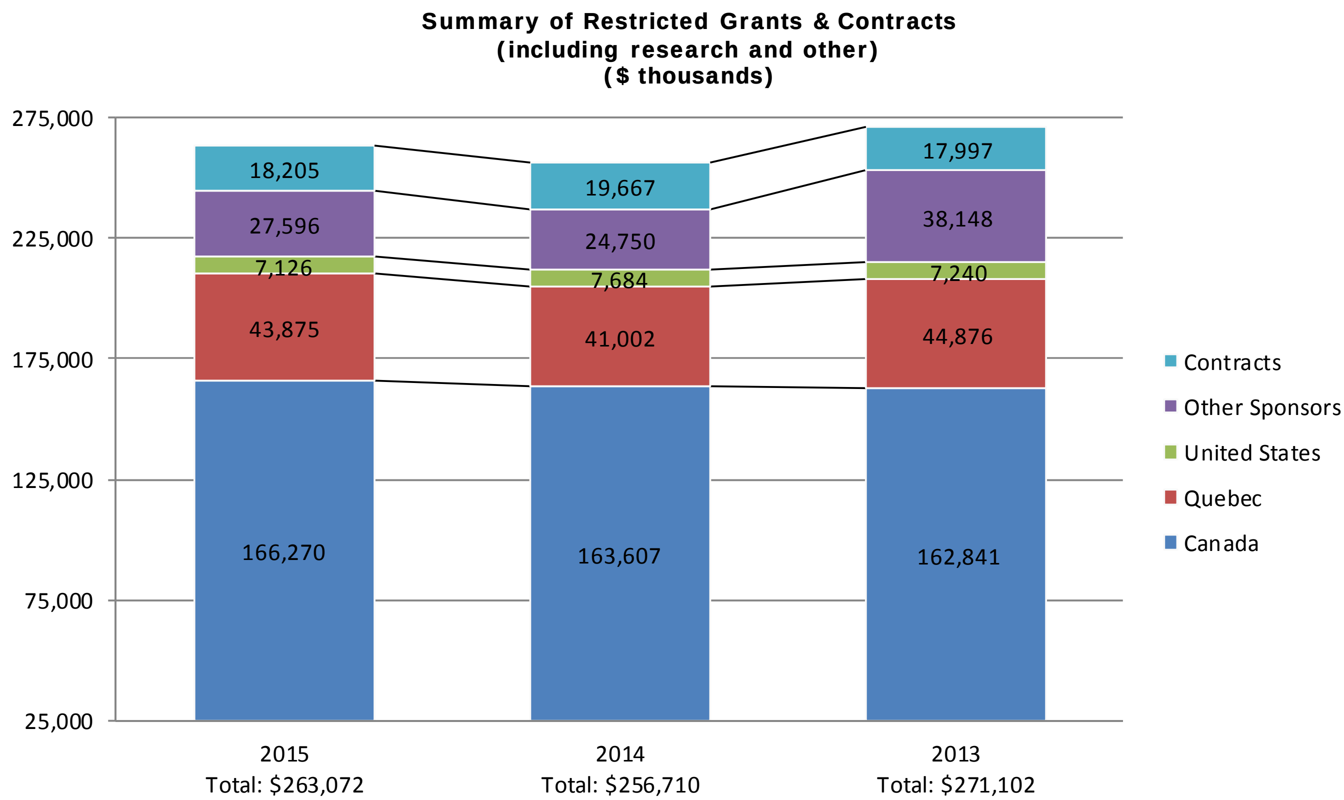
Total Compensation and student support amounted to $749.1 million (2014: $729.2 million). This represents 65.0% (2014: 65.0%) of total expenditures, excluding inter-fund transfers.

Other non-salary expenses, excluding inter-fund transfers, totaled $403.4 million (2014: $393.3 million), comprising of many various expense types, including *Materials, supplies, and publications* $ 43.8 million (2014: $39.8 million), *Building and Energy costs* totaling $39.5 million (2014: $43.8 million), *Amortization costs* of 109.0$ million (2014: $109.0 million), *Interest and bank charges* of $31.1 million (2014: $31.3 million), and other expenditures. See *Statement of Revenue and Expenses* for further details.

RESEARCH AND RESTRICTED ACTIVITIES

Direct funded research totaled $192.2 million (2014: $175.7 million). A further $23.3 million (2014: $32.1 million) was generated in infrastructure grants and $18.2 million (2014: $19.7 million) in contracts.

The largest sponsors of restricted grants (including those relating to research above) continue to be the federal and provincial governments. Together, they account for $210.1 million (2014: $204.6 million) of the total in grants and contracts. The following chart outlines the total restricted research grants and contracts generated for either research or other restricted purposes (e.g. aid) over the last three years:



Source: McGill Financial Services

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

AWARDED BASIS - Research Revenues ($ millions)	2015	2014
Federal Government:		
Tri Agencies/Council	$ 106.9	$ 117.3
Canada Research Chairs	$ 23.1	$ 21.0
CFI	$ 10.8	$ 17.4
Other	$ 13.5	$ 1.4
	$ 154.3	$ 157.1
Quebec Government:		
FRSQ/FQNT/FQRSC	$ 22.0	$ 25.4
CFI	$ 6.4	$ 10.9
Other	$ 6.1	$ 6.3
	$ 34.5	$ 42.6
Canadian Foundations & Associations	$ 19.2	$ 15.8
Contracts	$ 17.9	$ 15.5
Other	$ 20.2	$ 19.7
	$ 57.3	$ 51.0
Total:	$ 246.1	$ 250.7

OTHER RESTRICTED FUNDS

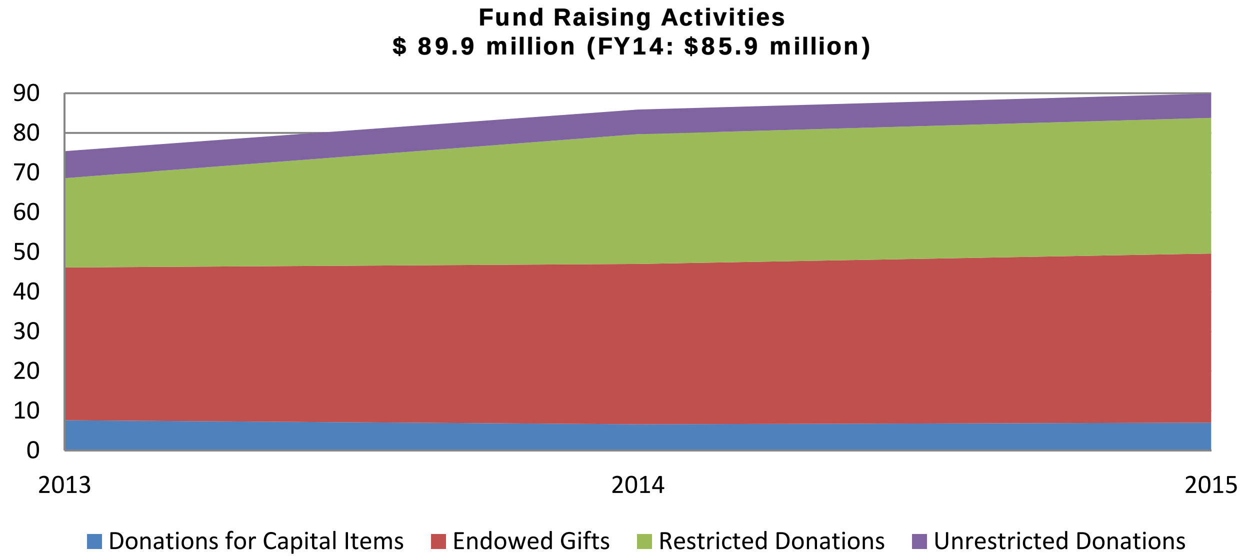
In addition to restricted grants and contracts recognized and included on the previous page, total research and other restricted funding is supplemented by other sources of revenues, including investment income of $43.2 million (2014: $40.1 million), restricted gifts of $34.2 million (2014: $32.7 million), and other sources totaling $8.7 million (2014: $6.8 million). Total sources of revenues available for restricted and research purposes amounted to $349.1 million (2014: $336.4 million).

The Restricted expenses incurred include those with terms that are dictated by granting agencies (in the case of research grants or contracts) or the sponsoring party (e.g. donor gifts for student aid). These expenditures are considered and managed internally as “restricted” due to the nature of the restrictions, imposed on the spending of these funds by individual sponsors.

On a GAAP basis, overall restricted expenses have increased to $336.1 million from a level of $321.2 million in the prior year, prior to inter-fund transfers relating to capital assets of $10.4 million (2014: $13.4 million). Under GAAP, capital assets are no longer expensed as restricted expenditures, but rather capitalized and amortized over the economic lives of the associated assets. As a result, the associated restricted/grant revenue is deferred as *Deferred capital contributions* and recorded as income annually over the life of the asset in order to match the annual amortization expense.

