

# Memorandum

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**TO:** Senate

**FROM:** Professor Yves Beauchamp, Vice-Principal (Administration and Finance)

**SUBJECT:** Annual Report on the Financial State of the University

**DATE:** December 5, 2018

**DOCUMENT #:** D18-23

**ACTION REQUIRED:** ☒ INFORMATION ☐ APPROVAL/DECISION

**ISSUE** The Annual Report on the Financial State of the University is presented to Senate for information.

**BACKGROUND & RATIONALE** The Financial Report to the Board of Governors is circulated to Senate for information in Appendix A. The presentation in Appendix B provides an overview on expectations for future developments relating to the University's financial state. It highlights elements of the Financial Report that are germane to the Senate's mandate and draws attention to certain indicators and trends.

**PRIOR CONSULTATION** Audit Committee of the Board of Governors; Board of Governors.

**SUSTAINABILITY CONSIDERATIONS** The Annual Report on the Financial State of the University allows Senate to receive information on the management of the University's financial resources.

**IMPACT OF DECISION AND NEXT STEPS** N/A

**MOTION OR RESOLUTION FOR APPROVAL** N/A

**APPENDICES** Appendix A: 2017-2018 Annual Financial Report to the Board of Governors  
Appendix B: PowerPoint Presentation of the Annual Report on the Financial State of the University



# 2017 > 2018 FINANCIAL REPORT



**> TO THE BOARD OF GOVERNORS**

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# 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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**McGill**

Secretariat Secréariat

McGILL UNIVERSITY

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

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

Signed this 18<sup>th</sup> day of October 2018.

Edyta Rogowska  
Secretary-General

# FINANCIAL REPORT TO THE BOARD OF GOVERNORS

<b>OVERVIEW</b>	5
<b>EXECUTIVE SUMMARY</b>	6
<b>OPERATIONAL HIGHLIGHTS</b>	11
OVERALL PERFORMANCE	12
STUDENTS	16
Enrolment by Faculty	17
Tuition and Fees	18
Academic Program Developments	20
Graduation	22
Degrees Awarded by Faculty	23
International Students	24
Student Mobility and Student Exchange Programs	25
TENURE-TRACK ACADEMIC STAFF	26
Other Academic Staff	27
Teaching Awards	27
ACCOMPLISHMENTS	28
ADMINISTRATIVE AND SUPPORT STAFF	31
Administrative Staff Awards	31
<b>AUDITED FINANCIAL STATEMENTS</b>	32
<b>FINANCIAL HIGHLIGHTS</b>	34
Generally Accepted Accounting Principles (GAAP)	36
Balance Sheet Assets and Liabilities	36
OVERALL SOURCES OF REVENUES AND EXPENSES	46
SOURCES OF REVENUES	49
EXPENSES REQUIRED TO FULFILL THE UNIVERSITY'S MISSION	55
RESEARCH AND RESTRICTED ACTIVITIES	55
OTHER RESTRICTED FUNDS	57
FUNDRAISING ACTIVITIES	57
ENDOWMENT GIFTS	58
OPERATING HIGHLIGHTS	59
<b>DEFERRED MAINTENANCE – CAMPUS RENEWAL</b>	63
<b>UPDATE ON THE RVH</b>	65
<b>OUTLOOK</b>	68
<b>MCGILL BOND RATING</b>	69

# OVERVIEW

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 year ended April 30, 2018 and includes the audited financial statements of the University as at April 30, 2018, prepared in accordance with Generally Accepted Accounting Principles (GAAP). Our auditors, Deloitte, have provided a clean opinion further to the Board approval. This Report includes a "Financial Highlights" section, providing more detailed information on the audited financial statements.

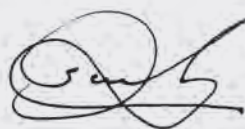
The financial activities which support McGill's mission are accounted for internally in four distinct funds: Operating (Unrestricted), Restricted, Plant, and Endowment. The GAAP financials reflect the University's operational results, which would include the operating excess of revenue over expenses, 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 et de l'Enseignement supérieur (MEES) with respect to capital assets which were previously not recorded as a receivable. The overall liabilities also reflect deferred revenue contributions (as described above) which are amortized into income in the future, and liabilities related to vacation, pension, and future employee benefits. The majority of the Long-Term Assets consists of buildings and equipment, and its Net Asset balance is represented as "Investments in Capital Assets." The Endowment related Net Assets balance contains the total investments held in perpetuity for the purpose of earning income for spending, as designated by the respective donors and are considered externally restricted.

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

Respectfully submitted,



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



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



# EXECUTIVE SUMMARY



# HIGHLIGHTS

The University posted a net operating surplus for the year of **\$14.0 MILLION** on a GAAP basis.

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MEES Calculs Définitifs were received on August 6, 2018 confirming funding for the 2018 fiscal year. The provincial government announced a reinvestment in higher education of **\$66.0 MILLION** and McGill's share is **\$6.5 MILLION**. The MEES estimated enrolment grants for 2016-17 and 2017-18, however these estimates are deemed optimistic given McGill's intent not to grow enrolment.

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McGill and two of its affiliated hospitals were awarded **\$70.7 MILLION** in federal funding under the Strategic Investment Fund (SIF) program with an additional **\$5.1 MILLION** from the Provincial Plan Quinquennal des Investissements Universitaires (PQI) for upgrades to research facilities and energy-saving renovations. McGill's share of **\$66.0 MILLION** in SIF funding and PQI contribution of **\$2.2 MILLION** will be applied to seven projects, which have a total budget of **\$191.7 MILLION**. At April 30, 2018 McGill has received **\$24.0 MILLION**. The project deadline has been extended to November 2018.

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The University triggered a pension valuation as at December 31, 2017, one year earlier than required under legislation. The pension deficit as at April 30, 2018 is **\$53.3 MILLION**, a decrease of **\$17.5 MILLION** from April 30, 2017.

# HIGHLIGHTS

For the year ended April 30, 2018, an unrealized valuation loss of **\$2.9 MILLION** was recorded on the financial instrument to repay the Series A **\$150.0 MILLION** McGill debentures. A realized gain of **\$2.1 MILLION** combined with an unrealized gain of **\$5.9 MILLION** was recorded on bond forwards related to Series B debentures. The bond forwards were rolled for an additional three months on May 17<sup>th</sup>, 2018 with a settlement date of August 17<sup>th</sup>, 2018. A gain of **\$9.2 MILLION** was realized on this transaction.

Capital expenditures allocated to the series B debentures were **\$28.5 MILLION** for IT projects and **\$80.1 MILLION** for deferred maintenance for the fiscal year ended April 30, 2018.

The average cost of borrowing for the fiscal year, through the use of bankers' acceptances, was **1.79% (2017 – 1.01%)**

MEES confirmed up to **\$173.6 MILLION** of long-term debt financing through Financement Québec to June 30, 2018. Only **\$130.2 MILLION** was received.

# HIGHLIGHTS

On August 27, 2017, the University entered into a ten-year loan agreement of **\$25 MILLION**, with a 20 year amortization period for the purchase of 680 Sherbrooke. The loan bears interest at the bankers' acceptance rate plus 0.73% with a **10 YEAR** interest rate swap for an all-in rate of **2.84%**.

Our rating agencies, Moody's and Standard and Poors have reaffirmed our rating of Aa2 (stable) and AA-, respectively, on both the Series A (**\$150 MILLION**) and Series B (**\$160 MILLION**) issuances.

The total income distribution on endowment funds at **4.25%** plus an additional 0.25%, as approved by the board of governors due to the incremental increasing market value of the Endowment Fund, amounted to **\$66.6 MILLION** on realized income of **\$149.7 MILLION**, resulting in an under distribution of **\$83.1 MILLION** due to higher returns over our distribution rate. The under distribution increases the market value of the Endowment Fund.

# OPERATIONAL HIGHLIGHTS







# OVERALL PERFORMANCE

McGill continues to positively distinguish itself from peer institutions, as indicated by the following performance highlights from FY 2017-2018:

## RANKINGS

- QS World University Rankings: McGill placed #32 in the world and remains one of two top ranked Canadian universities.
- *Maclean's* magazine: For the 13<sup>th</sup> year in a row, *Maclean's* ranked McGill as the #1 university in Canada among institutions in the medical-doctoral category. McGill maintained the top spot despite having a per-student operating budget in the bottom 25 per cent of the 49 universities included in the *Maclean's* rankings.
- QS named Montreal the world's #4 student city. Montreal placed #1 last year, and #7 the year previous. QS evaluated 125 cities to determine its Top 100 ranking.
- Times Higher Education World University Rankings: McGill maintained its #42 position. McGill, the University of Toronto (#22) and UBC (#34) were the only Canadian universities in the global top 50.
- Times Higher World Reputation Rankings: McGill was #41, up from #42 last year.
- Academic Rankings of World Universities ("Shanghai Rankings"): McGill placed #67, down from #63 last year.
- The Desautels MBA program was named #78 in the world, and the top Canadian program, by the 2018 Financial Times Global MBA Rankings. Desautels was one of only three Canadian schools to make the global Top 100 list.
- Times Higher Education: McGill's Faculty of Law placed #13 on the global list of best schools to study law.

## FINANCE

- In February 2018, Standard & Poor's Ratings Services re-affirmed McGill's credit rating as AA- (stable).
- In December 2017, Moody's Investor Service re-affirmed McGill's credit rating as Aa2 (stable).

1<sup>st</sup>

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

4<sup>th</sup>

QS world ranking of Montreal as student university



## SUSTAINABILITY

- The Vision 2020 Climate & Sustainability Action Plan (2017-2020) was released in November 2017. The plan expands and enhances the University's commitment to sustainability, and outlines a number of initiatives to lower McGill's carbon footprint. The plan also articulates two long-term goals: carbon neutrality by 2040, and a Platinum sustainability rating by 2030.
- Mediacorp Canada selected McGill as one of Canada's top 100 greenest employers. This ranking was based on the University's commitment to sustainability, as demonstrated by its Climate and Sustainability Action Plan, the graduate and undergraduate academic programs related to sustainability, the McGill Sustainability Systems Initiative (MSSI) research hub, the Sustainable Workplace Certification program and the Staff Garden Program, among other initiatives.
- McGill was ranked Canada's second-greenest campus by Corporate Knights.
- The launch of the Sustainable Workplace Certification Program, which challenges students and staff to foster healthier, more environmentally friendly, and connected workplaces through individual and collective practices.
- The McGill Sustainable Events project was launched in September 2017. Since then, it has provided consultations, trainings, resources, and certification to encourage and support dozens of more responsible events at McGill, including spring Convocation ceremonies.
- The McGill Office of Sustainability hosted its eighth annual Catalyst Awards Gala to honour individuals and teams who have made lasting contributions to the sustainability of our campuses.
- Student society members of post-graduate, undergraduate and Macdonald campus voted to continue funding the Sustainability Projects Fund for five years. The \$900,000-a-year fund was founded in November 2009.
- On March 21, 2018, McGill announced that it is phasing out the sale of single-use bottled water on its campuses. The bottles will be banned from sale starting May 1, 2019.





## INFRASTRUCTURE PROJECTS

Completed Projects:

- Restoration of the **Roddick Gates**.
- **The Leacock Terrace**: a year-long project to address water drainage issues.
- **Donald E. Armstrong Building** (the former bookstore building): A complete interior renovation to accommodate the Desautels Faculty of Management's masters programs

Work began on several projects, including:

- **Stewart Biology**: a complete reconfiguration of the west wing's interior spaces, the construction of new state-of-the-art research and teaching laboratories, and the replacement of all mechanical and electrical installations. To be completed in 2020.
- **Macdonald Engineering**: an extensive restoration/preservation of the exterior. To be completed December 2018.
- **Macdonald-Harrington**: a major restoration of the exterior masonry walls, replacement of roof, replacement or restoration of windows, and extensive improvements or repairs to the foundation. To be completed March 2019.
- Construction of a new emergency power facility located between the **Wong and Ferrier Buildings**, to replace the mobile diesel-powered generator that sits between the Ferrier and James Buildings. To be completed November 2018.
- **680 Sherbrooke**: reconfiguration of the basement to allow McGill's bookstore to bring almost all of its operations back under one roof.
- McGill Nanotools Microfabrication Laboratory (**Rutherford Building**): replacement of HVAC, upgrade of the dangerous goods storage and distribution, and installation of new gas detection system. To be completed July 2018.
- Sustainable Materials Processing Facility (**Wong Building**): major renovation and upgrade. To be completed August 2018.
- **Smart energy grids**: modification of heating systems to create energy recovery loops linking the 12 main buildings of the southeast sector of the downtown campus. To be completed February 2019.
- **HVAC upgrades** were started, or continued, in Burnside Hall, the Education Building, the Ferrier Building, the Lyman Duff Medical Building, the Macdonald-Stewart Library Building, the Rutherford Physics Building, and the University Centre.



## OPERATIONS

- The editors of Canada's Top 100 Employers named McGill one of Montreal's Top Employers for the 10th consecutive year. Université de Montréal and Concordia University were also on the list, as was the Jewish General Hospital. The University earned high marks for the Social Equity and Diversity Education Office (SEDE) and its work cultivating a respectful and supportive campus culture, among other initiatives.
- McGill launched the "Family Days" pilot project, which allows employees to use up to three of their nine sick days to care for a sick child, spouse, parent, grandparent, or sibling.
- Two collective agreements were reached with AMURE (Association for McGill University Research Employees): one for Research Associates/Research Assistants, the other for Post-Doctoral fellows. The University also signed the first-ever collective agreement with McGill's Floor Fellows.