FUNDRAISING ACTIVITIES

Notwithstanding the continued economic slowdown, a total of $89.9 million (2014: $86.0 million) was received, including gifts in kind. The following chart illustrates all gifts and bequests revenue including endowment gifts of $42.6 million (prior year: $41.0 million) presented in the Statement of Changes in Net Assets over the last three years:



Source: McGill Financial Services

The Annual Report on Private Giving provides comprehensive details of the total gifts and bequests. Campaign McGill, which closed April 2013, generated a total of slightly above $1 billion.

ENDOWMENT GIFTS

All donations received for endowed purposes are invested by the Endowment Fund and include specific spending restrictions, as per the wishes of the donors. McGill's current policy is to distribute 4.25% (based on the rolling three-year average) of investment earnings to the beneficiaries of the Endowments. In fiscal 2015, $47.9 million (2014: $ 44.3 million) was distributed, based on an MIP unit rate of $13.65 (prior year: $13.12).

Overall, the endowment investment returns slightly deteriorated as at April 30, 2014 The table below outlines the overall growth in McGill's Endowment Assets, net of $18.0 million (prior year: $17.1 million) of endowment accounts payables.

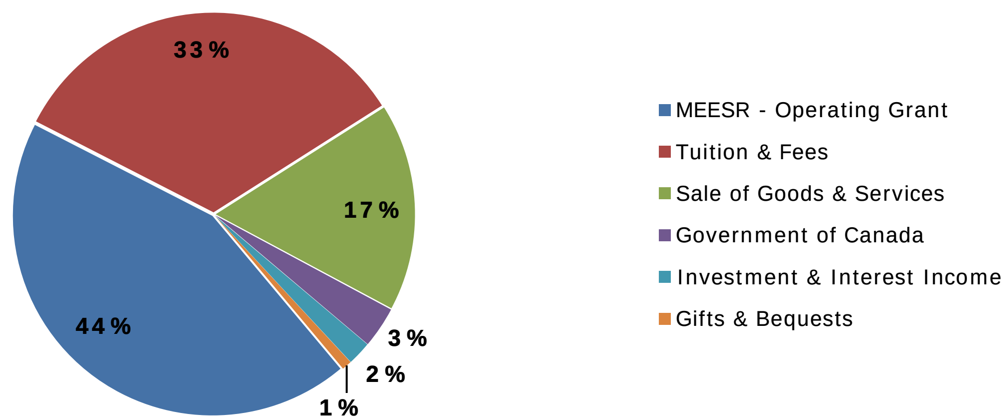
	April 30, 2015 ($ in millions)		April 30, 2014 ($ in millions)	
Opening Book Value	1,053.4		979.3	
Unrealized Market Value	229.0		109.9	
Opening Market Value	1,282.4		1,089.1	
New Gifts Received	42.6	3.3%	40.4	3.7%
Net Income Realized	50.0	3.9%	72.1	6.6%
Net Income Distributed (Net of capitalizations)	(40.0)	(3.1%)	(38.6)	(3.5)%
Transfers from Other Funds, excluding Trusts	(0.3)	(0.0%)	0.2	0.0%
Realized Increase in Assets	52.3	4.1%	74.1	6.8%
Change in Unrealized Market Values	101.4	7.9%	119.1	10.9%
Total Increase in Fund Value	153.7	12.0%	193.2	17.7%
Closing Book Value	1,105.7	77.0%	1,053.4	82.1%
Unrealized Market Value	330.4	23.0%	229.0	17.9%
Closing Market Value	1,436.1		1,282.4	

Source: McGill Financial Services

OPERATING HIGHLIGHTS (fiscal year ended April 30, 2015)

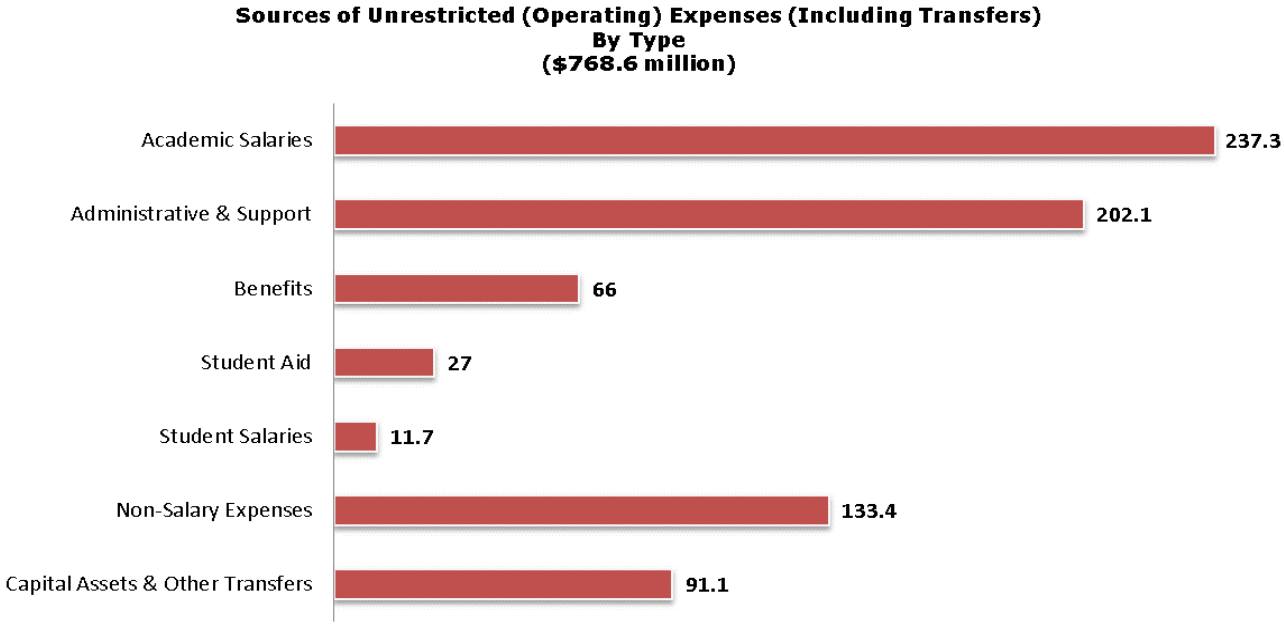
The following chart highlights the various sources of Operating (Unrestricted) Fund revenue on a GAAP basis for the year-ended April 30, 2015:

Sources of Operating (Unrestricted) Revenues
$776.7 million



Source: McGill Financial Services

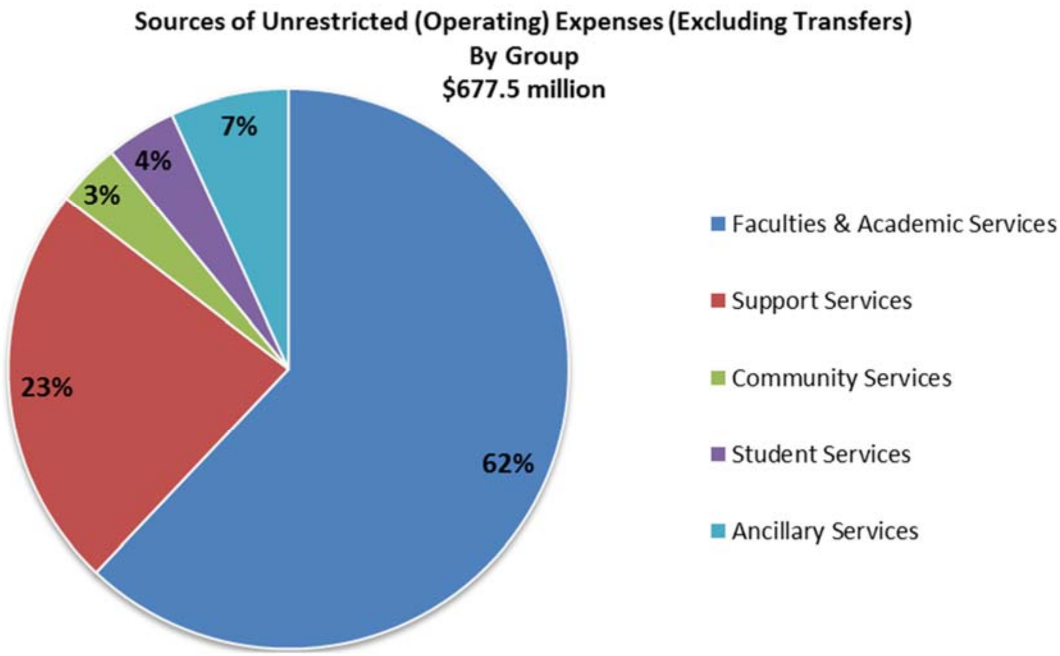
The University's spending is varied and consists of many different types of expenditures. Total operating type of expenditures amounted to $768.6 million (2014: $750.1 million) on a GAAP basis, including inter-fund transfers of $90.9 million (2014: $63.1 million) relating to Capital Asset additions, pension and post-employment and other transfers. Below is a summary of the types of all expenses incurred, including inter-fund transfers; salaries, benefits, and student support.