## OPERATIONAL HIGHLIGHTS

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Enrolment (Fall 2017) at **40,971** students;

**+1.18%** over Fall 2016; **+ 5.65%** over Fall 2012

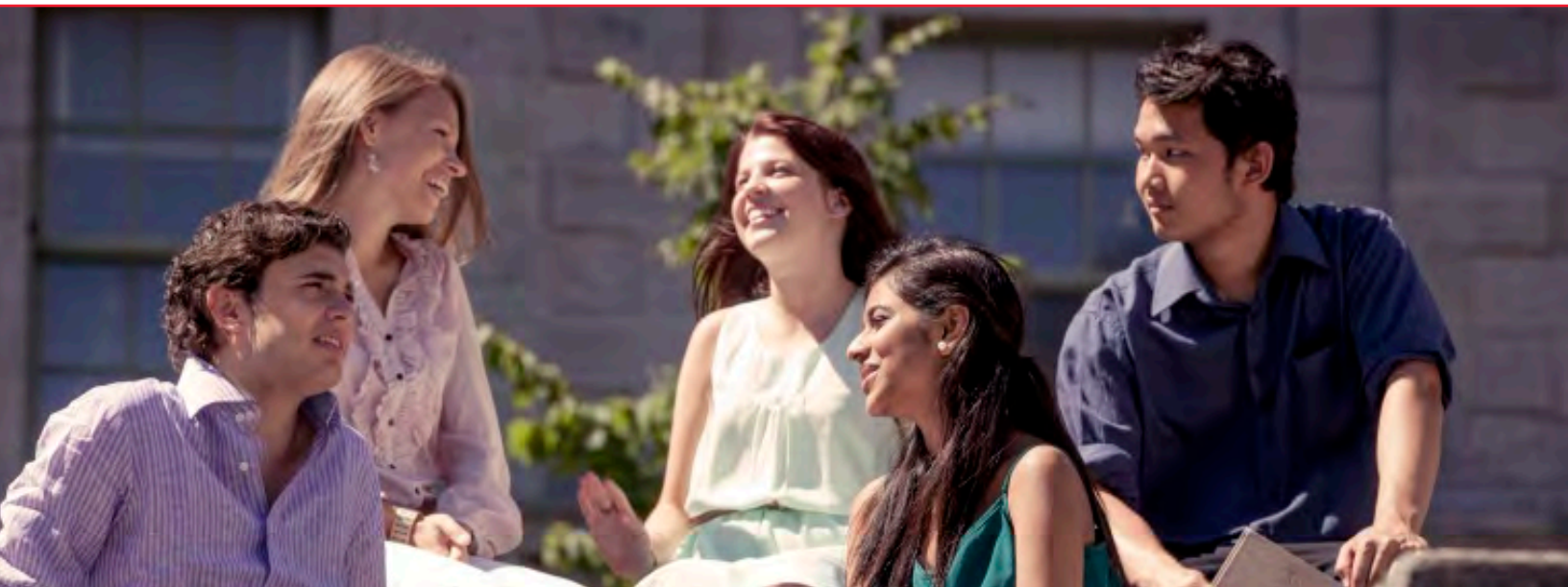
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Tenure Track Academics total approximately **1,691**;

net change of **+ 281** over the fiscal periods 2003 to 2018

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Approximately **1,390** academic hires over the period  
2003 to 2018



# STUDENTS

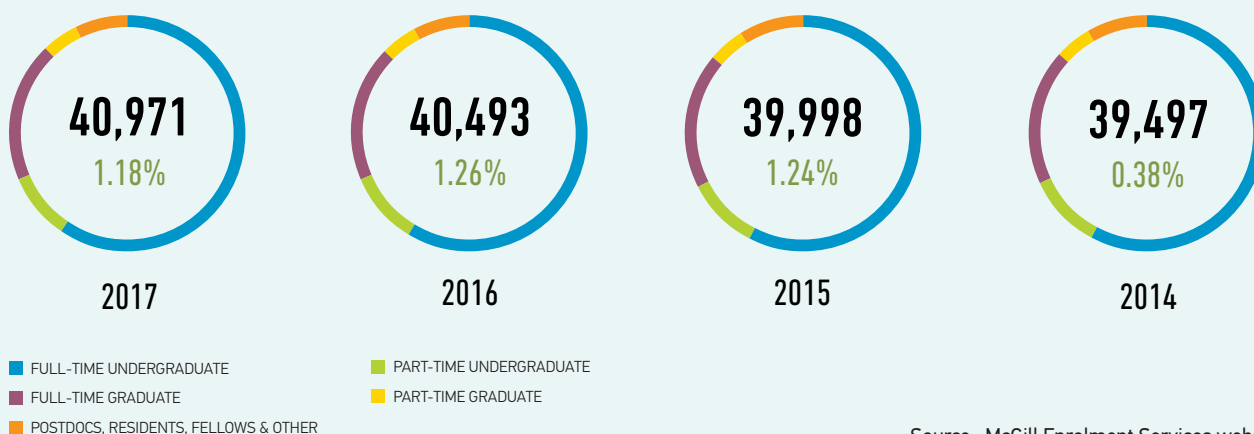
Total student enrolment at McGill in Fall 2017 almost reached the 41,000 mark between its downtown and Macdonald campuses. The majority of the students (77%) are enrolled in full-time undergraduate and graduate programs, as highlighted in the chart below.

Part-time undergraduate and graduate students represent 14%, while the remaining 9% 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 24% of the total.

Overall, enrolment grew by 1.18% year-over-year (prior year: 1.26%), as highlighted below:

OVER  
**40,500**  
STUDENTS

## STUDENT ENROLMENT (FALL 2017)



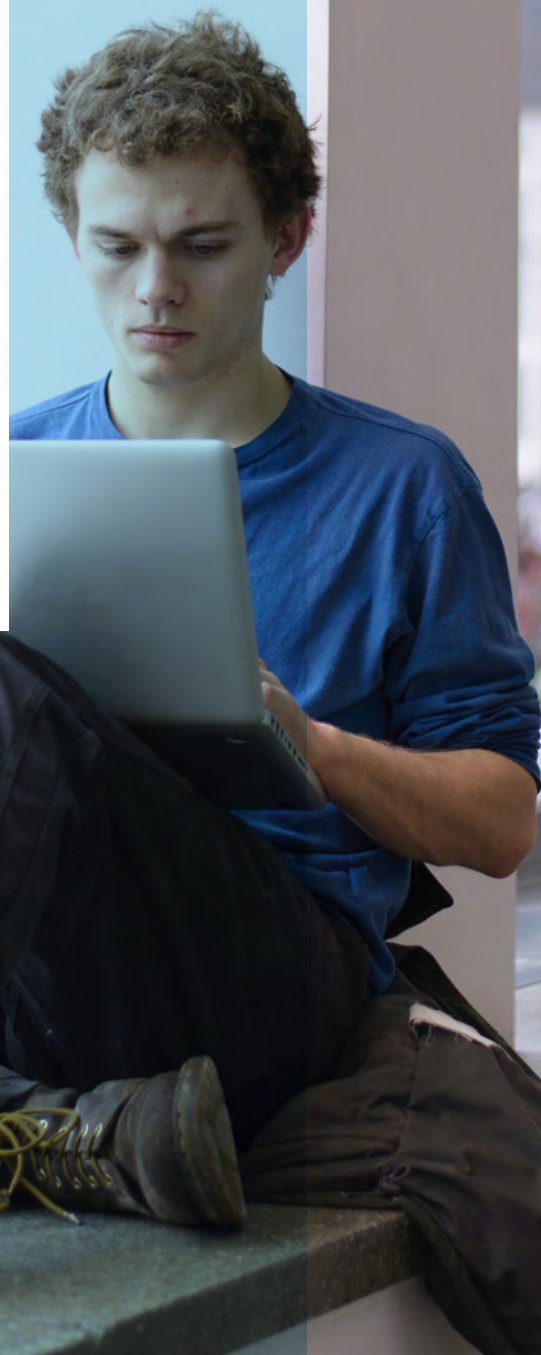
Source: McGill Enrolment Services website

The total student enrolment is distributed amongst our 11 Faculties and our School of Continuing Studies, as depicted in the table below outlining Fall 2017 enrolments.

### Enrolment by Faculty (Full-time and Part-time) Fall 2017

	# of Students	Percentage of Student Population
Agricultural & Environmental Sciences	2,133	5.2%
Arts	9,327	22.8%
Arts & Science (B.A. & B.Sc.)	533	1.3%
School of Continuing Studies	4,794	11.7%
Dentistry	267	0.7%
Education	2,605	6.4%
Engineering	4,741	11.6%
Interfaculty Studies	489	1.2%
Law	904	2.2%
Medicine <sup>①</sup>	5,280	12.9%
Desautels Faculty of Management	3,230	7.9%
Schulich School of Music	913	2.2%
Science	5,755	14.0%
<b>Total</b>	<b>40,971</b>	<b>100.0%</b>

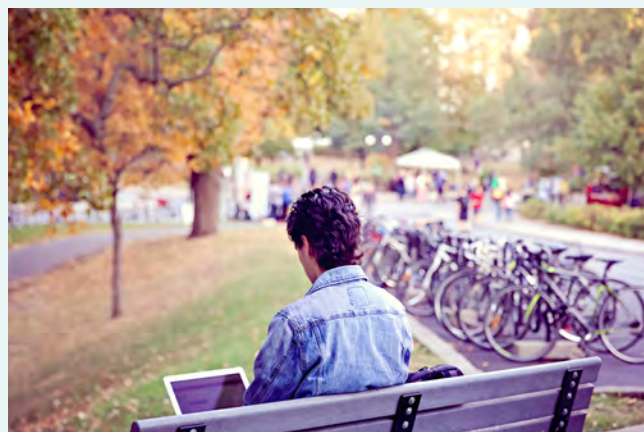
<sup>①</sup> Total enrolment in Medicine includes 874 undergraduate students registered in the Ingram School of Nursing and the School of Physical and Occupational Therapy (i.e. Bachelor of Nursing, BSC – Rehabilitation Science, and BSC – Nursing). The rest of the undergraduate class account for 732 students, those in the graduate program total 1,724 students, post-docs total 340 students, and residents and fellows make up the remaining 1,246 students.



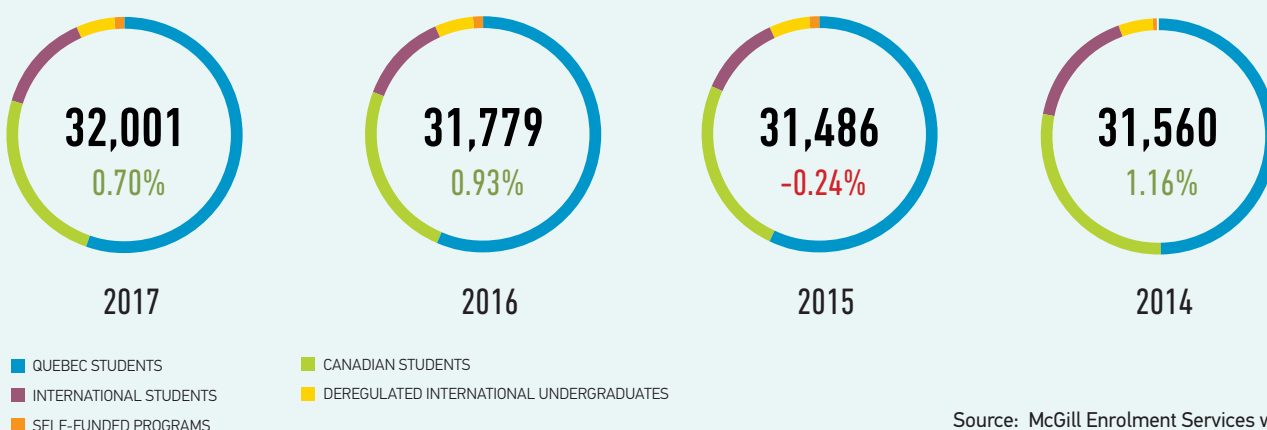


This mix of student enrolments effectively translates into full-time equivalent units (FTEs) which are the root of government funding (grants), tuition and fees. The following chart highlights the billed (tuition) FTEs over the last four years, realizing that McGill's overall student population is made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

The MEES funding model funds students at various amounts based on their discipline of study. For example, in fiscal 2018, an undergraduate student in Arts (classified as *Lettres* by MEES) is funded at an annual amount of \$5,104. On the other hand, an undergraduate student in Dentistry (classified as *Médecine dentaire* by MEES) is funded at \$29,224 per year.



## BILLED TUITION - STUDENT FTEs



Source: McGill Enrolment Services website

Overall, the total numbers of full-time equivalent (FTE) students was above predictions by approximately 0.2%. The overall number of international FTEs (excluding those exempt from the supplement) increased by 9% to 6,673 (compared to a budget of 6,123) from 6,067 in the prior year.

The tuition fee (regulated by MEES) for a full-time Québec student in 2017-18 was \$2,391 (\$79.70 per credit), an increase of 2.7% from 2016-2017. The fee for a full-time out-of-province Canadian student was \$7,402.80 (\$246.76 per credit including supplements), a 2.4% increase from 2016-17. The fee for an International student in 2017-18 ranged from \$16,373 (\$545.78 per credit) to \$42,027 (for the BCOM) including supplements, depending on the program. Currently, MEES regulations require all Canadian Masters students to pay the out-of-province supplement, while Canadian Ph.D. students are exempt.

Since 2013-14, fee increases for regulated tuition have been limited to a cost of living index based on the "change in household disposable income for Quebec residents" (2.7% increase in the base Quebec rate of tuition in 2017-18 based on the reference period for this index of 2014-2015). These tuition amounts include amounts required to be contributed to the Province's financial aid regime.

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

## GOVERNMENT FUNDING

All tuition fee supplements paid to McGill University by Canadian and International students are deducted from the University's operating grant. The total supplements deducted from our operating grants amounted to \$92.0 million (2017: \$80.6 million), representing 35.4% of all tuition collected. The government does provide a limited number of differential fee waivers for international students at the Graduate level which are administered through the Graduate & Postdoctoral Studies Office.

Starting in Fall 2015, newly admitted students from France pay fees at the Canadian rate due to a signing of an entente between Quebec and France. All MBA, certain specialized Masters in Management programs and a small number of students registered in distance programs outside of Quebec pay a self-funded tuition rate.

In fiscal 2008, the government permitted the deregulation of international tuition relating to specific undergraduate disciplines, including Management, Science, Engineering, Law, Mathematics and Computer Science. All other international tuition fees in excess of the Québec (regulated) basic tuition fee (\$2,391) are effectively remitted in their entirety to the Québec government via a "claw-back" supplement in the annual operating grants.

The deregulation of the afore-mentioned programs generated revenues of \$72.8 million in 2017-2018 (2016-2017: \$61.3 million). The University is allowed to charge over and above the mandated "supplement" for these deregulated disciplines.

MEES has defined Frais Institutionnels Obligatoires (FIOs), which essentially represent those administrative fees charged by universities to students in addition to tuition. MEES'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, MEES has dictated otherwise and required a change in how these students are charged. The annual increase for McGill in 2017-18 was limited to 2.7%, unless specific agreements are confirmed by both McGill and the affected student groups/representatives.

The total "FIO's" revenue amounted to \$36.4 million (2017: \$35.3 million). In addition to FIOs, other student fees charged for non-credit courses, student services, Athletics, and other activities totaled \$23.6 million (2017: \$22.1 million). These fees, combined with tuition, totaled \$319.7 million (2017: \$294.3 million) and represent 37.5 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 MEES):

New programs by Faculties		
School of Continuing Studies		Professional Development Certificate in Data Analytics for Business Professional Development Certificate in Data Science and Machine Learning Certificate of Proficiency in Bilingual Professional Communication (30 cr.) Diploma in Professional Practice in Finance (30 cr.)
Faculty of Education	B.Sc.	(Kinesiology); Minor in Entrepreneurship (18 cr.) Professional Development Certificate in Global Trends in Education (12 CEUs)
Faculty of Engineering	B.Eng	Major in Materials Engineering
	B.Eng	Minor in Aerospace Engineering (24 cr.)
Graduate and postdoctoral Studies	M.Sc.	(Applied) in Animal Science; Non-Thesis - Sustainable Agriculture (45 cr.)
	Ph.D.	Oral Health Sciences (0 cr.)
	Ph.D.	Urban Planning, Policy and Design (0 cr.)
	M.Eng.	Materials Engineering; Non-Thesis - Environmental Engineering (45 cr.)
	M.Sc.	Pharmacology; Environmental Health Sciences (45 cr.)
	Ph.D.	Pharmacology; Environmental Health Sciences (0 cr.)
	Ph.D.	Mental Health (0 cr.)
	M.Sc.	Epidemiology; Non-thesis - Environmental and Occupational Health (48 cr.) Graduate Diploma in Medical Radiation Physics (31 cr.)
	Ph.D.	Psychology; Behavioural Neuroscience (0 cr.) Graduate Certificate in Performance - Choral Conducting (15 cr.)
Desautels Faculty of Management	B.Com.	Major in General Management; Concentration in Retail Management (15 cr.)
Schulich School of Music	B.Mus.	Minor in Conducting (18 cr.)
Faculty of Science	B.Sc.	Joint Honours in Physics and Computer Science (78-81 cr.)
	B.Sc.	Major in Statistics (54 or 57 cr.)



## Program retirements by Faculties

Faculty of Arts	B.A.	Minor Concentration in North American Studies (18 cr.)
	B.A.	Major Concentration in North American Studies (36 cr.)
	B.A.	Minor Concentration in neo-Hellenic Studies (18 cr.)
	B.A.	Minor Concentration in Scriptural Languages (18 cr.)
	B.A.	Major Concentration in Scriptures and Interpretations (36 cr.)
	B.A.	Major Concentration in Quebec Studies (36 cr.)
	B.A.	Major Concentration in German Studies; Literature and Culture (36 cr.)
	B.A. & Sc.	Major Concentration in German Studies; Literature and Culture (36 cr.)
	B.A.	Minor Concentration in Catholic Studies (18 cr.)
	B.A.	Major Consultation in Latin American Studies (36 cr.)
	B.A.	Major Concentration in Hispanic Studies; Literature and Culture (36 cr.)
	B.A.	Major Concentration in Hispanic Studies; Languages (36 cr.)
	B.A.	Honours in Latin American and Caribbean Studies; Thematic (60 cr.)
	B.A.	Honours in Latin American and Caribbean Studies; Area (60 cr.)
School of Continuing Studies		Graduate Certificate in Marketing (15 cr.)
		Professional Development Certificate in Management Consulting (23.5 CEUs)
Faculty of Engineering		Bachelor of Software Engineering (147-148 cr.)
Faculty of Education/ Faculty of Science	B.Sc./B.Ed.	Major Concentration in Biology - Cell/Molecular with Minor in Chemistry for Teachers (135 cr.)
	B.Sc./B.Ed.	Major Concentration in Biology - Organismal with Minor in Chemistry for Teachers (135 cr.)
	B.Sc./B.Ed.	Major Concentration in Biology - Cell/Molecular with Minor in Physics for Teachers (135 cr.)
	B.Sc./B.Ed.	Major Concentration in Biology - Organismal with Minor in Physics for Teachers (135 cr.)
	B.Sc./B.Ed.	Major Concentration in Chemistry with Minor in Biology for Teachers (135 cr.)
	B.Sc./B.Ed.	Major Concentration in Chemistry with Minor in Physics for Teachers (135 cr.)
	B.Sc./B.Ed.	Major in Mathematics for Teachers (135 cr.)
	B.Sc./B.Ed.	Major Concentration in Physics with Minor in Biology for Teachers (135 cr.)
	B.Sc./B.Ed.	Major Concentration in Physics with Minor in Chemistry for Teachers (135 cr.)
Graduate and Postdoctoral Studies	LL.M.	Law; European Studies (46-47 cr.)



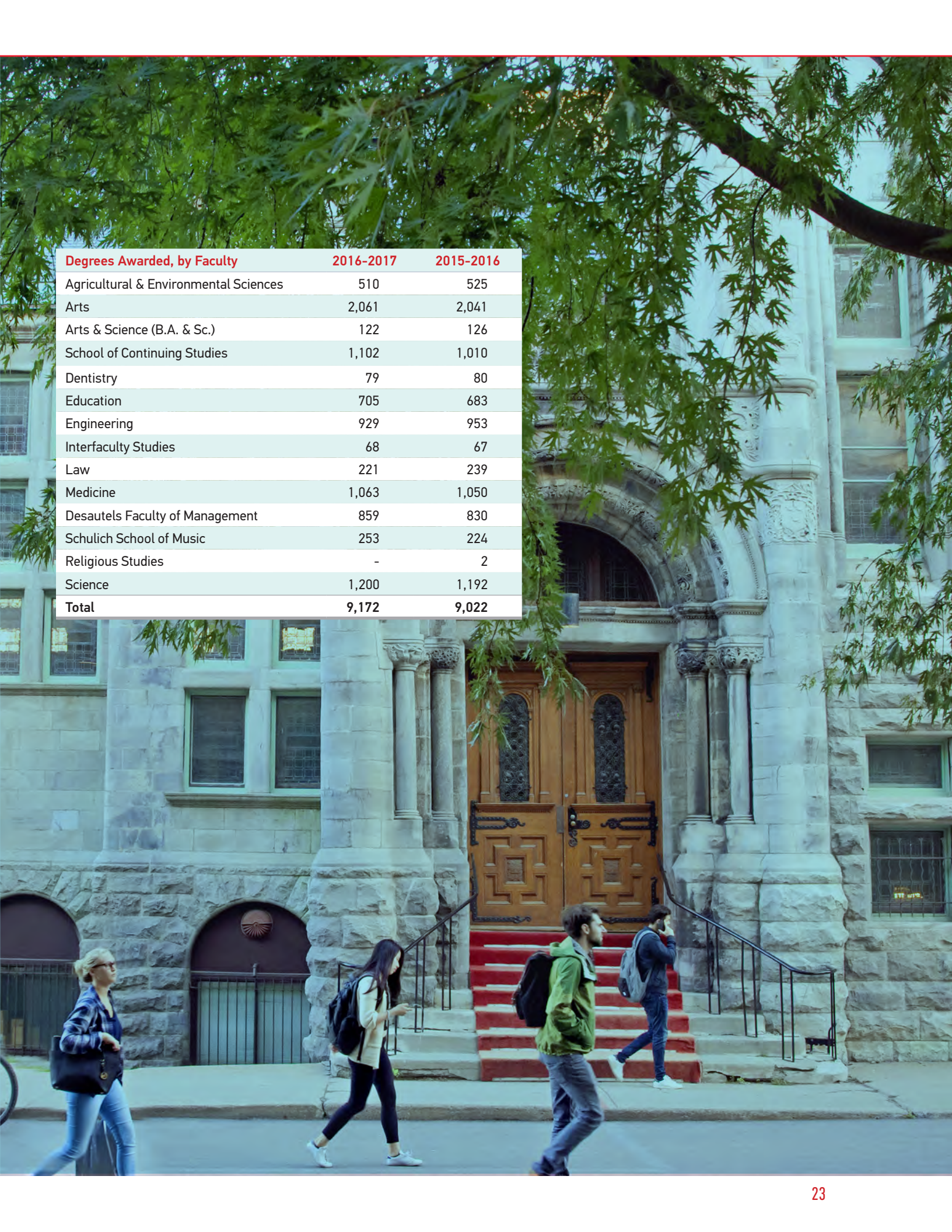
# GRADUATION

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	2016-2017	2015-2016
Undergraduate	6,005	5,889
Masters	1,865	1,829
Doctoral	510	541
Certificates & Diplomas (Grad)	530	459
CE Non-credit Certificates	262	304
<b>Total</b>	<b>9,172</b>	<b>9,022</b>







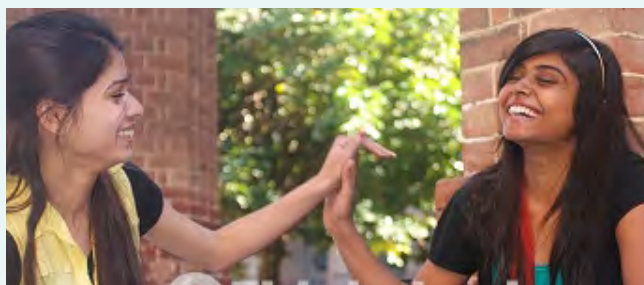
Degrees Awarded, by Faculty	2016-2017	2015-2016
Agricultural & Environmental Sciences	510	525
Arts	2,061	2,041
Arts & Science (B.A. & Sc.)	122	126
School of Continuing Studies	1,102	1,010
Dentistry	79	80
Education	705	683
Engineering	929	953
Interfaculty Studies	68	67
Law	221	239
Medicine	1,063	1,050
Desautels Faculty of Management	859	830
Schulich School of Music	253	224
Religious Studies	-	2
Science	1,200	1,192
<b>Total</b>	<b>9,172</b>	<b>9,022</b>





# INTERNATIONAL STUDENTS

In 2017, McGill welcomed over 12,000 International students from a variety of countries around the world, of whom 85% are from the countries listed.



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

## International Students - Full-time and Part-time

### Top 20 Countries

### Fall 2017

1. USA	2,435
2. China	2,394
3. France	1,875
4. India	709
5. Saudi Arabia	327
6. South Korea	290
7. Iran	288
8. Turkey	236
9. United Kingdom	225
10. Mexico	199
11. Japan	190
12. Pakistan	176
13. Bangladesh	137
14. Brazil	136
15. Germany	112
16. Egypt	107
17. Australia	97
18. Italy	94
19. Lebanon	92
20. Taiwan	86
<b>Total</b>	<b>10,205</b>





#### **Student Mobility and Student Exchange Programs**

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

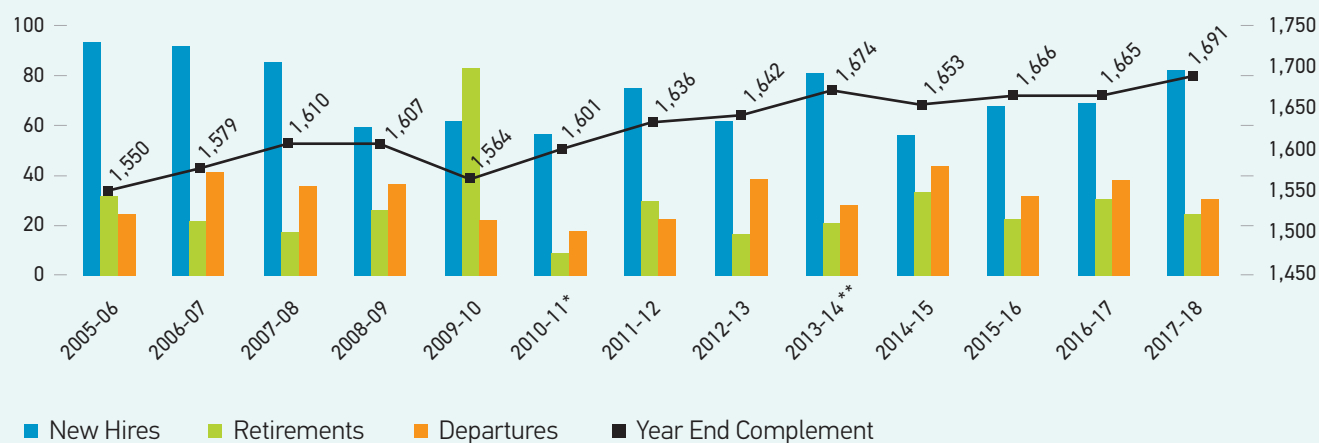
New student exchange partnerships - faculty:

- National University of Ireland Galway (Galway, Ireland) & McGill University Faculty of Law
- Norwegian Academy of Music (Oslo, Norway) & McGill University Schulich School of Music

# TENURE-TRACK ACADEMIC STAFF

Our academic staff ranks have continued to grow to support the new programs and program offerings to students. The academic renewal program, which started in the early 2000s, has resulted in many new faculty members, coming from all over the world in various fields of study. Currently, the total number of tenure-track academics is approximately **1,691**, 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**



\* 11 month year

\*\* 3 for 4 tenure track replacement plan

Source: McGill Academic Personnel Office/ Planning and Institutional Analysis



During fiscal 2018, a total of 82 new tenure-track academics were appointed, ranging from assistant to full professors across the various faculties. Two tenure-track librarians were also appointed, as outlined in the following table.

New Tenure-Track by Faculty/Unit	FY2018	FY2017
Agricultural & Environmental Sciences	6.0	3.0
Arts	15.0	14.0
Dentistry	0.0	1.0
Education	8.0	2.0
Engineering	8.0	7.0
Law	2.0	2.0
Desautels Faculty of Management	9.0	7.0
Medicine	22.0	19.0
MSE (multi-Faculty)	n/a	n/a
Schulich School of Music	1.0	2.0
Science	11.0	13.0
Faculties -Total	82.0	70.0
Librarians	2	1
<b>Total</b>	<b>84.0</b>	<b>71.0</b>

\* From FY17, Religious Studies counts are folded into Arts  
Source: McGill Office of Associate Provost (Budget & Resources)

Other Academic Staff (as at May 1 <sup>st</sup> )	2018		
	Full-Time	Part-Time	Total
Research Associates & Assistants	375	100	475
Academic Associates	119	25	144
<b>Total</b>	<b>494</b>	<b>125</b>	<b>619</b>

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 members continue to perform at exceptional levels and were awarded many honours in FY2017-2018, including:

Recipient	Distinction
Ehab Abouheif (Biology)	Guggenheim Fellowship
Jan Adamowski (Bioresource Engineering)	Royal Society of Canada, College of New Scholars, Artists and Scientists
Anila Asghar (Education)	RSC College of New Scholars, Artists & Scientists
Chris Barrington-Leigh (School of Environment)	Global Young Academy
Marcel Behr (Medicine)	RSC Fellows, Academy III: Academy of Sciences
Éric Bélanger (Political Science)	RSC College of New Scholars, Artists & Scientists
Elena Bennett (School of Environment)	RSC College of New Scholars, Artists & Scientists
Stefanie Blain-Moraes (Biology & Biomedical Engineering)	World Economic Forum, Young Scientists
Miguel Burnier (Ophthalmology)	Canadian Academy of Health Sciences
Khanh Huy Bui (Anatomy & Cell Biology)	CIFAR Azrieli Global Scholar
Marta Cerruti (Materials Engineering)	World Economic Forum, Young Scientists
Martha Crago (Vice-Principal, Research & Innovation)	Order of Canada
François Crépeau (Law)	Order of Canada
Isabelle Daunais (French Language & Literature)	Acfas Prix André-Laurendeau
Martin Drapeau (Education)	RSC College of New Scholars, Artists & Scientists
Kyle Elliott (Nature Resource Science)	World Economic Forum, Young Scientists
Vihang Errunza (Management)	RSC Fellows, Academy II: Academy of Social Sciences
Alan Evans (Montreal Neurological Institute)	Canadian Academy of Health Sciences
Daryl Haggard (Physics)	CIFAR Azrieli Global Scholar
Edith Hamel (Neurology & Neurosurgery)	RSC Fellows, Academy III: Academy of Sciences
Srividya Iyer (Psychiatry)	RSC College of New Scholars, Artists & Scientists
Yann Joly (Human Genetics)	Canadian Academy of Health Sciences