Source: McGill Financial Services

The total activities of the University are undertaken by various units and functions, including faculties, academic services (primarily libraries and information technology), and support units which account for 86.0% of total spending. The remaining units are considered self-financing, of which ancillary operations (e.g. the Bookstore, residences, parking, etc.) represent 7.0% of total expenses, as highlighted in the following chart.

The following chart highlights the various areas of expenditures (excluding inter-fund transfers), including the self-financing areas/units, of which community service activities are based primarily in faculties.



Source: McGill Financial Services

The twelve months of activities in fiscal 2015 ended with a net operating surplus of $8.1 million (2014: surplus of $15.7 million). The surplus surpassed our expectations of a budgeted deficit of $7 million for fiscal 2015 and the $4.2 million surplus forecasted for the 2015 fiscal year included in the 2016 Budget Report approved by the Board in April 2015. This operating surplus of $8.1 million includes a GAAP adjustment related to Pension Obligation (reduction of $4.1 million).

Overall, some operating revenues also differed from the year-end forecasts included in the 2016 Budget Report, including the following significant items below:

- MEESR grant was $6.3 million higher than forecast due to enrolment accruals.
- Tuition and fees lower than forecast by $7.5 million, however greater by $13.2 million over the prior year.
- Overall, the University generated $8.5 million more of sales of goods and services, net of related costs, than previously forecasted and $12.2 million more than budgeted.
- Unrestricted gifts and bequests were $0.4 million more than forecasted.
- Short-term interest income and investment income totalled $11.2 million combined, $3.9 million more than forecasted, due to an overall 12.2% growth in endowment assets.

The fiscal 2015 operating expenses are affected by two expense components (salary and non-salary). The items below represent final expense amounts incurred over forecasted levels included in the 2015 Budget Report.

1. Operating salaries (including student and aid) and benefits totaled $544.1 million as compared to a forecast of $555.0 million. The variance, in large part, is attributed to a decrease in benefits of $21.5 million in comparison to forecast due to an increase in pension contributions of $15.6 million offset by decreases in pension and post-employment benefit obligations of $7.6 million and $4.7 million respectively and the adjustment to the pension and postemployment obligation remeasurements of $9.9 million and $14.9 million being recorded in the statement of changes in net assets. This was offset by increases in academic salaries of $11.5 million and administrative and support salaries of $0.5 million. Also included is the decrease of $1.3million relating to student salaries and aid of $ 38.6 million in Fiscal 2015 as compared to $37.3 million in the prior year.
2. Total academic, administrative, and support salaries and benefits totaled $505.4 million (2014: $492.3 million) and represent 74.6% (2014: 74.5%) of total operating expenses (excluding transfers).
3. Total operating benefits also includes an accrual estimate for pay equity for the periods 2001 to 2015 of $9.4 million.
4. Overall, non-salary operating expenses were lower than amounts forecasted for fiscal 2015 by $27.9 million. Overall, non-salary operating expenses increased by $2.1 million over the total of $131.2 million in fiscal 2014 (approximately 1.6% increase).

3. DEFERRED MAINTENANCE – CAMPUS RENEWAL

For the past few years, McGill's total deferred maintenance (DM) inventory has been reported to be $835 million at the University's two campuses. Since last year's report, a more in-depth study mandated by the *Bureau de coopération interuniversitaire* (BCI) - formerly *Conférence des recteurs et des principaux des universités du Québec (*CREPUQ) – and conducted by external professionals (Planifika) has been completed. Based on the results of this study, the current, most reliable estimate of the University's total DM inventory is approximately **$1.3 billion[1].**

Among the major elements excluded from the Planifika study are building façades. As reported last year, due to a recent modification of the *Loi sur le bâtiment,* building inspections are required for at least 60 buildings at McGill before the end of 2017, of which the 38 oldest buildings must be inspected by the end of 2015. These technical inspections are being conducted separately from the Panifika study. Upon completion, the results will further refine and update on the current estimate of McGill's total DM inventory. To date we have completed façade inspections of 6 buildings and intend on completing an additional 3 between now and December 31, 2015.

Sources of funding for campus renewal work include McGill's annual allocation from the Government of Québec's 15-year capital funding plan, announced in 2007. The 2014-15 allocation to McGill under this plan was $25.6 million. This is a drop of $1.0 million from the 2013/14 allocation. It is expected that this decline will continue. Due to the fact that the province's funding formula caps building age at 50 years, McGill's share of the fixed envelop will decrease as other Quebec university campuses age

Other potential sources of funding for DM work include the approximately $20 million annual capital grant from the *Ministère de l'Éducation, de L'Enseignement Supérieur et de la Recherche* (MEESR), as well as funding from the Canada Foundation for Innovation, energy conservation funding, departmental and faculty budgets, and donations.

Due to the extreme disparity between the University's DM inventory and available funding for campus renewal, it is imperative that priorities be established to guide decision-making in allocating funding. An initiative has been launched to create a prioritized project list based on objective priorities including considerations such as health and safety, teaching and research continuity. This prioritization process is currently in progress.

Since last year's report, a total of 30 DM projects have been completed at a total estimated cost of $11.4 million. Another 368 projects are in various stages of scope definition, estimate, design, tender, construction or delivery. An additional 130 projects are currently on hold, including a project to replace the windows and masonry of the Strathcona Anatomy and Dentistry (SAD) building, a project to repair the masonry of the Macdonald Stewart Library, the repair of the MacDonald Harrington roof, and the construction of a replacement emergency power generation station.

A major project which had been slated for initiation in the past year is the complete redevelopment of Wilson Hall, estimated at $51 million. Despite the spring 2012 announcement of the Québec government's $35 million contribution towards this project, the project remains in limbo until approval from the *Société québecoise des infrastructures* (SQI, formerly "Infrastructure Québec") has been confirmed. The "dossier

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[1] This amount includes a $727.5 million deficiency cost estimate reported by Panifika, plus an additional approximately $500 million to cover DM issues which were not included in the consultants' study, including a 2% correction factor to reflect the difference between estimated costs and known market costs.

d'opportunité" has been submitted and is currently under review. Given the pace of the approval process to date, it is considered unlikely that construction will begin until well into 2016, at the earliest.
In addition to the above deferred maintenance projects, the $40 million of DM projects initiated in 2011 for Residences and Student Housing and reported on last year are now approaching completion. The global scope of work is approximately 85% complete and the entire Residences Deferred Maintenance initiative is expected to be fully complete by March 2016. Based on current spending, it is anticipated that these projects will be completed within forecasted spending levels.

The construction and renovation projects summarized above continue to make a substantial difference in the quality and safety of the teaching and research environment at McGill. These infrastructure projects also improve the campus environment in a manner that is consistent with the Planning & Design Principles of the Master Plan and McGill's Sustainability Policy. However, despite significant capital investment, McGill continues to lose ground in its efforts to decrease its deferred maintenance inventory to an acceptable industry level. While current and projected projects will help address the backlog of deferred maintenance projects, increasing numbers of DM projects are being placed on hold, and the urgency of this work as well its associated costs are expected to increase as deterioration continues. A recent example is the Macdonald Stewart Library building, for which an estimated $27 million is required to repair the facades. Emergency repair work on this building is now completed, but the full restoration project must be initiated by 2017 if the building is to be retained. This project is currently on hold while the University appeals to Quebec for special funding.

New issues, particularly associated with the exterior walls of the University's heritage buildings, continue to arise as legally mandated inspections proceed. This year alone, three buildings have been added to the list of those with façades requiring further investigation; the James Administration Building, the Frank Dawson Adams building, and Hosmer House. Upon identification of such issues, appropriate measures are promptly implemented to protect employees, students and the public until such time as funding can be secured to address these issues. In addition, the law requires that they be brought to the attention of the Régie du bâtiment, which will likely require the University to take remedial action.

Meanwhile, campus infrastructure continues to decay at an accelerating rate. An indication of this is McGill's Facilities Condition Index[2], which has increased from an estimated 31% in 2007 to 40% according to the recent Planifika study. This, coupled with the constrained amount of available capital funding, is resulting in a growing backlog of DM projects on hold.

McGill continues to actively press the Québec government for additional funding to deal with deferred maintenance, highlighting the unique and historic nature of many of our buildings. Emphasis is being placed not only on securing the necessary funds to deal with the backlog of deferred maintenance, but also to close the current gap in capital funding in order to avoid the tendency to create deferred maintenance in the first place. Appropriate funding is essential to the preservation McGill's unique physical assets.

[2] "FCI": the ratio of the value of deferred maintenance to building replacement value. An FCI over 10% is considered "serious"

4. OUTLOOK

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

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

The implementation of the Academic Plan, included in the White Paper (McGill's Strategic Plan), necessitated upfront investments and consequently placed McGill in an operating deficit position in its initial years, with the aim of re-establishing a balanced budget in the Plan's latter years. This approach has been adopted by many North American research-intensive universities. Indeed, many have used this planning approach for some time as a means of improving academic quality and distinctiveness.