Recipient	Distinction
Jozsef Kovecses (Mechanical Engineering)	NSERC Synergy Award for Innovation
Chao-Jun (CJ) Li (Chemistry)	Killam Fellowship
Saeed Mirza (Civil Engineering)	Order of Canada
Claudia Mitchell (Education)	Trudeau Fellowship
Balfour Mount (Palliative Care)	Canadian Medical Hall of Fame
Hamed Najafabadi (Quantitative Life Sciences)	Sloan Fellowships
Caroline Palmer (Psychology)	RSC Fellows, Academy II: Academy of Social Sciences
Madhukar Pai (Epidemiology, Biostatistics & Occupational Health)	Canadian Academy of Health Sciences
Morag Park (Biochemistry, Medicine, Oncology)	Canadian Academy of Health Sciences
Jerry Pelletier (Goodman Cancer Research Centre)	RSC Fellows, Academy III: Academy of Sciences
Joelle Pineau (Computer Science)	NSERC E.W.R. Steacie Memorial Fellowship
Pierre Pluye (Family Medicine)	Canadian Academy of Health Sciences
Markus Poschke (Economics)	Bank of Canada Governor's Award
Ernesto Schiffrin (Medicine)	Prix Galien Canada Research Award
Donald Sheppard (Microbiology & Immunology)	Canadian Academy of Health Sciences
Hanadi Sleiman (Chemistry)	Killam Fellowship
Lisa Stevenson (Anthropology)	Mellon New Directions Fellowship
Maryam Tabrizian (Biomedical Engineering)	RSC Fellows, Academy III: Academy of Sciences
Victoria Talwar (Education & Counselling Psychology)	RSC College of New Scholars, Artists & Scientists
Brett Thombs (Psychiatry)	Canadian Academy of Health Sciences
Andrea Tone (Social Studies of Medicine)	RSC Fellows, Academy I: Academy of the Arts & Humanities
Michel Tremblay (Goodman Cancer Research Centre)	RSC: McLaughlin Medal
Stuart Trenholm (MNI)	Sloan Fellowship
Nico Trocme (Social Work)	RSC Fellows, Academy II: Academy of Social Sciences
Daniel Wise (Mathematics & Statistics)	Royal Society of London
Robert Zatorre (Neurology & Neurosurgery)	RSC Fellows, Academy III: Academy of Sciences

# THE CANADA RESEARCH CHAIRS (CRC)

Program supports research excellence in engineering and the natural sciences, health sciences, humanities, and social sciences. In FY2017-2018, 18 McGill researchers were appointed new CRCs and 11 McGill researchers had their chairs renewed:

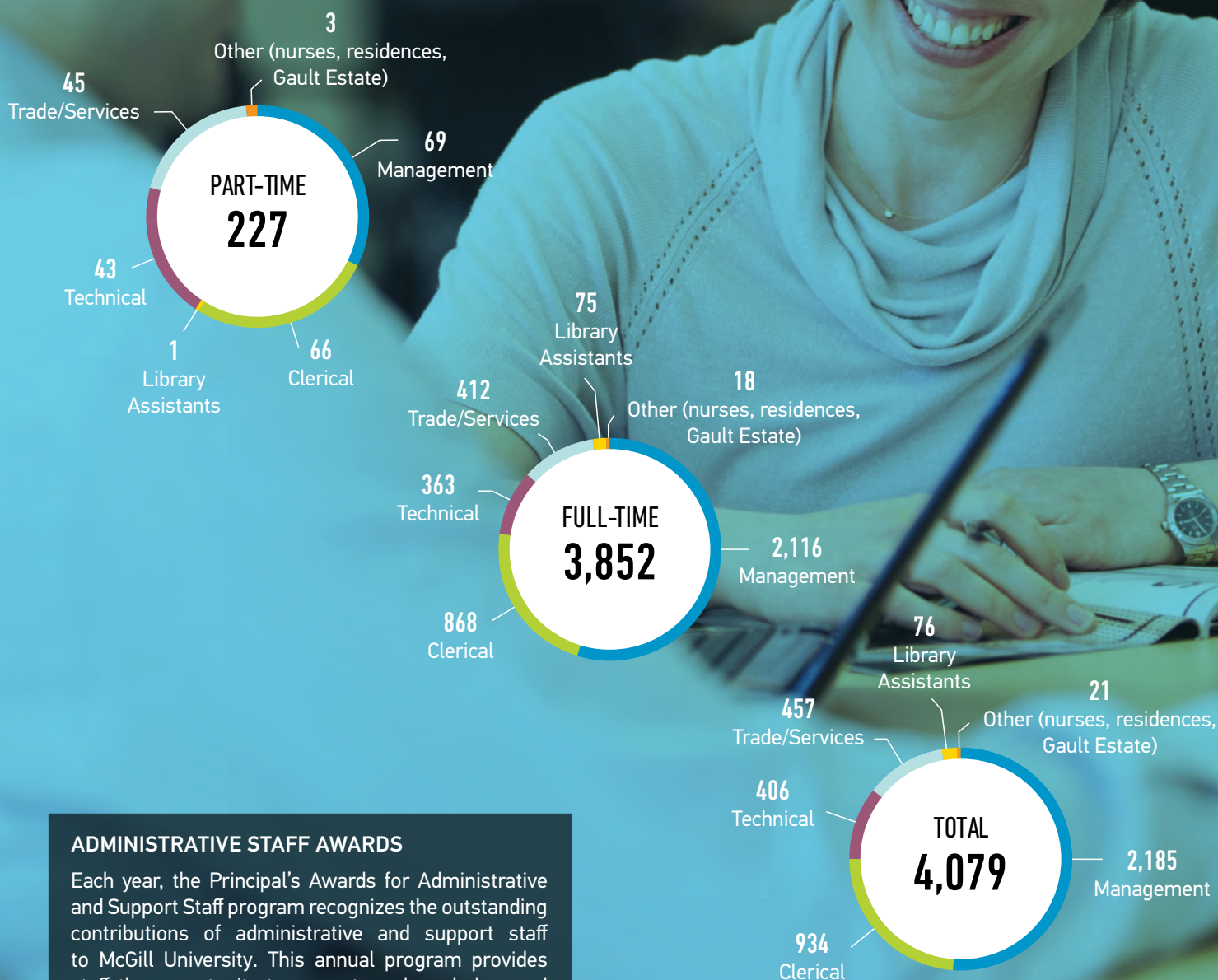
Recipient	Tier	CRC Subject
D. Scott Bohle (Chemistry)	1 (Renewal)	Bioinorganic Chemistry
Marta Cerruti (Materials Engineering)	2 (Renewal)	Biosynthetic Interfaces
Russell Davidson (Economics)	1 (Renewal)	Economics
Reza Farivar-Mohseni (MNI)	2	Integrative Neuroscience
Ahmad Haidar (Biomedical Engineering)	2	Artificial Pancreas Systems
Michael Hendricks (Biology)	2	Neurobiology & Behaviour
Corinne A. Hoesli (Chemical Engineering)	2	Cellular Therapy Bioprocess Engineering
Dennis Jensen (Education)	2	Clinical Exercise & Respiratory Physiology
Bartha Maria Knoppers (Centre of Genomics & Policy)	1 (Renewal)	Law & Medicine
Odile Liboiron-Ladouceur (Electrical & Computer Engineering)	2 (Renewal)	Photonic Integration Towards Emerging Applications
Nicole Yee-Key Li-Jessen (Communication Sciences & Disorders)	2	Personalized Medicine of Voice Disorders
Ashok K. Malla (Psychiatry)	1 (Renewal)	Early Psychosis & Early Intervention in Youth Mental Health
Belinda Nicolau (Dentistry)	2 (Renewal)	Life Course Oral Epidemiology
Alexandre Orthwein (Oncology)	2	Genome Stability & Haematological Malignancies
Caroline Palmer (Psychology)	1 (Renewal)	Cognitive Neuroscience of Performance
Adrien Peyrache (MNI)	2	Systems Neuroscience
Maksym Radziwill (Mathematics)	2	Number Theory
Christie Rowe (Earth & Planetary Sciences)	2	Earthquake Geology
Peter Sabor (English)	1 (Renewal)	Eighteenth-Century Studies
Jack Sankey-Childress (Physics)	2 (Renewal)	Experimental Optomechanics
Tibor Schuster (Family Medicine)	2	Biostatistical Methods for Primary Health Care Research
Signy Sheldon (Psychology)	2	Cognitive Neuroscience of Memory
Michael Sullivan (Psychology)	1	Behavioural Health
Victoria Talwar (Education & Counselling Psychology)	2 (Renewal)	Forensic Developmental Psychology
David M. Theodore (Architecture)	2	Architecture, Health & Computation
Nathalie Tufenkji (Brace Centre for Water Resources Management)	1	Biocolloids & Surfaces
David Wachsmuth (Urban Planning)	2	Urban Governance
Ian R. Watson (Biochemistry)	2	Functional Genomics of Melanoma
Jianguo Xia (Parasitology)	2	Bioinformatics & Big Data Analytics

Sources: Communications Services (Communications & External Relations), Research and Innovation, Human Resources, Office of Sustainability, Facilities Management



# ADMINISTRATIVE AND SUPPORT STAFF

The support network required to assist both students and professors is varied and comes from a variety of individuals working in different capacities around the University. A total of 4,079 individuals work to support the academic and research mission of the University, as at May 1, 2018, highlighted below:



## ADMINISTRATIVE STAFF AWARDS

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

# AUDITED FINANCIAL STATEMENTS





# FINANCIAL HIGHLIGHTS







## REPORTING PERIOD YEAR ENDED APRIL 30, 2018

The reported revenue and expenditures represent twelve months of operations ended April 30, 2018.

### GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

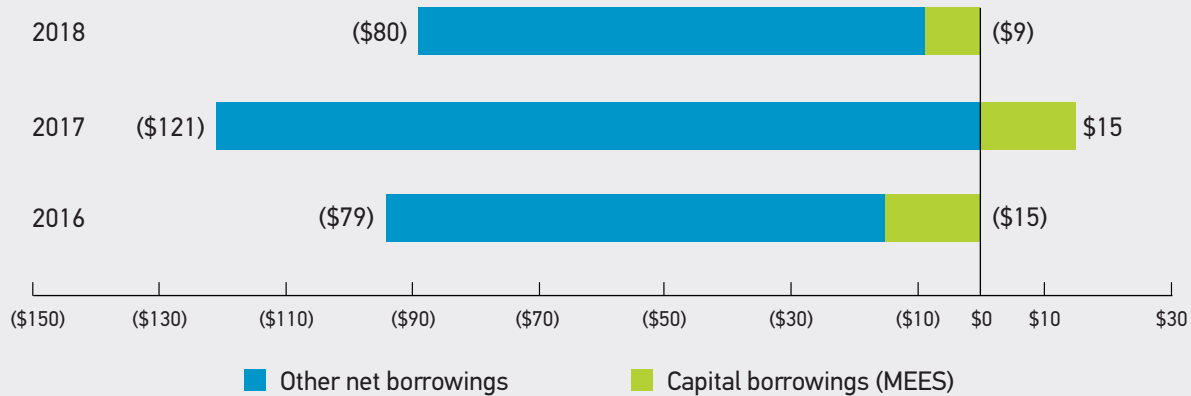
The audited financial statements, in accordance with GAAP, include the Operating (Unrestricted), Restricted, Plant, and Endowment Funds, which are combined into one column to present the total assets, liabilities, revenue and expenses of the University.

### 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 7 in the Audited Financial Statements). As at April 30, 2018, McGill had a bank indebtedness of \$89.2 million, as compared to \$106.7 million one year earlier. Bank indebtedness, net of operating cash and short-term investments excluding endowment investments of \$10.8 million (2017: \$10.5 million) held for operations, was \$40.5 million (2017: \$75.2 million). This bank indebtedness continues to be primarily required to temporarily finance borrowings owed by the *Ministère de l'Éducation et de L'Enseignement supérieur* (MEES) to McGill. As at April 30, 2018, the total capital borrowings owed from MEES amounted to \$80.5 million (2017: \$120.7 million). These amounts include annual capital and deferred maintenance grants, as well as other specific capital grants and prior year financings which the University has temporarily refinanced on behalf of MEES. The following chart outlines the progression of the Net Bank Indebtedness position over the last three years, as compared to the level of temporary capital borrowing on behalf of MEES. The timing of the issuance of long-term debt to reimburse the temporary borrowings is dictated by MEES.

**Total Bank Indebtedness at April 30**  
(\$ millions)

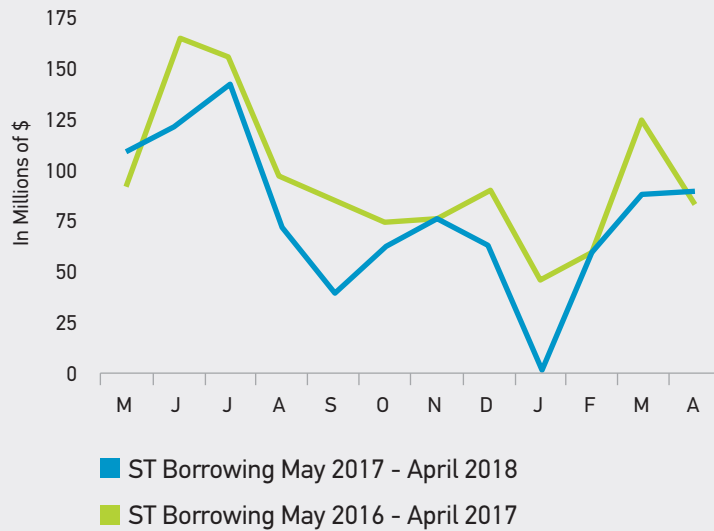


Source: McGill Financial Services

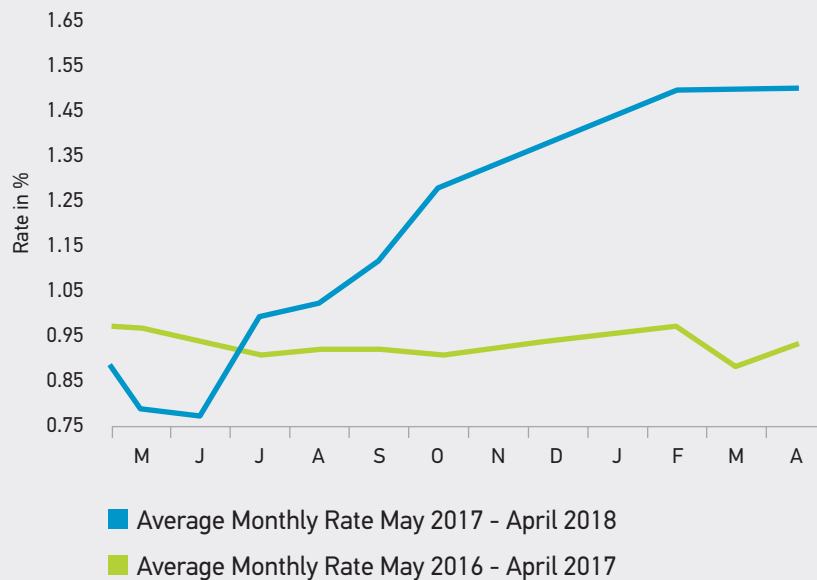
The line of credit bears interest at the prime rate or banker's acceptance rate. The prime rate averaged 3.16% for the year (2.70% in 2017). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 1.79% (1.01% as at April 30, 2017). The banker's acceptance rate in effect as at April 30, 2018, was 1.64% (0.93% as at April 30, 2017). There are no bankers' acceptances outstanding at year-end (bearing interest at rates ranging from 0.91% to 0.95% as at April 30, 2017). The cross currency swaps outstanding at year end amounting to \$89.2 million (\$70 million USD; nil as at April 30, 2017) bear interest at a rate of 1.50%.

# NET CASH POSITION

### Monthly Outstanding Short-Term Borrowing



### Average Borrowing Rate on Outstanding Monthly Short-Term Borrowing



Source: McGill Financial Services



## 2. Total receivables

### a) Short-term receivables (Financial Statements, Note 3)

Short-term receivables amount to \$490.4 million (2017: \$370.5 million), including \$212.1 million (2017: \$188.1 million) relating to research grants and contracts and \$192.6 million (2017: \$118.3 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)	2018	2017
Operating	35.8	33.4
Student Loans	4.5	4.7
Investment Income	2.8	2.8
Government Grant	42.6	23.2
Capital Grant	192.6	118.3
Grants & Contracts Related to Research	212.1	188.1
<b>Total:</b>	<b>490.4</b>	<b>370.5</b>

The Government (MEES) grant receivable of \$42.6 million relates to the operating grant.

### b) Long-term receivables (Financial Statements, Note 4 and 5)

In conforming to GAAP, a receivable is recorded relating to current and prior year capital grants (MEES) amounting to \$669.3 million (2017: \$730.5 million). This amount effectively includes \$762.3 million associated with the long-term debt issued on behalf of MEES (i.e. total debt, excluding \$310 million of McGill Debentures).

Other loan receivables amounting to \$5.5 million (2017: \$7.1 million) represent amounts owed by MAMOT to renovate the Molson Stadium.

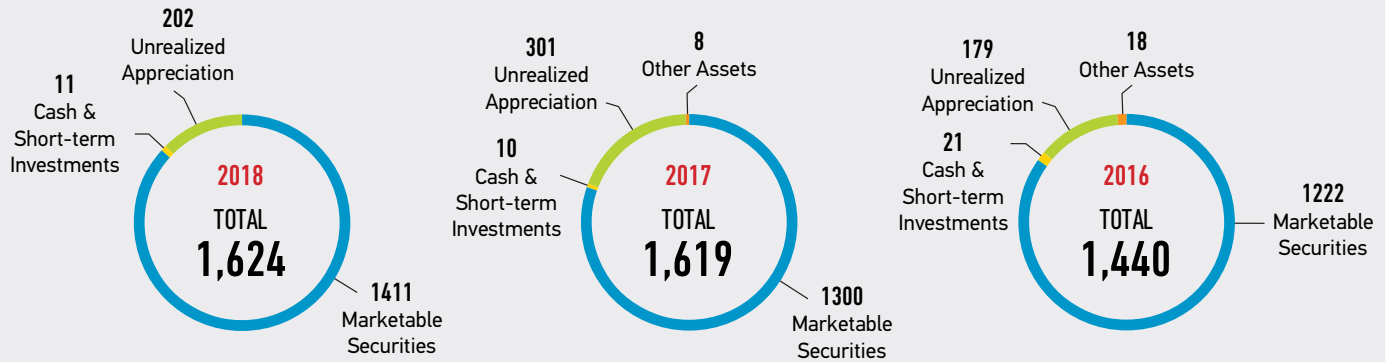
# TOTAL RECEIVABLES

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

Total marketable securities amount to \$1,769.2 million (2017: \$1,789.7 million) and include \$1,613.8 million (2017: \$1,600.6 million) relating to endowment investments.

Of this total, \$155.2 million (2017: \$189.0 million) consists of \$61.5 million relating to an investment purchased from proceeds of the 2002 McGill Bond issue of \$150 million and \$93.7 million relating to the 2016 McGill 40 year bond of \$160 million. The 2002 investment is expected to be valued at \$150 million by 2042 in order to extinguish the related debt at that time. The total endowment assets managed as part of the McGill Investment Pool amount to \$1,623.9 million (2017: \$1,618.7 million), including the \$1,613.8 million in marketable securities mentioned above (see Section Endowment Gifts, page 56). The following chart outlines the significant assets included in the \$1,623.9 million.

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



Source: McGill Audited Financial Statements

Amounts due to other funds of \$3.6 million offset other assets of \$2.8 million (2017: \$8.0 million) which include accrued income and other receivables.

# MARKETABLE SECURITIES

## 4. Capital assets (Financial Statements, Note 6)

Total net capital assets amount to \$1.544 billion (2017: \$1.410 billion) and include various asset categories.

Capital assets additions (including those under development) during the year totaled \$261.3 million (2017: \$151.9 million), of which \$155.1 million (2017: \$63.5 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 **688 Sherbrooke** (\$38.0 million), **Rutherford Physics Building** (\$13.9 million), **Burnside Hall** (\$11.8 million), the **Stewart Biology Building** (\$9.6 million) and the **Duff Medical Building** (\$9.4 million) with others under \$6.3 million each.

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

(\$ millions)	2018	2017
Land and Land Improvements	2.5	3.9
Buildings and Renovations	155.1	63.5
Leasehold Improvements	5.9	0.2
Equipment (Including Intangibles)	74.7	63.8
Library Books	22.7	20.3
Other Assets	0.4	0.2
<b>Total:</b>	<b>261.3</b>	<b>151.9</b>

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, 2018, temporary capital asset borrowings on behalf of MEES amounted to \$80.5 million (2017: \$120.7 million) and related to approved outstanding capital and other specific capital grants. A total of \$22.0 million (2017: \$23.5 million), is expected from future commitments on buildings including the Montreal Neurological Institute (MNI), Desautel Faculty of Management Expansion, the Bronfman Building and the Gelber Law Library.

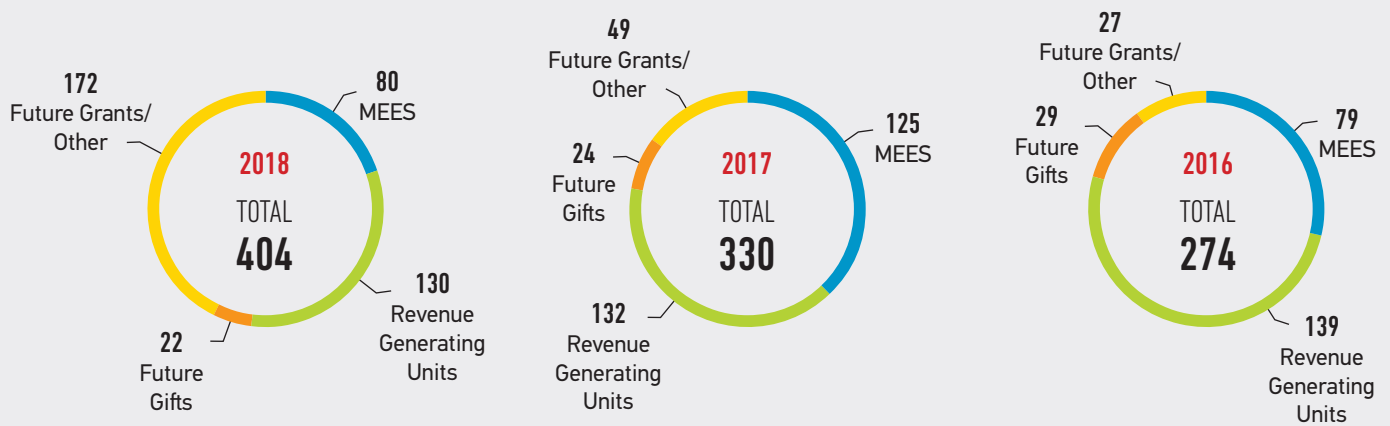
In addition to the above, revenue-generating projects (such as residences, parking, etc.) are expected to generate annual capital and interest repayments for its share of the \$150 million 2002 bond debenture issue. As at April 30, 2018, a total of \$129.7 million (2017: \$131.9 million) is expected to be recovered from revenue-generating units, including the three former hotel acquisitions since 2002 which are used as student residences.

# CAPITAL ASSETS



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

### Expected sources of future funds Capital Assets spending (\$ millions)





## 5. Current liabilities

Excluding bank indebtedness, total current liabilities amount to \$464.8 million (2017: \$335.7 million), including accounts payable and accruals totaling \$242.2 million (2017: \$198.7 million). The increase in accruals is essentially due to an increase general payables due to timing.

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 2016, 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 produced the December 2010 pay equity maintenance. Results were posted in accordance to the Pay Equity Act on March 31, 2016 and on June 29, 2016 and complaints were filed by unions and employees. The University has produced the December 2015 pay equity maintenance. Results were posted in accordance to the Pay Equity Act on December 2016 and on March 24, 2017. Again complaints were filed by unions and employees. A conciliation process with the CNESST (Commission des normes, de l'équité de la santé et de la sécurité du travail) did not produce results to the satisfaction of all parties. Therefore, investigators from the CNESST will review anew the pay equity maintenance for 2010 and 2015. It is unknown when results for this renewal process will be available. In the meantime, no retroactive payments for pay equity for the period after December 2010 will be made.

Unearned revenue of \$29.0 million (2017: \$23.1 million) also forms part of this category and includes tuition fees paid for the Summer 2018 semester.

The short-term portion of the long-term debt, as described in Section 7 below, totals \$193.6 million (2017: \$113.8 million) and is expected to be partially re-financed by MEES in fiscal 2019. MEES has confirmed \$158.6 million in refinancing for fiscal 2019.

# CURRENT LIABILITIES

## **6. Deferred contributions (Financial Statements, Notes 9 and 10)**

With the adoption of the GAAP deferral method, restricted contributions/revenues are deferred until the matching expense is incurred. In the case of restricted contributions received for non-capital expenses, the total deferred contribution as at April 30, 2018 amounted to \$558.7 (2017: \$506.9 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, 2018 total was \$896.0 million (2017: \$876.5 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 11)**

Total MEES issued debt increased by a net \$79.4 million (2017: net decrease of \$53.9 million) as a result of new Financement Québec Promissory Notes (Notes) issued by MEES and MESI totaling \$195.4 million (2017: \$75.8 million). This was in part used to repay matured bonds and repayment of previously issued notes totaling \$114.1 million (2017: \$128.4 million). Other bank debt repayments amounted to \$1.6 million (2017: \$1.5 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, 2018, unchanged from \$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. GAAP presentation now requires bond discounts to be shown as a reduction of long-term debt, rather than a capital asset. Additionally, a ten-year \$25 million loan agreement was entered into with BMO.

## **8. Long-term liabilities – Employee future benefits (Financial Statements, Note 12)**

These include pension obligations that have been confirmed by independent external actuaries of \$53.3 million (2017: \$70.8 million), and post-employment benefits of \$90.9 million (2017: \$114.5 million)

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

# LONG-TERM DEBT / LIABILITIES

## 9. Net Assets (Financial Statements, Note 13 and 14)

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

At April 30, 2018, McGill had a balance of \$242.9 million (2017: \$256.1 million) in Invested in Capital Assets, \$1,566.2 million (2017: \$1,562.3 million) of Externally Restricted balances associated with Endowments, \$88.4 million (2017: \$84.5 million) of Internally Restricted balances, of which \$38.7 million (2017: \$37.1 million) related to Endowments. Finally, a negative \$(352.9) million (2017: \$(364.5) million) in Unrestricted Net Assets balances existed at April 30, 2018. Together, Unrestricted and Internally Restricted Net Assets (excluding Endowments) total \$(305.9) million (2017: \$(319.9) million) and represent the “accumulated deficit” of the University.

### University's GAAP Operating Net Assets as at April 30, 2018 (\$ million)

Unrestricted Net Assets	\$ (352.9)
Internally Restricted Net Assets	\$ 47.0
<b>Net Assets (deficiency) - as at April 30, 2018 (i)</b>	<b>\$ (305.9)</b>

The fiscal 2018 operating surplus of \$14.0 million compares favorably to the original \$24.0 million fiscal 2018 forecasted deficit, in large part due to a net decrease in expenses compared to forecast of \$15.7 million a decrease in inter-fund transfers of \$13.9 million and higher than forecasted revenues of \$8.5 million.

## 10. Statement of Changes in Net Assets

Endowment contributions totaled \$23.9 million (2017: \$32.0 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 56 of this report.

The Statement of Changes in Net Assets also includes net investment income earned from Endowment investments resulting in a loss of \$23.5 million (2017: gain of \$156.3 million), which effectively represents unrealized losses on investments, net of earnings distributed for endowed spending.

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

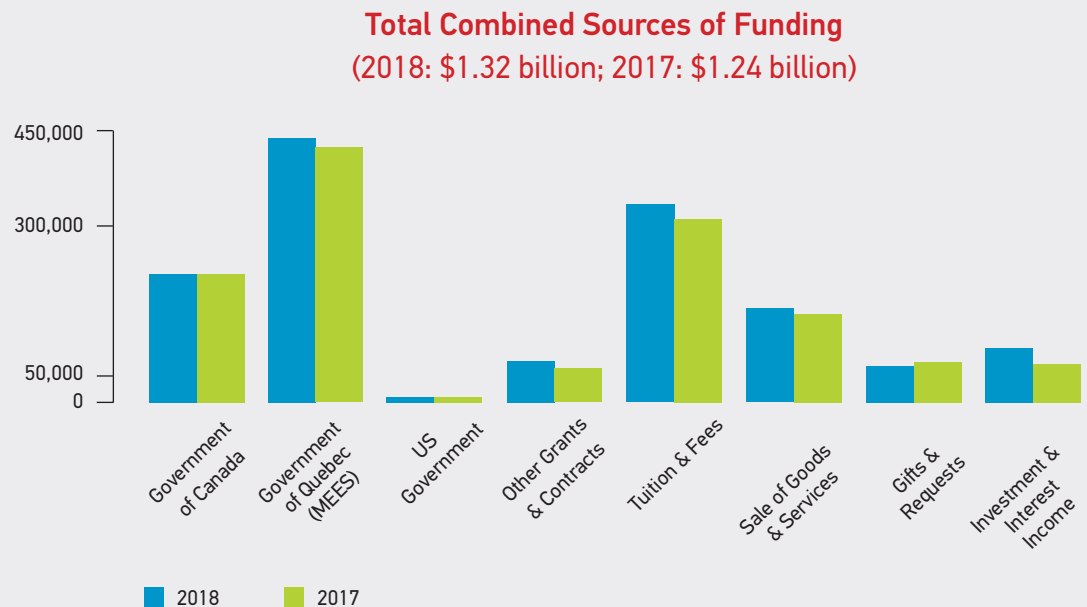
NET  
ASSETS

## OVERALL SOURCES OF REVENUES AND EXPENSES

(Fiscal year ended April 30, 2018)

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. The latter are considered in arriving at the change in the Net Assets balance for each year. Contributions to capital assets and other transfers, including endowment income not available for spending, must be considered when evaluating the change in “operating accumulated deficit” – see Statement of Net Assets.