The purpose of the new investment is to enable McGill to achieve its academic goals, provide increased leveraging of resources, advance student and administrative support, and provide accountable and enhanced investment in new and current programs, technologies, administrative infrastructure, and other priority initiatives. It will support McGill in sustaining and advancing its leadership position amongst Canadian and North American public university peers.

McGill's multi-year planning efforts have been created to support the Academic Plan. The model assumes that we will fund our plans through reallocations and newly-generated revenue, and when required, through internal base budget reductions during the five-year planning horizon. Mechanisms have been built into the model to allow for the flexibility to introduce across-the-board and/or selective reductions in expense budgets, should they prove to be necessary. A further refinement of this model will incorporate other strategic directions/initiatives, as well as fully integrate elements of the Strategic Research Plan and Physical Asset Master Plan.

The overall multi-year plan calls for a return to a balanced budget in the latter years of the 5-year plan, assuming expectations prevail. These expectations are being seriously challenged by both increasing pension costs and the prevailing pay equity legislation. Both of these are estimated to result in additional costs to McGill's operating budget, thus requiring either more revenues or expense reductions in the near term. MEESR is still requesting balanced budgets from universities, as the prospect of new investments on their part in fiscal 2016 will not materialize. In addition, the limited tuition increases to a reduced inflation factor further impact the challenge of achieving a balanced budget. Finally, we are still under the obligation to ensure that future annual budgets address the GAAP accumulated deficit for purposes of repaying it over a reasonable timeframe.

5. MCGILL BOND RATING

Standard & Poor's Rating Service reaffirmed (AA-) McGill's ratings associated with the $150 million of unsecured debentures in December 2015. Moody's Investors Services reaffirmed McGill's debt rating at Aa2 in March 2015.

Moody's confirmed an Aa2, Stable rating in March 2015, following the previous re-affirmation of the downgraded rating to Aa2 Stable in July 2012. Moody's confirmed that the University continues to hold flagship status in the Province of Québec and a dominant national and international market presence. Continued pressure from provincial funding adjustments and instability in tuition setting parameters are adverse factors. It considers McGill to be one of Canada's most prominent and internationally renowned institutions and cites the following factors for the rating:

- Strong student demand reflecting internally recognized academic reputation.
- Premier research activities that attract superior faculty and students.
- Significant financial strength that features ample endowment funds, although somewhat restricted.
- Low debt burden supported by provincial debt service subsidies.

Standard & Poor's confirmed an AA- rating and a continued stable outlook in December 2015, citing that McGill has:

- Excellent student demand and research profile.
- Provincial support that is considered good and consistent (Province of Québec rated at A+).
- McGill has a moderate debt load relative to that of peers, especially when including post-employment liabilities.
- Less diversified revenue sources compared to peers, with tight budgetary conditions due to limited tuition flexibility and provincial funding cuts constrain the ratings.

6. RECENT DEVELOPMENTS

In 2011, the government introduced new legislation which limits our operating flexibility going forward. "Loi 100" has resulted in the issuance of directives by MEESR, which has the objective to reduce expenses, and affect salary costs. In particular, the universities are expected to reduce specific expenses such as travel and entertainment, by 10% over a four year period. At the same time, it will be limited to restricted salary increases to specific administrative and support employee groups. In addition, there is an expectation of reduced headcount, through attrition in the same manner as certain government departments have been asked to undertake in the past four years.

On the funding front, the outlook is expected to be stable at best, as no further economic stimulus is envisioned, rather, the current government is attempting to limit infrastructure spending and promised reinvestment in the Education sector. As announced in the current year, MEESR promised re-investments in fiscal 2016 and beyond will not materialize. If the current low interest environment were ever to cease, this would also add additional strain on the Provinces' limited resources, as well as impact our own borrowing costs.

Respectfully submitted,

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Michael Di Grappa	Cristiane Tinmouth, CPA, CA
Vice-Principal, Administration and Finance	Interim Associate Vice-Principal, Financial Services

October 2015

PART II

Audited Financial Statements

Financial statements of
The Royal Institution for the Advancement of Learning / McGill University

April 30, 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of The Royal Institution for the Advancement of Learning / McGill University (the "University"), which comprise the balance sheet as at April 30, 2015, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Institution for the Advancement of Learning / McGill University as at April 30, 2015, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

•, 2015

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of revenue and expenses

Year ended April 30, 2015
(In thousands of dollars)

	Notes	2015	2014
		$	$ (Restated) (Note 2)
Revenue			
Grants			
Federal		**208,514**	205,687
Provincial		**444,970**	451,634
United States		**7,126**	7,684
Other sources		**27,596**	24,750
Contracts		**18,204**	19,667
Tuition and fees		**258,489**	245,241
Sale of goods and services		**138,726**	129,170
Gifts and bequests		**46,424**	45,018
Foreign exchange gain		**3,811**	1,500
Investment and interest income	16	**65,628**	52,218
		1,219,488	1,182,569
Expenses			
Salaries			
Academic		**303,128**	287,161
Administrative and support		**223,640**	231,922
Benefits		**82,134**	71,333
Student aid		**102,853**	101,068
Student		**37,356**	37,698
		749,111	729,182
Non-salary			
Material, supplies and publications		**43,811**	39,846
Contributions to partner institutions		**45,779**	36,655
Contract services		**23,981**	22,918
Professional fees		**21,723**	19,092
Travel		**25,715**	25,052
Cost of goods sold		**17,059**	18,188
Building occupancy costs		**19,613**	24,783
Energy		**19,867**	19,061
Other non-salary expenses		**38,600**	39,933
Hardware and software maintenance		**7,220**	7,502
Amortization of capital assets		**109,009**	108,999
Interest		**29,916**	30,174
Bank charges		**1,147**	1,100
		403,440	393,303
		1,152,551	1,122,485
Excess of revenue over expenses		**66,937**	60,084

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

The Royal Institution for the Advancement of Learning / McGill University

Statement of changes in net assets

Year ended April 30, 2015
(In thousands of dollars)

	Notes	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
		$	$	$	$	$	$
Net assets (deficiency), April 30, 2013 as previously reported		(315,296)	58,124	—	233,701	1,054,785	1,031,314
Change in accounting policy	2	(27,740)	—	—	—	—	(27,740)
Net assets (deficiency) May 1, 2013, as restated		(343,036)	58,124	—	233,701	1,054,785	1,003,574
Excess (deficiency) of revenue over expenses		97,206	12,811	15,184	(65,117)	—	60,084
Endowment contributions and gifts in kind		—	—	—	521	40,443	40,964
Post-employment benefit remeasurement		1,563	—	—	—	—	1,563
Pension liability remeasurement		(31,102)	—	—	—	—	(31,102)
Investment income items reported as direct (decrease) increase in net assets		—	—	—	—	145,354	145,354
Net change in internally restricted net assets		5,778	(6,073)	(4,133)	4,457	(29)	—
Investment in capital assets		(51,221)	—	(15,294)	66,515	—	—
Other transfers		(13,426)	1,593	4,243	177	7,413	—
Net assets (deficiency), April 30, 2014		(334,238)	66,455	—	240,254	1,247,966	1,220,437
Change in accounting policy	2	(32,607)	—	—	—	—	(32,607)
Net assets (deficiency) April 30, 2014, as restated		**(366,845)**	**66,455**	**—**	**240,254**	**1,247,966**	**1,187,830**
Excess (deficiency) of revenue over expenses		**86,009**	**9,378**	**13,026**	**(41,476)**	**—**	**66,937**
Post-employment benefit remeasurement		**(9,874)**	**—**	**—**	**—**	**—**	**(9,874)**
Pension liability remeasurement		**(14,892)**	**—**	**—**	**—**	**—**	**(14,892)**
Endowment contributions and gifts in kind		**—**	**—**	**—**	**914**	**42,619**	**43,533**
Investment income items reported as direct (decrease) increase in net assets		**—**	**—**	**—**	**—**	**105,814**	**105,814**
Net change in internally restricted net assets		**7,636**	**(334)**	**(2,599)**	**(3,598)**	**(1,105)**	**—**
Investment in capital assets		**(57,342)**	**—**	**(10,496)**	**67,838**	**—**	**—**
Other transfers		**(2,688)**	**(6,315)**	**69**	**3,628**	**5,306**	**—**
Net assets (deficiency), April 30, 2015		**(357,996)**	**69,184**	**—**	**267,560**	**1,400,600**	**1,379,348**

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

The Royal Institution for the Advancement of Learning / McGill University
Balance sheet
As at April 30, 2015
(In thousands of dollars)