The chart below summarizes all sources of revenues totaling \$1.32 billion (2017: \$1.24 billion), excluding endowment gifts of \$23.4 million (2017: \$31.3 million).

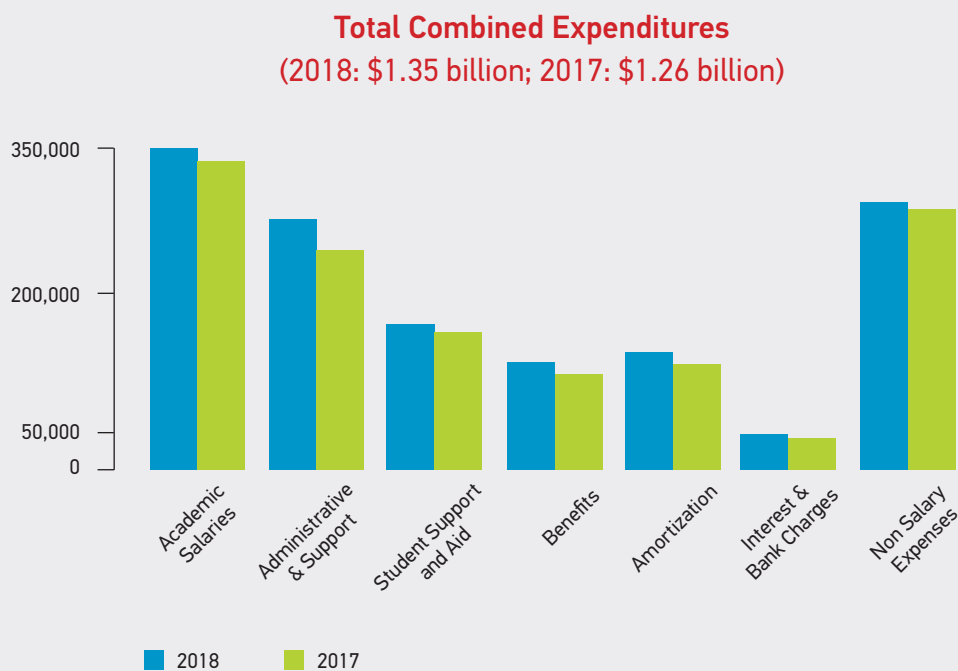


# REVENUES

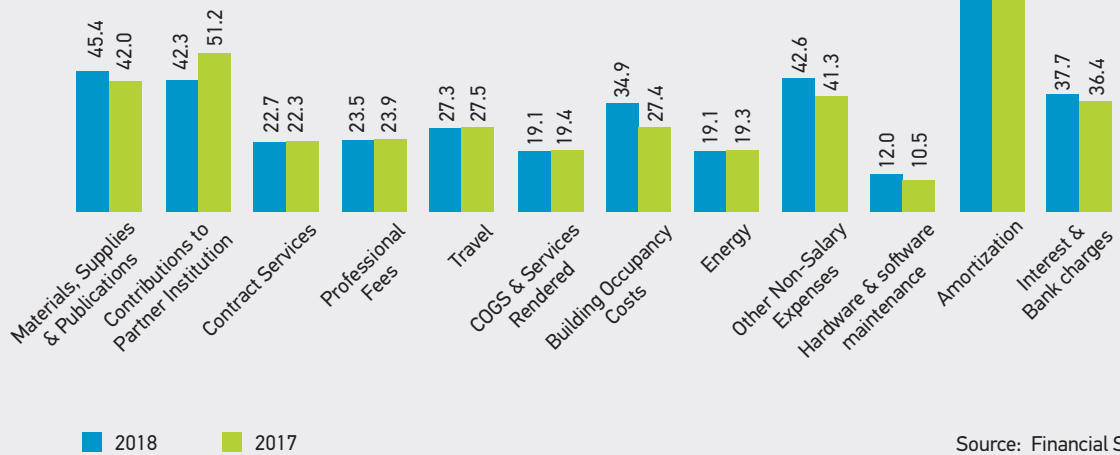


Total combined expenses incurred to support McGill's activities were \$1.35 billion in 2018 (2017: \$1.26 billion). All amounts presented exclude inter-fund transfers. GAAP requires that the related funding contributions for capital assets be shown as inter-fund transfers, and that the assets be capitalized 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 chart illustrates the breakdown of the total expenses.

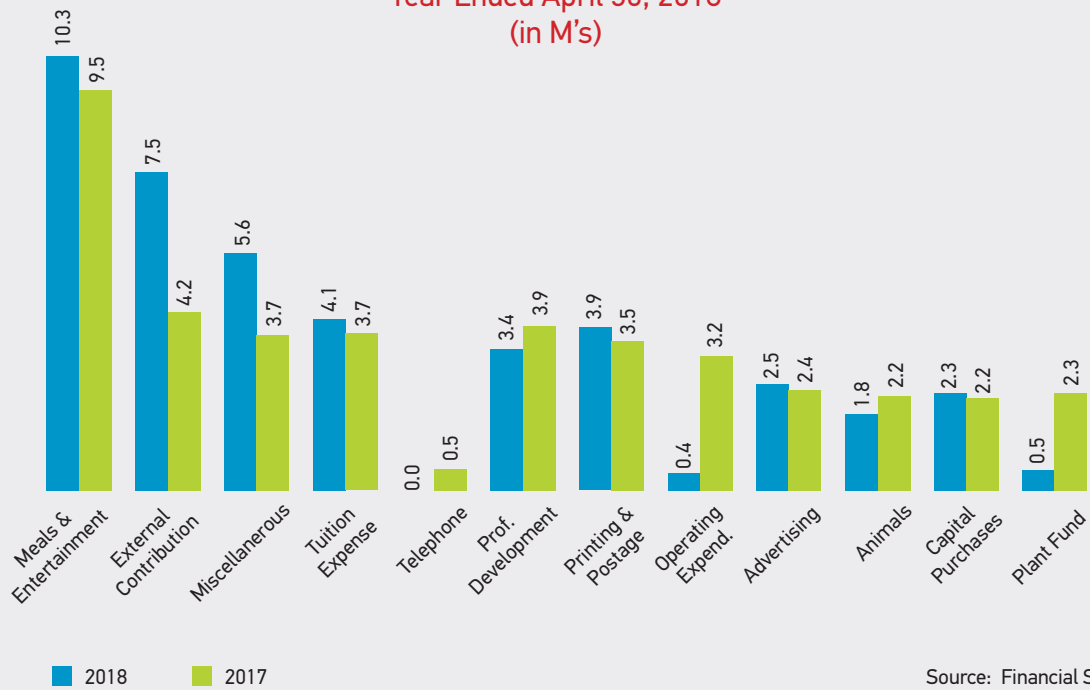


**Combined Non-Salary Expenses**  
Year Ended April 30, 2018  
(in M's)



Source: Financial Services

**Combined "Other Non-Salary Expenses"**  
Year Ended April 30, 2018  
(in M's)



Source: Financial Services

## SOURCES OF REVENUES

### 1. Total Grant revenue - all sources

Grant revenue used to support the teaching and research mission of the University totaled \$689 million in 2018 (2017: \$661 million), which represents 51% (2017: 53.4%) 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.

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

2017					
Purpose	Quebec	Canada	US	Other Sources	Total
Operating	314	-	-	-	314
Capital	54	16	-	-	70
Indirect Costs (Operating)	-	29	-	-	29
Research (Restricted) Grants	35	148	6	36	225
Other Restricted Grants	9	14	-	-	23
<b>Total:</b>	<b>412</b>	<b>207</b>	<b>6</b>	<b>36</b>	<b>661</b>

# REVENUES

### **a) Operating grants**

These include amounts received from MEES to operate the University and are based on a valuation of the total student population reported during the year. Other annual operating grants include amounts for indirect cost support, and specific initiatives. As part of the calculation of the operating grant, MEES reduces the grants for any recoveries or “supplements” charged (and collected) by the universities from Canadian and International students. Certain students are exempt from being charged supplements due to international treaty agreements or other regulations in force. The supplements “returned” to MEES in fiscal 2018 total \$51.4 million (2017: \$43.8 million) and \$35.8 million (2017: \$36.8 million) for Canadian and International students, respectively. In the meantime, universities can charge what they deem appropriate to students in the 6 disciplines, which are Management, Science, Engineering, Law, Mathematics, and Computer Science.

In addition to the above supplements, MEES also “claws-back” \$9.6 million (2017: \$9.0 million) in student aid contributions, indirectly collected via tuition fees. These amounts are accumulated and distributed by the Province’s financial aid system.

The increase in operating MEES grants of \$23.9 million largely reflects the variance in recomptage adjustment amounting to \$23.4 million, and McGill’s share of a new reinvestment envelope in the amount of \$6.5 million. These were offset by increases in MEES recovering amounting to \$7.3 million.

### **b) Capital grants**

These 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.

# GRANTS





### c) Federal Research Support Fund (RSF) (formerly known as the Indirect Costs Program)

The RSF was introduced in 2003 as part of the federal government's strategy to support Canadian institutions in research and development. The RSF for 2017-18 awarded \$369 million to support 133 postsecondary institutions across the country. The RSF compensates universities for costs associated with their research enterprise. Grant amounts are based on the funding received by researchers from the Tri-Agency agencies - the Canadian Institutes of Health Research (CIHR), the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC). Over the past several years, McGill's share has remained stable between 7-8% and is expected to remain at this level over the next three years. In fiscal 2018, McGill's RSF grant was \$28.4 million less the amount distributed to affiliated hospitals of \$8.6 million. This amount represents 17.8% of the direct cost of research.

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

	2018	2017
Federal Grant	28,422	28,865
Amount Due to Hospitals	(8,562)	(8,633)
<b>Total:</b>	<b>19,860</b>	<b>20,232</b>

Source: McGill Financial Services

#### d) Research grants and contracts

McGill is considered one of Canada's top research intensive universities. Annually, the University attracts research grants and contracts from various governments, foundations, corporations, and other sources. The overall research activity is generally summarized in two main streams: direct research grants and contracts and infrastructure grants. The direct research grants and contracts are primarily characterized by annual grant awards from the federal tri-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 Canada Foundation for Innovation (CFI), and Québec through various matching programs. Overall, the breakdown of activities, including research contracts but excluding Federal student aid of \$16.1 million (2017: \$15.9 million), classified as "Restricted Grants" (See Section e below), is highlighted below:

	2018	2017
Direct Funded Research Grants	170,495	188,263
Infrastructure Grants	45,365	31,075
<b>Subtotal:</b>	<b>215,860</b>	<b>219,338</b>
Research Contracts	15,620	17,180
<b>Total grants and contracts:</b>	<b>231,480</b>	<b>236,518</b>

Source: McGill Financial Services

#### e) Other restricted grants

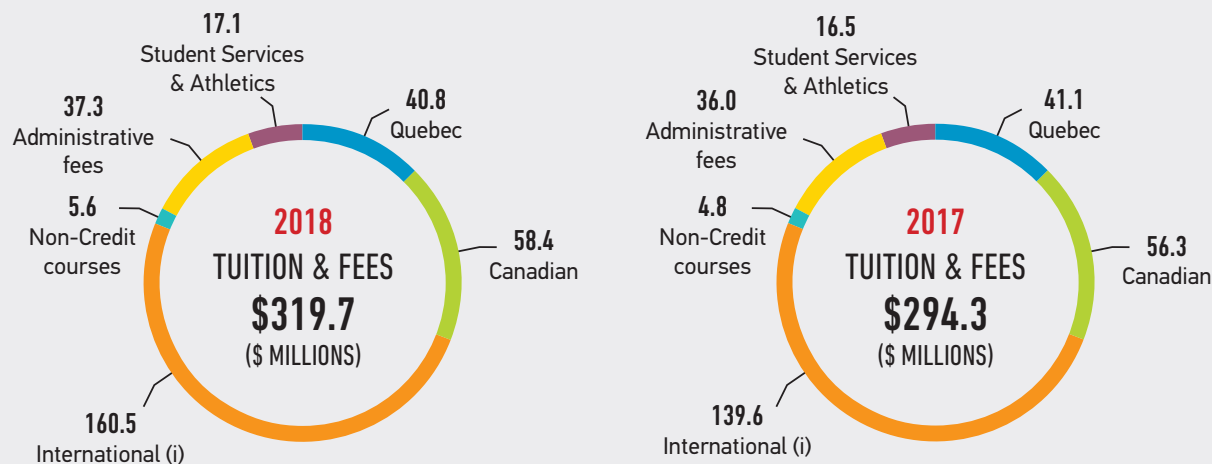
In order to support research activities, both the federal and provincial governments have awarded McGill students with scholarships and other support. Specifically, the federal government awarded approximately \$16.1 million (2017: \$15.9 million) while the provincial government awarded made no awards (2017: \$0.6 million) for similar purposes. In addition, the provincial government funded other activities and programs, including \$5.7 million (2017: \$5.6 million) for teaching costs in the affiliated hospitals, and \$4.8 million (2017: \$4.2 million) for student placement, bursaries for abroad, and other restricted activities.

# GRANTS

## 2. Tuition and fees

The second largest source of revenue for the University is tuition and fees totaling \$319.7 million (2017: \$294.3 million), which accounts for 23.6% (2017: 23.5%) of total revenues,

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



(i) Including \$72.8 million (2017: \$61.3 million) of deregulated fees charged to undergraduate students.

The fiscal 2018 total compares to a forecast of \$319.2 million, which included legislated increases in tuition fees of 2.7%.

# TUITION AND 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 \$151.4 million (2017: \$145.2 million) in revenues, are those generated (from third parties) primarily by ancillary type services, including residences, food services, the Bookstore, and others, totaling \$98.2 million (2017: \$94.8 million). These ancillary service units typically break even or incur losses. 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 \$87.4 million (2017: \$60.9 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 offset the total decrease in Net Assets, which totaled \$23.5 million in fiscal 2018 (2017: increase in net assets of \$156.3 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 0.3% growth (2017: 12.5%) in the fund. Of the total, 1.5% (2016: 2.2%) was generated from new endowment gifts received in the year. See page 56.