	Notes	2015	2014
		$	$ (Restated) (Note 2)
Assets			
Current assets			
Cash and cash equivalents		**72,263**	27,747
Short-term investments	18	**17,134**	78,789
Receivables	4	**289,644**	352,631
Prepaid expenses		**3,849**	3,161
Inventory		**1,869**	1,836
		384,759	464,164
Marketable securities	18	**1,485,821**	1,270,073
Grants and contracts related to research receivable		**36,739**	42,097
Capital grants receivable	5	**789,508**	736,149
Loans receivable	6	**10,186**	11,829
Capital assets	7	**1,340,600**	1,306,416
		4,047,613	3,830,728
Liabilities			
Current liabilities			
Bank indebtedness	8	**151,589**	129,870
Accounts payable and accrued liabilities	9	**181,397**	185,888
Unearned revenue		**22,136**	25,102
Current portion of long-term debt	12	**60,596**	94,211
		415,718	435,071
Deferred contributions	10	**412,231**	413,946
Deferred capital contributions	11	**838,761**	825,113
Long-term debt	12	**800,506**	755,933
Accrued pension liability	13	**96,681**	100,829
Post-employment benefit obligation	13	**104,368**	112,006
		2,668,265	2,642,898
Commitments and contingent liabilities	20 and 21		
Net assets (deficiency)			
Invested in capital assets		**267,560**	240,254
Externally restricted for endowment purposes	14	**1,400,600**	1,247,966
Internally restricted	15	**69,184**	66,455
Unrestricted		**(357,996)**	(366,845)
		1,379,348	1,187,830
		4,047,613	3,830,728

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

Approved by the Board of Governors

____, Governor

____, Secretary – General

The Royal Institution for the Advancement of Learning / McGill University

Statement of cash flows

Year ended April 30, 2015

(In thousands of dollars)

	Notes	2015	2014
		$	$ (Restated) (Note 2)
Operating activities			
Excess of revenue over expenses		**66,937**	60,084
Adjustments for			
Amortization of capital assets		**109,009**	108,999
Amortization of bond discount		**198**	204
Amortization of deferred contributions	10	**(372,282)**	(369,164)
Amortization of deferred capital contributions	11	**(62,520)**	(61,655)
Change in unrealized fair value of investments	16	**5,329**	6,569
Change in fair value of derivative financial instruments	16	**10,752**	(2,400)
Change in pension liability		**(19,040)**	(9,852)
Change in post-retirement benefit obligation		**(17,512)**	(27,881)
		(279,129)	(295,096)
Net change in non-cash working capital items	17	**1,766**	14,018
Decrease (increase) in government grant receivable		**(1,522)**	(26,163)
Decrease in grants and contracts related to research receivable		**6,564**	9,927
Increase in deferred contributions		**370,567**	371,602
		98,246	74,288
Investing activities			
Decrease (increase) in short-term investments		**61,655**	(42,672)
Acquisition of capital assets		**(143,193)**	(140,716)
Purchase of marketable securities		**(1,094,856)**	(907,524)
Proceeds from sale of marketable securities		**863,027**	750,094
Change in loans receivable		**1,643**	1,700
		(311,724)	(339,118)
Financing activities			
Change in bank indebtedness		**21,719**	(48,293)
Investment income reported as direct increase in net assets		**105,814**	145,354
Endowment contributions		**43,533**	40,964
Issuance of long-term debt		**105,000**	219,000
Repayment of long-term debt		**(94,240)**	(159,684)
Deferred capital contributions		**76,168**	75,786
		257,994	273,127
Net change in cash and cash equivalents		**44,516**	8,297
Cash and cash equivalents, beginning of year		**27,747**	19,450
Cash and cash equivalents, end of year		**72,263**	27,747

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

1. Status and nature of activities

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

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

2. Change in accounting policy

The University adopted during the year, retrospectively, Section 3463 of the *CPA Canada Handbook – Accounting* titled “Reporting employee future benefits by not-for-profit organizations” (“Section 3463”). Previously, the University accounted for operations related to its defined benefit plan and post-employment benefit using the deferral and amortization method.

Section 3463 eliminates the deferral and amortization as a choice of accounting method for accounting for defined benefit plans as well as the niche of three months for the valuation of assets and obligations under the plan. It also requires that changes in the fair value of plan assets and changes in the valuation for defined benefits, including the costs of past services, actuarial gains and losses and gains and losses of a regulation or a compression, are recognized immediately in the statement of changes in net assets. Therefore, the asset or liability for defined benefits recognized in the balance sheet reflects the obligation in respect of the defined benefit net of the fair value of plan assets adjusted for any valuation impairment at the reporting date. In addition, Section 3463 requires the separate identification of revaluations and other elements of the other costs associated with the pension plan, which increases the visibility of the impact of periodic reassessments. These items are presented separately in the statement of revenue and expenses and changes in net assets.

Furthermore, the expected return on plan assets is no longer applied to the fair value of the assets to calculate the costs of benefits. Under Section 3463, the same discount rate must be applied to the accrued benefit obligation and the plan assets to establish the financial cost.

(In thousands of dollars)

2. Change in accounting policy (continued)

The retrospective application of the new standard resulted in the following changes to amounts previously reported:

	Initial balances	Adjustment	Adjusted balances
	$	$	$
Balance sheet			
Accrued pension liability			
As at May 1, 2013	(41,899)	(37,677)	(79,576)
As at April 30, 2014	(29,301)	(71,528)	(100,829)
Post-employment benefit obligation			
As at May 1, 2013	(118,783)	9,937	(108,846)
As at April 30, 2014	(120,440)	8,434	(112,006)
Unrestricted net assets			
As at May 1, 2013	(315,296)	(27,740)	(343,036)
As at April 30, 2014	(303,751)	(63,094)	(366,845)
Statement of revenue and expenses for the year ended April 30, 2014			
Expenses	98,125	(26,792)	71,333
Excess of revenue over expenses	33,292	26,792	60,084
Statement of changes in net assets for the year ended April 30, 2014			
Changes due to remeasurement	—	(29,539)	(29,539)

3. Significant accounting policies

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

Consolidation

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

Revenue recognition

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

3. Significant accounting policies (continued)

Revenue recognition (continued)

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

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

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

Gifts in kind are recorded at their fair value on receipt or at a nominal value when fair value cannot be reasonably determined. The value of gifts in kind in 2015 is $914 ($521 in 2014). The value of contributed volunteer hours is not recognized in these financial statements.

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

Financial instruments

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

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

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

(In thousands of dollars)

3. Significant accounting policies (continued)

Foreign exchange

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

Cash and cash equivalents

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

Student loans

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

Inventory

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in, first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was $17 million ($18.2 million in 2014).

Capital assets

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

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

Net assets

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

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

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

(In thousands of dollars)

3. Significant accounting policies (continued)

Employee future benefits

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

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The actuarial gain (loss) is recorded in the statement of revenue and expenses.

The most recent actuarial evaluation for funding purposes filed was dated December 31, 2012.

Use of estimates

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

4. Receivables

	2015	2014
	$	$
Operating, net of provision for doubtful accounts of $1,986 ($2,229 in 2014)	**29,354**	39,907
Student loans, net of provision for doubtful accounts of $469 ($410 in 2014)	**4,298**	4,029
Investment income	**2,271**	1,931
Government operating grants	**37,720**	55,913
Grants and contracts related to research – short-term	**155,434**	156,640
Capital grants receivable – short-term	**60,567**	94,211
	289,644	352,631

(In thousands of dollars)

5. Capital grants receivable

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

6. Loans receivable

Loans receivable bear interest at rates varying from 3.013% to 4.125% (3.013% to 4.267% in 2014), with maturities up to eight years.

7. Capital assets

			2015	2014
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**28,706**	**—**	**28,706**	28,706
Land improvements	**36,888**	**13,134**	**23,754**	24,512
Buildings	**631,406**	**340,879**	**290,527**	299,437
Major renovations	**911,716**	**234,497**	**677,219**	642,726
Leasehold improvements	**17,045**	**4,654**	**12,391**	1,978
Equipment	**461,655**	**263,849**	**197,806**	201,332
Rolling stock	**1,708**	**1,350**	**358**	510
Library materials	**158,503**	**89,860**	**68,643**	64,894
Intangible assets	**12,184**	**8,824**	**3,360**	4,687
	2,259,811	**957,047**	**1,302,764**	1,268,782
Assets under development	**37,836**	**—**	**37,836**	37,634
	2,297,647	**957,047**	**1,340,600**	1,306,416

8. Bank indebtedness

In accordance with MEESR regulations, McGill's Board of Governors has approved maximum borrowings of $300 million ($300 million as at April 30, 2014), under short-term credit facilities, of which $152 million has been used as at April 30, 2015 ($130 million as at April 30, 2014). Unsecured and uncommitted lines of credit, totalling $350 million ($350 million as at April 30, 2014), are available to McGill and are normally drawn through bankers' acceptances for periods of up to one year. The lines of credit bear interest at the prime rate or banker's acceptance rate, which averaged 2.95% for the year (3.00% as at April 30, 2014). Through the use of bankers' acceptances, the average cost of borrowing for the year was 1.41% (1.47% as at April 30, 2014). The rate in effect as at April 30, 2015, was 1.13% (1.39% as at April 30, 2014). Bankers' acceptances outstanding at year-end bear interest at rates ranging from 1.01% to 1.52% (1.30% to 1.58% as at April 30, 2014).