Also, as at April 30, 2018, the accumulated unspent investment income, held as part of Endowment Assets amounted to \$293.8 million (2017: \$229.8 million) and represents 4.4 times (2017: 3.7 times) the current annual distributions.

### 5. Other sources of revenue

The remaining sources of revenue include research contracts \$16.2 million (2017: \$17.4 million) and gifts and bequests \$59.4 million (2017: \$65.7 million), excluding endowment gifts (see Statement of Net Assets).



## EXPENSES REQUIRED TO FULFILL THE UNIVERSITY'S MISSION

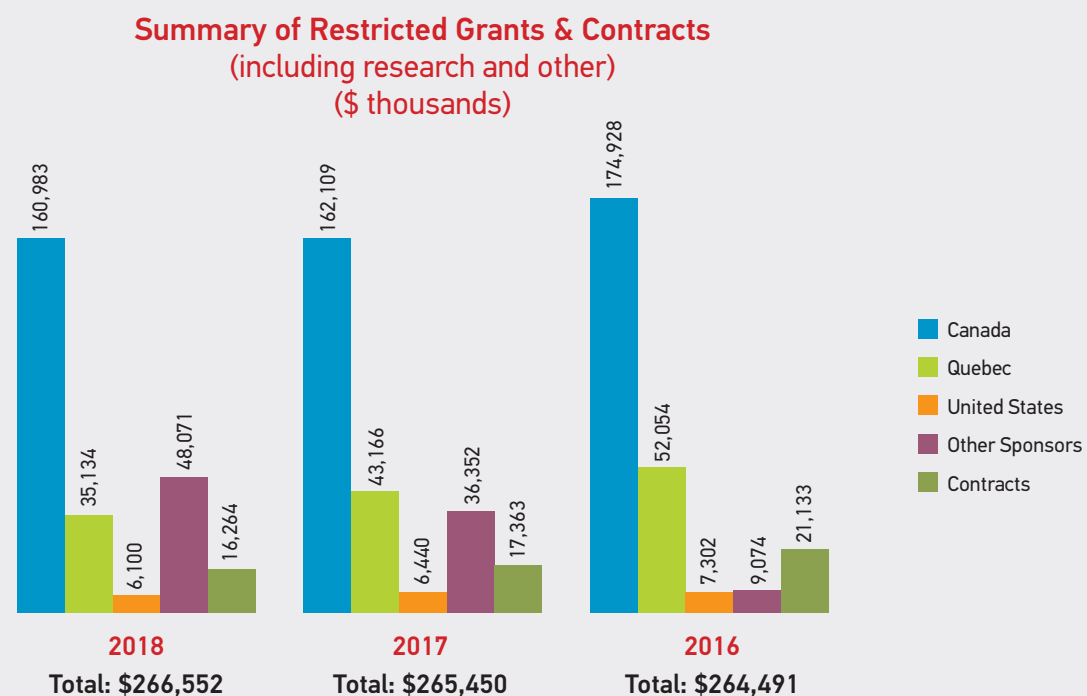
Total Compensation and student support amounted to \$894.9 million (2017: \$827.5 million). This represents 66.4% (2017: 65.5%) of total expenditures, excluding inter-fund transfers.

Other non-salary expenses, excluding inter-fund transfers, totaled \$453.9 million (2017: \$436.5 million), comprising of many various expense types, including Materials, supplies, and publications \$45.4 million (2017: \$41.9 million), Building and Energy costs totaling \$54.0 million (2017: \$46.5 million), Amortization costs of \$127.1 million (2017: \$115.5 million), Interest and bank charges of \$37.8 million (2017: \$36.4 million), and other expenditures. See Statement of Revenue and Expenses for further details.

## RESEARCH AND RESTRICTED ACTIVITIES

Direct funded research totaled \$170.5 million (2017: \$188.3 million). A further \$45.4 million (2017: \$31.1 million) was generated in infrastructure grants and \$15.6 million (2017: \$17.2 million) in contracts per section 1 (d).

The largest sponsors of restricted grants (including those relating to research above) continue to be the federal and provincial governments. Together, they account for \$196.1 million (2017: \$205.3 million) of the total in grants and contracts. The following chart outlines the total restricted research grants and contracts generated for either research or other restricted purposes (e.g. aid) over the last three years:



Source: McGill Financial Services

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

<b>AWARDED BASIS - Research Revenues</b>	<b>2018</b>	<b>2017</b>
(\$ millions)		
<b>Federal Government:</b>		
Tri Agencies/Council	\$115.5	\$107.2
Canada Research Chairs	\$18.8	\$21.3
CFI	\$31.9	\$22.9
CFREF	\$24.3	\$8.1
Other	\$2.4	\$10.8
	<b>\$192.9</b>	<b>\$170.3</b>
<b>Quebec Government:</b>		
FRSQ/FQNT/FQRSC	\$35.6	\$17.2
CFI	\$19.4	\$10.4
Other	\$9.7	\$6.8
	<b>\$64.7</b>	<b>\$34.4</b>
Canadian Foundations & Associations	\$18.6	\$29.3
Contracts	\$16.9	\$18.4
Other	\$22.3	\$14.6
	<b>\$57.8</b>	<b>\$62.3</b>
<b>Total:</b>	<b>\$315.4</b>	<b>\$267.0</b>

## OTHER RESTRICTED FUNDS

In addition to restricted grants and contracts recognized and included on the previous page, total research and other restricted funding is supplemented by other sources of revenues, including investment income of \$66.1 million (2017: \$48.9 million), restricted gifts of \$45.2 million (2017: \$51.7 million), and other sources totaling \$7.2 million (2017: \$6.4 million). Total sources of revenues available for restricted and research purposes amounted to \$385.0 million (2017: \$372.4 million).

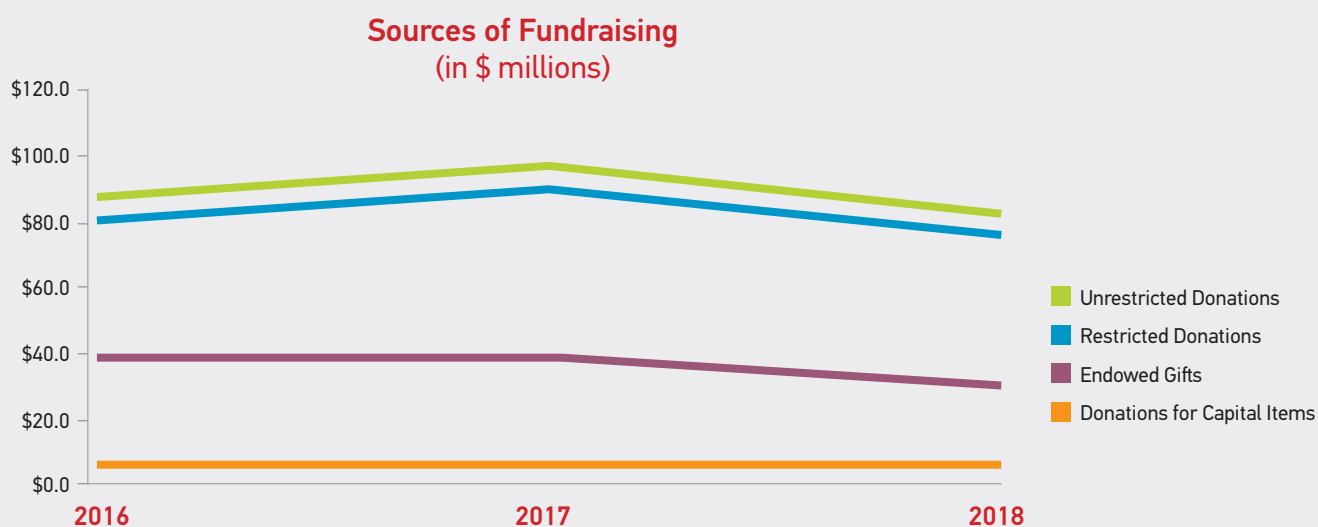
The Restricted expenses incurred include those with terms that are dictated by granting agencies (in the case of research grants or contracts) or the sponsoring party (e.g. donor gifts for student aid). These expenditures are considered and managed internally as “restricted” due to the nature of the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

On a GAAP basis, overall restricted expenses amount to \$367.3 million versus \$357.7 million in the prior year, prior to inter-fund transfers relating to capital assets of \$13.2 million (2017: \$13.7 million). Under GAAP, capital assets are capitalized and amortized over the economic lives of the associated assets. As a result, the associated restricted/grant revenue is deferred as Deferred capital contributions and recorded as income annually over the life of the asset in order to match the annual amortization expense.

## FUNDRAISING ACTIVITIES

During the fiscal year a total of \$83.3 million (2017: \$97.4 million) was received, including gifts in kind.

The following chart illustrates all gifts and bequests revenue including endowment gifts of \$23.4 million (2017: \$31.3 million) presented in the Statement of Changes in Net Assets over the last three years:



Source: McGill Financial Services

## 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% plus an additional 0.25%, as approved by the Board of Governors for fiscal 2016 to fiscal 2019 (based on the rolling three-year average) of investment earnings to the beneficiaries of the Endowments. In fiscal 2018, \$66.5 million (2017: \$62.3 million) was distributed, based on an MIP unit rate of \$17.53 (prior year: \$16.68).

Overall, the endowment investment returns improved marginally as at April 30, 2018. The table below outlines the overall growth in McGill's Endowment Assets, net of \$18.9 million (prior year: \$19.3 million) of endowment accounts payables.

(\$ millions)	2018		2017	
Opening Book Value	1,298.2		1,242.9	
Unrealized Market Value	301.2		179.3	
Opening Net Assets- Market Value	1,599.4		1,422.2	
New Gifts Received	23.4	1.5%	31.3	3.3%
Net Income (Loss) Realized	132.1	8.3%	77.7	3.9%
Net Income Distributed (Net of capitalizations)	(55.6)	(3.5%)	(52.3)	(3.1%)
Transfers from (to) Other Funds	4.3	0.3%	(1.4)	(0.0%)
Realized Increase in Assets	104.2	6.5%	55.3	4.1%
Change in Unrealized Market Values	(98.7)	(6.2%)	122.0	7.9%
Total Increase in Fund Value	5.5	0.3%	177.3	12.0%
Closing Book Value	1,402.4	87.4%	1,298.2	91.3%
Unrealized Market Value	202.5	12.6%	301.2	21.2%
Closing Net Assets-Market Value	1,604.9		1,599.4	

Source: McGill Financial Services

# ENDOWMENT



## OPERATING FUND (fiscal year ended April 30, 2018)

The twelve months of activities in fiscal 2018 ended with a net operating surplus of \$14.1 million (2017: surplus of \$5.1 million). The surplus surpassed our expectations of a budgeted deficit of \$9.9 million for fiscal 2018 and the \$24.1 million deficit forecasted for the 2018 fiscal year included in the 2017-18 Budget Report approved by the Board in April 2018.

Overall, some operating revenues also differed from the year-end forecasts included in the 2018 Budget Report, including the following significant items below:

- Short-term interest income and investment income totalled \$13.4 million combined, \$5.1 million higher than forecasted, due to contributions from the endowment fund for the capital campaign.

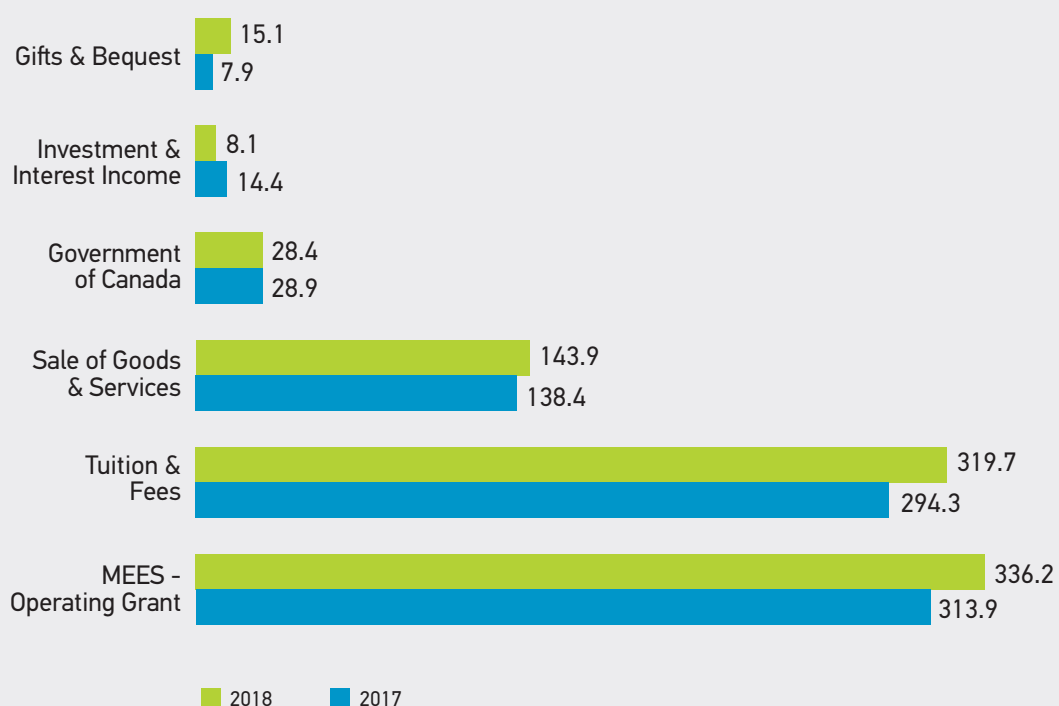
The fiscal 2018 operating expenses are affected by two expense components (salary and non-salary). The items below represent final expense amounts incurred over forecasted levels included in the 2018 Budget Report.

1. Operating salaries (including student and aid) and benefits totaled \$664.8 million as compared to a forecast of \$666.8 million. The variance, in large part, is attributed to a decrease in benefits of \$ 21.4 million in comparison to forecast due in large part to respective decreases in the accrued pension liability of \$17.5 million and of \$23.6 million in the post-employment benefit obligations. As per the actuarial valuation as at December 31, 2017 and updated for accounting purposes to April 30, 2018, the pension cost for the year were less than the employer contributions for the same period by \$14.4 million. The resulting pension remeasurements gain of \$3.2 million is recorded in the statement of changes in net assets. The aforementioned decrease in benefits was largely offset by an increase in administrative and support salaries of \$19.8 million versus forecast.
2. Total operating academic, administrative, and support salaries and benefits totaled \$617.8 million (2016: \$568.2 million) and represent 75.5% (2017: 75.33%) of total operating expenses (excluding transfers).
3. Overall, non-salary operating expenses were lower than amounts forecasted for fiscal 2018 by \$13.7 million, yet \$9.8 million higher than the total of \$143.8 million in fiscal 2017. The increase is largely in Building Occupancy costs (\$6.7 million), materials, Supplies & Publications (\$2.1 million) contract services (\$1.9 million) and hardware and software expenses (\$8.2 1.1million), slightly offset by decreases in other categories amounting to a total of \$2.0 million.