(In thousands of dollars)

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $2,452,007 ($2,046,478 as at April 30, 2014) of government remittances.

10. Deferred contributions

Deferred contributions represent the unspent portion of funds received for restricted purposes other than capital purchases, which are included under deferred capital contributions in Note 11.

	2015	2014
	$	$
Balance, beginning of year	**413,946**	411,508
Restricted funds received during the year	**339,236**	337,375
Gifts and bequests	**31,331**	34,227
Amortization of deferred contributions	**(372,282)**	(369,164)
Balance, end of year	**412,231**	413,946

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

	2015	2014
	$	$
Federal grants	**194,164**	201,909
Provincial grants	**50,966**	55,562
United States grants	**3,729**	3,571
Other grant sponsors	**68,081**	61,655
Contracts	**14,674**	14,855
Gifts and bequests	**58,814**	56,445
Endowment income	**16,989**	15,169
Investment income	**4,814**	4,780
	412,231	413,946

(In thousands of dollars)

11. Deferred capital contributions

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

	2015	2014
	$	$
Balance, beginning of year	**825,113**	810,982
Deferred capital contributions received	**76,168**	75,786
Amortization of deferred capital contributions	**(62,520)**	(61,655)
Balance, end of year	**838,761**	825,113
Represented by		
Net deferred contributions – MEESR	**436,010**	410,275
Net deferred contributions – Other provincial	**130,328**	134,456
Net deferred contributions – Federal	**123,310**	127,794
Net deferred contributions – Other	**149,113**	152,588
Balance, end of year	**838,761**	825,113

12. Long-term debt

	2015	2014
	$	$
a)		
1) Bonds (i)		
4.50% Series “11C,” due May 27, 2015	**4,703**	4,703
4.40% Series “13C,” due February 24, 2016	**4,653**	4,653
4.50% Series “14C,” due March 8, 2016	**7,000**	7,000
	16,356	16,356

(In thousands of dollars)

12. Long-term debt (continued)

	2015	2014
	$	$
a) (Continued)		
2) Notes (ii)		
3.320%, matured in June 1, 2014	**—**	10,287
3.690%, matured in December 1, 2014	**—**	19,208
3.839%, matured in December 1, 2014	**—**	27,801
4.267%, due December 1, 2015 (iii)	**180**	353
3.601%, due June 2, 2016	**6,767**	7,575
2.820%, due June 2, 2016	**21,494**	23,121
2.849%, due December 1, 2016	**57,960**	61,226
1.928%, due April 25, 2017	**6,473**	7,468
2.323%, due December 1, 2017	**58,564**	60,720
2.472%, due December 1, 2017	**18,755**	20,170
2.213%, due June 1, 2018	**165,376**	176,188
2.112%, due June 1, 2018	**3,837**	4,418
2.406%, due December 1, 2018	**15,781**	16,890
2.413%, due May 29, 2019	**207,438**	219,000
4.125%, due August 24, 2020	**3,993**	4,570
3.013%, due September 28, 2022	**7,654**	8,489
2.949%, due March 1, 2025	**52,500**	-
4.991%, due June 1, 2034	**20,000**	21,000
3.680%, due June 1, 2034	**52,500**	-
Total notes	**699,272**	688,484
Total Government of Quebec debt	**715,628**	704,840
b) McGill Senior Unsecured Debentures (iv), 6.15% Series “A,” mature on September 22, 2042	**150,000**	150,000
c) Other	**122**	150
d) Bond discounts and issuance costs	**(4,648)**	(4,846)
Total long-term debt	**861,102**	850,144
Current portion of long-term debt	**(60,596)**	(94,211)
	800,506	755,933

(In thousands of dollars)

12. Long-term debt (continued)

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

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

	Annual payment	Lump-sum payment
	$	$
3.601%, due June 2, 2016	808	5,959
2.820%, due June 2, 2016	1,626	19,868
2.849%, due December 1, 2016	2,760	55,200
1.928%, due April 25, 2017	994	5,479
2.323%, due December 1, 2017	2,662	53,240
2.472%, due December 1, 2017	1,415	15,925
2.213%, due June 1, 2018	10,812	132,940
2.112%, due June 1, 2018	582	2,091
2.406%, due December 1, 2018	1,110	12,451
2.413%, due May 29, 2019	11,562	161,190
4.125%, due August 24, 2020	600*	—
3.013%, due September 28, 2022	860*	—
2.949%, due March 1, 2025	5,140	6,240
4.991%, due June 1, 2034	1,000	1,000
3.680%, due June 1, 2034	2,100	12,600

* Annual payments vary from year to year.

(iii) These notes are secured by a grant receivable from the Ministère de l'Économie de l'Innovation et des Exportations ("MEIE"). Semi-annual payments of capital and interest are paid by MEIE, on McGill's behalf, to Financement Québec.

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

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

	$
2016	60,596
2017	124,430
2018	103,062
2019	168,922
2020	171,117

(In thousands of dollars)

13. Employee future benefits

Pension plans

The University has a defined contribution pension plan (the "Plan"), which has a defined benefit component that provides a minimum level of pension benefits for eligible plan members. Employee contributions are accumulated together with employer contributions and invested in the Plan's accumulation fund. Upon an employee's retirement, the accumulated amount is available for the purchase of a retirement annuity to be underwritten by a provider of the retiree's choice. Prior to January 1, 2011, employees were able to obtain a McGill annuity upon retirement.

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

Post-employment obligations

The University provides post-employment benefits other than pension benefits to eligible retired employees, including health and dental care. The present value of these commitments as at April 30, 2015, is estimated at $104.4 million ($112.0 million as at April 30, 2014). These amounts are recorded as liabilities.

Pension plan defined contribution plan

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

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

	2015	2014
	$	$
Cash payments recognized	**52,390**	44,893
Benefit costs	**19,444**	21,397
Accrued pension liability		
Defined benefit cost		
Current service cost	**5,830**	4,695
Interest cost on accrued benefit obligation	**4,369**	3,635
	10,199	8,330

(In thousands of dollars)

13. Employee future benefits (continued)

Pension plan defined contribution plan (continued)

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

	2015	2014
	$	$ (Restated) (Note 2)
Accrued pension liability	**(351,784)**	(338,987)
Fair value of Plan assets	**255,103**	238,158
Plan deficit	**(96,681)**	(100,829)
Obligation for defined benefits	**(96,681)**	(100,829)

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

	2015	2014
	%	%
Cash equivalents	**2.7**	2.0
Real estate	**11.1**	12.4
Equity	**31.9**	33.0
Fixed income	**54.4**	52.6

The significant assumptions used are as follows:

	2015	2014
	%	%
Discount rate		
Active	**5.75**	5.75
Retirees	**4.75**	4.75
Expected long-term rate of return on Plan assets	**4.00**	4.00
Price inflation allowance	**3.00**	3.00

(In thousands of dollars)

13. Employee future benefits (continued)

Post-employment benefit obligation – unfunded benefits

	2015	2014
	$	$ (Restated) (Note 2)
Balance, beginning of year	112,006	108,846
Current service cost	1,353	1,288
Interest cost on accrued benefit obligation	5,805	5,606
Benefit paid	(4,922)	(5,297)
Net actuarial (gain) loss	(9,874)	1,563
Balance, end of year	104,368	112,006

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

	2015	2014
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	5.75	5.75
Retirees	4.75	4.75
Rate of compensation increase – Academics	5.7	4.5
Rate of compensation increase – Non-academics	4.0	3.5
Health care cost trend rates		
Current trend rate	8.0	8.0
Ultimate trend rate	5.0	5.0
Year of ultimate trend rate	2019	2016

14. Externally restricted for endowment purposes

	2015	2014
	$	$
Faculty endowments	597,152	521,692
Student aid	458,751	410,407
Research endowments	118,459	109,232
Emerging priorities	25,265	20,486
Library endowments	27,426	25,477
Student services	9,327	7,801
Annuities	3,156	2,722
Accumulated income	161,064	150,149
	1,400,600	1,247,966

(In thousands of dollars)

14. Externally restricted for endowment purposes (continued)

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

Investment income on endowments, which comprises interest, dividends and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% (4.25% in 2014) of the average fair value of the endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that the actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

15. Internally restricted net assets

	2015	2014
	$	$
Self-financing teaching and research	23,111	17,638
Professor start-up funds	9,666	10,633
Other	36,407	38,184
	69,184	66,455

16. Investment and interest income

	2015	2014
	$	$
Change in unrealized fair value of investments	5,329	6,569
Change in fair value of derivative financial instruments	10,752	(2,400)
Investment and interest income	49,547	48,049
	65,628	52,218

(In thousands of dollars)

17. Net change in non-cash working capital items

	2015	2014
	$	$
Receivables (operating, student loans and investment income)	**9,944**	(3,404)
Prepaid expenses	**(688)**	769
Inventory	**(33)**	252
Accounts payable and accrued liabilities	**(4,491)**	15,902
Unearned revenue	**(2,966)**	499
	1,766	14,018

18. Financial instruments

Financial risks

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

The University has foreign currency risk arising from its foreign-denominated marketable securities. As at April 30, 2015, McGill's foreign-denominated marketable securities had a fair value of CAD$974 million (CAD$903 million in 2014), the most significant of which were US$ denominated marketable securities of CAD$702 million (CAD$617 million in 2014).

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

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

McGill's objective is to have sufficient liquidity to meet its liabilities when due. McGill monitors its cash balances and cash flows generated from operations to meet its requirements. As at April 30, 2015, the most significant financial liabilities are bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Derivatives

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of EURO29 million with a forward rate of 1.3821 and US$299 million with a forward rate of 1.2418 as at April 30, 2015, that matured on June 10, 2015 (EURO33.0 million with a forward rate of 1.52333 and US$255.5 million with a forward rate of 1.11107 as at April 30, 2014, that matured on June 11, 2014). As at April 30, 2015, the fair value of these contracts approximated an unrealized gain of $9.6 million, which was recorded in marketable securities (an unrealized gain of $3.2 million in 2014).

(In thousands of dollars)

18. Financial instruments (continued)

Derivatives (continued)

In October 2003, McGill entered into an agreement with RBC Dominion Securities (“RBCDS”) whereby it invested in a US$13 million US-denominated bond maturing in 2029. Under this agreement, the bond principal and the semi-annual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill $85.7 million in 2029. The fair value of the bond and the swap agreement is $56.7 million ($45.9 million in 2014) and is included in marketable securities.

The US dollar-denominated investment outstanding will result (at maturity) in the forfeiture of the interest receivable in exchange for a fixed amount of proceeds. As at April 30, 2015, the fair value of the swap is $33.8 million ($25.9 million in 2014).

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

The University entered into a swap agreement for the purchase of natural gas maturing March 31, 2016. The fair value of commodity financial swap is determined using the discounted value of expected cash flows. Expected future cash flows are determined using forward prices or rates in effect on the valuation date of the underlying financial index under the contractual term of the instrument. These cash flows are then discounted using a curve that reflects the credit risk of McGill or the counterparty, as applicable. The fair value of the swap is $0.2 million lower than the fixed price contracted. The resulting liability has been recorded in the balance sheet within the accounts payable and accrued liabilities.

Marketable securities

The marketable securities portfolio comprises the following types of investments:

	2015	2014
	%	%
Canadian equity	**11**	10
U.S. equity	**21**	17
Non-North American equity	**19**	23
Canadian fixed income	**14**	13
U.S. fixed income	**4**	4
Hedge funds	**18**	19
Alternate strategies, including private equity and other	**13**	14
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest at rates ranging from 0.72% to 4.38% (0.97% to 1.00% in 2014).

19. Pledges

Outstanding donation pledges as at April 30, 2015, amounted to $136.8 million ($141.6 million in 2014). These have not been recognized in the financial statements.

(In thousands of dollars)

20. Commitments

Operating leases

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

	$
2016	5,483
2017	4,272
2018	2,663
2019	2,954
2020	1,790
2021 and thereafter	6,442
	23,604

Construction in progress

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling $56.2 million. These commitments are expected to be met in the normal course of operations.

Private equity and private real estate funding commitments

As part of its investment activities, McGill places some of its endowment investments through private equity and private real estate funds. McGill is committed to invest an additional $68.6 million within the next four years in accordance with its arrangements with these funds.

21. Contingent liabilities

Litigation

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the *Civil Code of Quebec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2015, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

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

22. Comparative figures

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

GD15-06 Appendix B

Board of Governors

Financial Report

Fiscal Year ended April 30, 2015

October 8, 2015

Highlights for Fiscal 15

- ***Reporting Matters***
  - FY15 Audit
    - Accounting changes related to Post-Retirement obligations
      - Pension and post-employment benefits
    - Pay Equity
    - Restatement of prior year results
      - Financial Statements Note 2

- ***MEEESR* Measures***

✓ Subvention Conditionnelle

✓ Règles Budgétaires FY16

✓ Confirmation of long-term debt through FQ of $64M

* Ministère de L'Education, de l'Enseignement supérieur et de la Recherche

Audit of April 30, 2015 Financial Statements

- Unqualified opinion expressed by Deloitte
- Unadjusted errors were not significant
- Estimates made in the case of Pay Equity
- GAAP liabilities confirmed by actuaries for pension and post employment benefit obligation
- Calculs Définitifs confirmed annual operating grant for FY15

GAAP (Operating) Net Asset (Deficiency) as at April 30, 2015 ($ in millions)

	FY15	FY14	Change
Unrestricted Net Assets	$(358.0)	$(366.8)	
Internally Restricted Net Assets	$ 31.2	$ 31.9	
Net Assets (deficiency) - as at April 30 (i)	$(326.8)	$(334.9)	$ 8.1

(i): Represented on the Operating Balance Sheet as the sum of "Internally Restricted and Unrestricted" Net Assets relating to the Operating Fund.

Of the total Fund Balance of $326.8M (2014 - $334.9M), $98.1M (2014 – $95.8M) is the "financed" accumulated deficit once all non-cash GAAP liabilities have been removed. These are the pension and post retirement obligations as well as the vacation accrual amounting to $228.7M (2014 - $239.1M).

Summary of Operating Fund Results – Actual to Forecast

(See slides 21 – 23 for details)

	2015			
	Actual	Forecast	Variance	
Revenue			$	%
Total Revenues:	776,676	773,673	3,003	0.4%
Expenses			$	%
Salaries				
Total Salaries:	544,099	554,996	(10,897)	(2.0%)
Non-Salary				
Total Non-Salary:	133,362	161,276	(27,914)	(17.3%)
Total Expenses:	677,461	716,272	(38,811)	(5.4%)
Excess of Revenue over Expenses	99,215	57,401	41,814	72.8%
Total Interfund Transfers	(91,111)	(53,148)	(37,963)	71.4%
Surplus and Decrease in Accumulated Deficit	8,104	4,253	3,851	
Surplus as a % of total revenues	1.04%	0.55%		

Chronology of FY2015 actual results – Unrestricted Fund

DATE	NATURE	AMOUNT (in millions of $)	COMMENTS
10-Jun-15	**Initial Surplus**	**30.6**	As per BANNER Finance
	Gain relating to pension liability	4.20	Following confirmation by actuaries - Eckler
	Gain relating to post-employment liability	7.60	Following confirmation by actuaries - Towers
	Operating grant adjustment based	-13.90	Based on preliminary confirmation received from MEESR June 25
	Estimate of increase in Pay equity expense	-4.00	
	Internal loan write offs:		There has been no repayment on these loans for some years
	1. New Life Sciences	-9.30	⇨Each fiscal year, inactive internal loans are written off
	2. Barton Library Reno	-1.90	⇨These loans were grated based on future donations which did not materialize
	3. Governance Meet Room James	-1.70	⇨There remains $23.1M in Future Private donations
	4. Dr. Anderson Internal Loan	-0.60	
	5. Brain Imaging Project Medicine	-4.50	
	6. Renovation Arts	-0.30	
03-Jul-15	**Revised Surplus**	**6.20**	Communicated via email on July 3, 2015 (attached)
23-Jul-15	Additional pay equity expense	-5.36	Following meeting with Alice Kieran and External Auditors
27-Jul-15	Adjustment to operating grant	3.12	Upon receipt of 2015 Calcul definitifs
28-Jul-15	Miscellaneous adjustments/rounding	-0.58	gas swap adjustment; payroll clearing; prepaid expenses
17-Aug-15	Notice of subvention Placement Universitaires	4.72	Letter dated July 9, 2015; received by Financial Services August 15, 2015
25-Aug-16	**Revised Surplus**	**8.10**	

NOTES:
1. Negative amounts are reduction in revenues/increases in expenses
2. Above amounts have been audited by Deloitte

Restatement of comparative figures (Note 2)

- Due to change in accounting policy for post-employment obligations
  - ⇨Pension and post-employment benefits
- Significant change is elimination of deferral and amortization of the actuarial gain/loss
- Discount rate based on market interest rate for high quality debt instruments and applied to both the obligation and the plan assets
- New mortality tables with higher life expectancies issued in 2014 and applied to April 30, 2014 obligation
- Remeasurements recorded in statement of net assets
  - Substantially represented by actuarial gains/losses

Quantification of Restatement
Extract of Note 2 to Financial Statements

The retrospective application of the new standard resulted in the following changes to amounts previously reported:

	Initial balances	Adjustment	Adjusted balances
	$	$	$
Balance sheet			
Accrued pension liability			
As at May 1, 2013	(41,899)	(37,677)	(79,576)
As at April 30, 2014	(29,301)	(71,528)	(100,829)
Post-employment benefit obligation			
As at May 1, 2013	(118,783)	9,937	(108,846)
As at April 30, 2014	(120,440)	8,434	(112,006)
Unrestricted net assets			
As at May 1, 2013	(315,296)	(27,740)	(343,036)
As at April 30, 2014	(303,751)	(63,094)	(366,845)
Statement of revenue and expenses for the year ended April 30, 2014			
Expenses	98,125	(26,792)	71,333
Excess of revenue over expenses	33,292	26,792	60,084
Statement of changes in net assets for the year ended April 30, 2014			
Changes due to remeasurement	—	(29,539)	(29,539)

Quantification of Restatement (cont'd)

(in thousands of dollars)	30-Apr-15	30-Apr-14	Reduction in FY 15 Expense
Obligation for Defined Benefits	96,681	100,829	(4,148)
Post-employment Benefit Obligation	104,368	112,006	(7,638)
Reduction in benefits expense in FY15			(11,786)
Remeasurement reclassified from expense			
to Net assets			(24,766)

Employee Future Benefits(Note 13)

- Obligation for defined benefits $96.6M
- Post-employment benefit obligation unfunded benefits of $104.4M
- Remeasurements recorded in statement of net assets
  - Substantially represented by actuarial gains/losses
- Next actuarial valuation December 31, 2015

Pay Equity

- Exponential method used to redress salary gaps causing discrimination based on gender
- One plan for all categories of employees
- Settlement and payments made for 2001 and 2005 pay equity maintenance amount to $33 million
- Maintenance reviews complete for 2001 and 2005 pay equity exercises – file is officially closed
- Management's best estimate and accrual @ April 30, 2015 at the time of the estimate in July 2015: $15.0M
- Includes pay equity maintenance for 2010 and 2015 to April 30
- Estimate (unadjusted) at September 23 :$22.0M, including pension contributions, interest "Legal" vs prescribed Interest (10% to 15%) to be paid based on payment dates
- Assistant and full Librarians significantly increasing the liability (2010 exercise) as there are no salary scales

Various updates

- Remaining accrual related to Voluntary Retirement Program of $1.6M paid in FY15
- Interest free loans offered to unionized employees to bridge until first pay in 2014
- 1,379 loans granted amounting to $1.07M; remaining balance now 1,196 loans amounting to $942.5K
- Repayment due upon earlier of retirement or termination

Reseau Accumulated GAAP Deficits April 2014 and April 2013

$ en millions

Établissement	Déficit cumule - fonctionnement 2014	Déficit cumule - fonctionnement 2013
Université Bishop's	35,5 $	31,9 $
Université Concordia	170,1 $	130,4 $
Université Laval	410,6 $	407,0 $
Université McGill	271,8 $	287,5 $
Université de Montréal	471,2 $	430,8 $
HEC Montréal	-11,0 $	-14,6 $
École Polytechnique	83,0 $	75,1 $
Université de Sherbrooke	223,4 $	203,3 $
Université du Québec	1,218,3 $	1,064,9 $
TOTAL	**2,872,9 $**	**2,616,3 $**

Source : BCI

MEESR Measures

- The Subvention Conditionnelle is the last instalment of the operating grant for a fiscal year.
- FY15 Subvention Conditionnelle of $31.4M recorded in financial results and included as a receivable.

MEESR Measures
Règles Budgétaires FY16

- Have not received Règles Budgétaires for current fiscal year
- Budgeted operating grant at $299.5M plus $31.1M for the subvention conditionnelle for a total of $330.6 M
- Represents 11.7% of total available of $2.769 Billion; a 2.3% decrease from the 2014-15 envelope of $2.835 Billion
- McGill's share of gains de productivite cut of $2.2M or 20% of the total of $11.1M is the second highest after the UQ reseau, which is at $2.9M or 26.15% included in budgeted operating grant
- Additional cuts amounting to $72.9M will be allocated to Quebec universities by end of October
- FY15 operating grant was $341.6 M

Indicators / Trends

Encouraging:

- Canada's Top 100 Employers named McGill one of Montreal’s Top Employers for the seventh consecutive year
- McGill 24th in world university rankings, in spite of financial situation
- McGill continues to invest in student aid
- Have resolved the tenure track salary issue with the MUHC with their contribution capped at $3.5M
- S&P maintained our bond rating of AA-
- Moody’s confirmed an Aa2 (stable) rating in February 2015

Indicators / Trends (Continued)

Challenges:

- Government pressure to achieve balanced budget, in spite of restricted latitude on tuition fee increases and in-year budget cuts
- Continued compensation pressures, including pension and pay equity costs
- Federal indirect cost funding at $0.18 per dollar not sufficient to absorb actual costs, which are closer to $0.65 per dollar
- Regulatory oversight / government reporting continues to be costly on system
- Funding plan for deferred maintenance progressing very slowly since initial submission with the government in April 2015

Deferred Maintenance (DM)

- BCI (formerly CREPUQ) DM study conducted by external professionals completed and most reliable estimate of the University's DM inventory is approximately $1.3 billion.
- Facades have been excluded from the study as building inspections are underway in compliance with the Loi sur le bâtiment, target completion before the end of 2017
- MEESR funding insufficient to deter DM from increasing
  - Provincial funding of $25.6M, a decrease of $1M from prior year as funding formula caps building age at 50 years
  - Annual capital grant approximately $20M
  - On 25 year life, approximately $33M required annually, excluding any catch up
- Redevelopment of Wilson Hall slated for initiation in FY15
  - Quebec government announced contribution of $35M in FY12;
  - Awaiting approval from SQI

Future Developments / Outlook

- Government gross debt for fiscal 15 estimated at $206 billion and cooperative effort required to restore balanced budget
- Highest net debt to GDP ratio at 50% with Ontario second at 39% according to RBC
- Plan for reality:
  - Capital requirements (new buildings and major renovations) still not fully funded by MEESR; continued pressure on operating funds
  - Achieving a balanced budget will be difficult
- Liquidity situation stable; credit facilities not expected to tighten but uncertainty re. MEESR funding

Questions and comments

Forecast to Actual – Revenues (Operating Fund)

	2015			
	Total	Forecast	Variance	
Revenue			$	%
Government Sources				
Canada	25,788	25,804	(16)	(0.1%)
Quebec	341,640	347,950	(6,310)	(1.8%)
Tuition & Fees	258,489	266,021	(7,532)	(2.8%)
Sales of Goods & Services	129,678	121,175	8,503	7.0%
Gifts & Bequests	6,099	5,403	696	12.9%
Short-Term Interest	2,804	2,844	(40)	(1.4%)
Investment Income	8,367	4,476	3,891	86.9%
Total Revenues:	776,676	773,673	3,003	0.4%

Forecast to Actual – Expenses (Operating Fund)

	2015			
	Total	Forecast	Variance	
Expenses			$	%
Salaries:				
Academic	237,332	225,831	11,501	5.1%
Administrative & Support	202,061	201,530	531	0.3%
Student	11,674	11,201	473	4.2%
Student Aid	27,001	28,911	(1,910)	(6.6%)
Benefits	66,031	87,523	(21,492)	(24.6%)
Total Salaries:	544,099	554,996	(10,897)	(2.0%)
Non-Salary:				
Materials & Supplies & Publications	15,925	20,434	(4,509)	(22.1%)
Contributions to Partner Institutions	10,503	9,168	1,335	14.6%
Contract Services	13,920	17,861	(3,941)	(22.1%)
Professional Fees	10,661	11,641	(980)	(8.4%)
Travel	9,015	9,063	(48)	(0.5%)
Cost of Goods Sold & Services Rendered	17,059	21,889	(4,830)	(22.1%)
Building Occupancy Costs	16,652	21,366	(4,714)	(22.1%)
Energy	19,469	22,604	(3,135)	(13.9%)
Other Non-Salary Expenses	10,122	12,988	(2,866)	(22.1%)
Hardware & Software Maintenance	6,925	8,886	(1,961)	(22.1%)
Interest & Bank Charges	3,111	5,376	(2,265)	(42.1%)
Total Non-Salary:	133,362	161,276	(27,914)	(17.3%)
Total Expenses:	**677,461**	**716,272**	**(38,811)**	**(5.4%)**

Forecast to Actual – Transfers (Operating Fund)

	2015			
	Total	Forecast	Variance	
			$	%
Excess (Deficiency) of Revenue over Expenses	**99,215**	**57,401**	**41,814**	**72.8%**
Pension and Post-Employment Remeasurements	(24,766)	-	(24,766)	
Internal Loan Repayment	(22,810)	-	(22,810)	
Capital Purchase	(34,532)	-	(34,532)	
Book-to-Market Adjustment	(5,284)	-	(5,284)	
Over/(Under) Distributed of Endowment Income	(581)	-	(581)	
Inter-fund Transfers	(2,853)	(53,148)	50,295	
Net Capitalization & Decapitalization of Investment	(285)	-	(285)	
Total Interfund Transfers	**(91,111)**	**(53,148)**	**(37,963)**	**71.4%**
Surplus and Decrease in Accumulated Deficit	**8,104**	**4,253**	**3,851**	
Surplus as a % of total revenues	**1.04%**	**0.55%**		