# OPERATING FUND

The following chart highlights the various sources of Operating (Unrestricted) Fund revenue on a GAAP basis for the year-ended April 30, 2018:

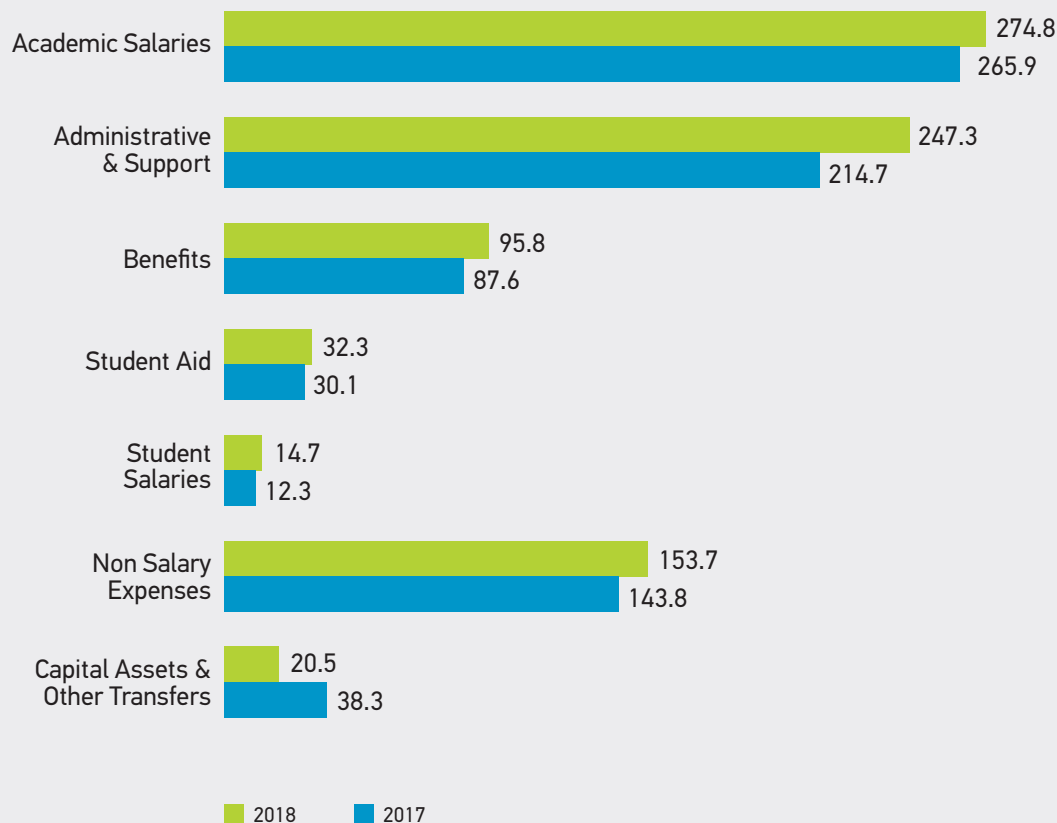
**Sources of Operating (Unrestricted) Revenues**  
(2018: \$851.4 million; 2017: \$797.8 million)



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 \$839.0 million (2017: \$792.7 million) on a GAAP basis, including inter-fund transfers of \$39.1 million (2017: \$38.3 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.

**Sources of Unrestricted (Operating) Expenses (Including Transfers)**  
**By Type**  
**(2018: \$839.1 million; 2017: \$792.7 million)**



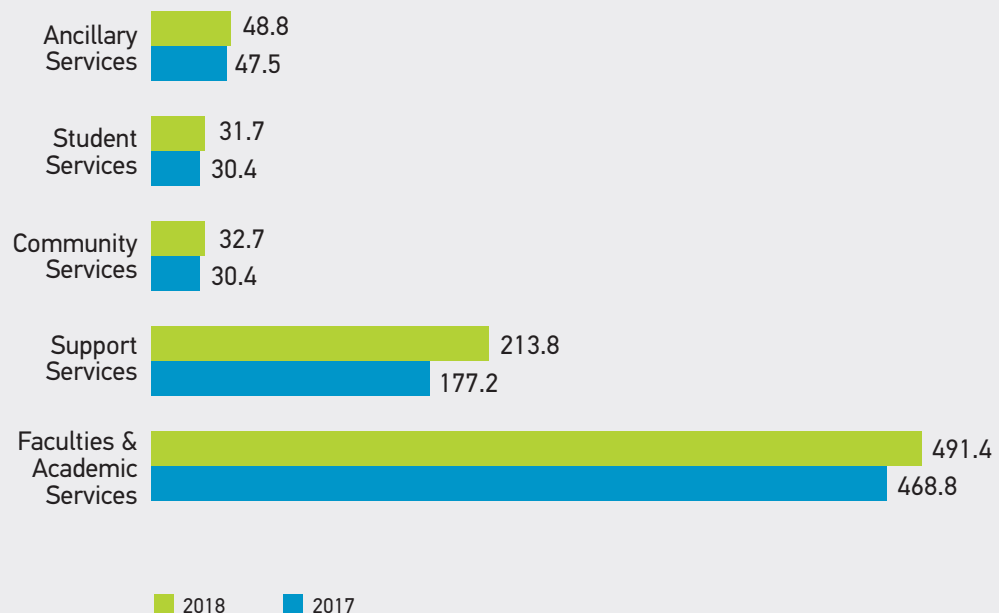
Source: McGill Financial Services

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 94.0% of total spending. The remaining units are considered self-financing, of which ancillary operations (e.g. the Bookstore, residences, parking, etc.) represent 6.0% 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.

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**Sources of Unrestricted (Operating) Expenses (Including Transfers)**  
By Group  
(2018: \$818.5 million; 2017: \$754.3 million)



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Source: McGill Financial Services



## 4. DEFERRED MAINTENANCE – CAMPUS RENEWAL

The current, most reliable estimate of McGill's total deferred maintenance (DM) inventory is **\$1.35 billion**<sup>1</sup>. This figure results from an analysis conducted in 2013 by the firm Planifika, hired by the Bureau de coopération interuniversitaire to assess the deferred maintenance deficit of all Quebec universities, at the request of the Quebec government. The assessments must be conducted every five years; the next one is set for the end of 2018.

### FUNDING

- Sources of funding for campus renewal include McGill's annual allocation from the Government of Québec's 15-year capital funding plan, announced in 2007. The 2017-18 allocation to McGill under this plan was \$40 million, up from \$25.3 million the previous year.
- Other sources of funding include an annual capital grant of \$40 million from the Ministère de l'Éducation et de l'Enseignement supérieur (MEES), up from \$18 million the previous year, as well as funding from the Canada Foundation for Innovation, energy conservation funding, departmental and faculty budgets and donations.
- Additionally, deferred maintenance projects continue to benefit from a first installment of \$160 million from the \$300-million bond issue McGill contracted in 2015.
- Effective in Fiscal 2018-19, the funding for deferred maintenance and IT through the Plan Quinquennal des Investissements Universitaires (PQI) has increased from \$43.4 million to \$85.8 million, including a new envelope of \$5.1 million dedicated to conservation of heritage buildings.

### FAÇADES

- A major component of the deferred maintenance estimate is the University's deteriorating building façades. Government regulation requires that the façades of all buildings of five floors and more be inspected by a qualified architect or engineer every five years to detect any dangerous conditions.
- In scheduling the inspection and/or maintenance of the façades of buildings, Facilities Management and Ancillary Services has followed the priority order set in the regulation, which is ordered by construction date, but has also prioritized buildings that presented visible signs of deterioration and which could have become dangerous (this includes buildings lower than five floors).
- By the end of 2018, McGill should have complete or partial inspection reports on 82 per cent of its centrally-managed buildings of five floors and higher and 46 per cent of the buildings managed by Residences. Wherever required, façades have been secured and protected. Restoration work is underway or has been scheduled for several buildings.

# CAMPUS RENEWAL

## PROJECTS

- In 2017-2018, a total of 35 DM projects were completed at a total estimated cost of \$34.7 million.
- Approximately 450 projects are currently at various stages of execution (scope definition, estimate, design, tender, construction or delivery), while 78 projects are on hold. The projects underway include the restoration of the building envelopes of the Macdonald Engineering Building and of the Macdonald-Harrington Building, which started in 2017 and are scheduled to be completed in early 2019. Restoration of the envelope of the Education Building started in June 2018 and that of the Macdonald-Stewart Library Building is scheduled to start in 2019.

Despite a long-awaited increase in government funding in the past year, McGill must still contend with a high Facilities Condition Index<sup>2</sup> (FCI). McGill's FCI now stands at 35 per cent, up from an estimated 31 per cent in 2007.

This is due in part to the difficulty in executing projects at a pace that would allow the University to offset the accelerating deterioration of the buildings. McGill is not alone in having received more funding to tackle its deferred maintenance deficit from the Quebec government or from the federal Post-Secondary Institutions Strategic Investment Fund (SIF) to upgrade its research facilities – all universities have. Just as the University is not alone in having to inspect its façades on a regular basis – all building owners must. This has resulted in a shortage of professionals, from architects and engineers to project managers and contractors. The increased demand has produced an overheated market, where prices have surged.

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

<sup>1</sup> This amount includes a \$779 million deficiency cost as estimated by Planifika, plus a 20 per cent correction factor to reflect the difference between estimated costs and known market costs (\$934 million when adjusted for known market). Unattended deferred maintenance increases by 6% on an annual basis. This increase of \$56M over last year's figures is offset by the deferred maintenance executed in that same period. The additional \$425 million to cover DM issues that were not included in the consultants' study remain an approximation. A significant portion of the \$425 million will be allocated to the rehabilitation of facades and major building systems.

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

# CAMPUS RENEWAL



## 5. UPDATE ON THE RVH

### PROVINCIAL GOVERNMENT FUNDING & PROJECT SCOPE

On May 24th 2018, the Board of Governors approved, in principle, to proceed with the development of the next phase of the RVH project. Subsequently, on June 22nd 2018, the Government of Quebec announced it would be investing \$37 million for McGill University to continue its plans to transform the old Royal Victoria Hospital into a global hub for learning, research and innovation in environmental sustainability and public policy. The announcement was made at McGill by three cabinet ministers: Mrs. Hélène David, Mr. Gaétan Barrette, and Mr. Pierre Arcand. While the development of the site has been entrusted to the Société québécoise des infrastructures (SQI), the announced financial support will allow McGill to proceed with detailed design specifications for its pavilion, the central portion of the 120-year-old hospital. The SQI will be responsible for the remaining buildings on the site.

### DOSSIER D'OPPORTUNITÉ

Based on the provincial government's Directive sur la gestion des projets majeurs d'infrastructure publique, which outlines an analytical framework for large-scale public projects, a feasibility study (Dossier d'opportunité) is required for the Royal Vic Project.

A preliminary version of the Dossier d'opportunité was submitted to the Société québécoise des infrastructures (SQI) in Spring 2018. The completion of a final version is anticipated for Fall 2018. In the meantime, meetings with the SQI and the Ministry of Education take place regularly to finalize the document.

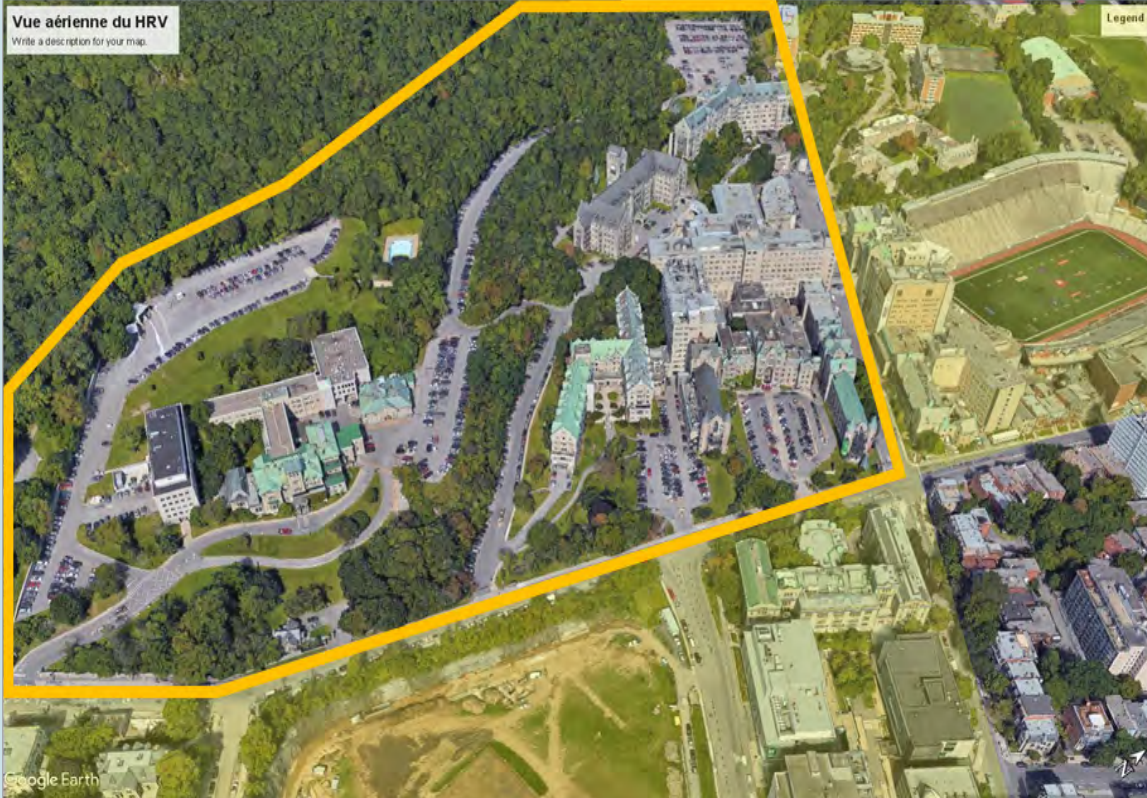
### COLLABORATION WITH THE SQI

During the upcoming planning phase, the Government of Quebec, through the Société québécoise des infrastructures (SQI), will create a site Master Plan in collaboration with McGill and the Ville de Montréal. A final, City-approved, Master Plan with subdivisions is a pre-requisite for a lot transfer to McGill University.

### COMMUNITY ENGAGEMENT

As the Functional & Technical Program will be further developed, future user groups (e.g. Faculty of Science, Engineering, Arts, etc.) will be invited to actively participate in this process. Efforts to engage with other internal project stakeholders will also be underway this fall in conjunction with Campus Master Plan presentations.





## 6. 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 Academic 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. MEES is still requesting balanced budgets from universities. The deregulation of international tuition effective Fall 2019 will alleviate 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.



## 7. MCGILL BOND RATING

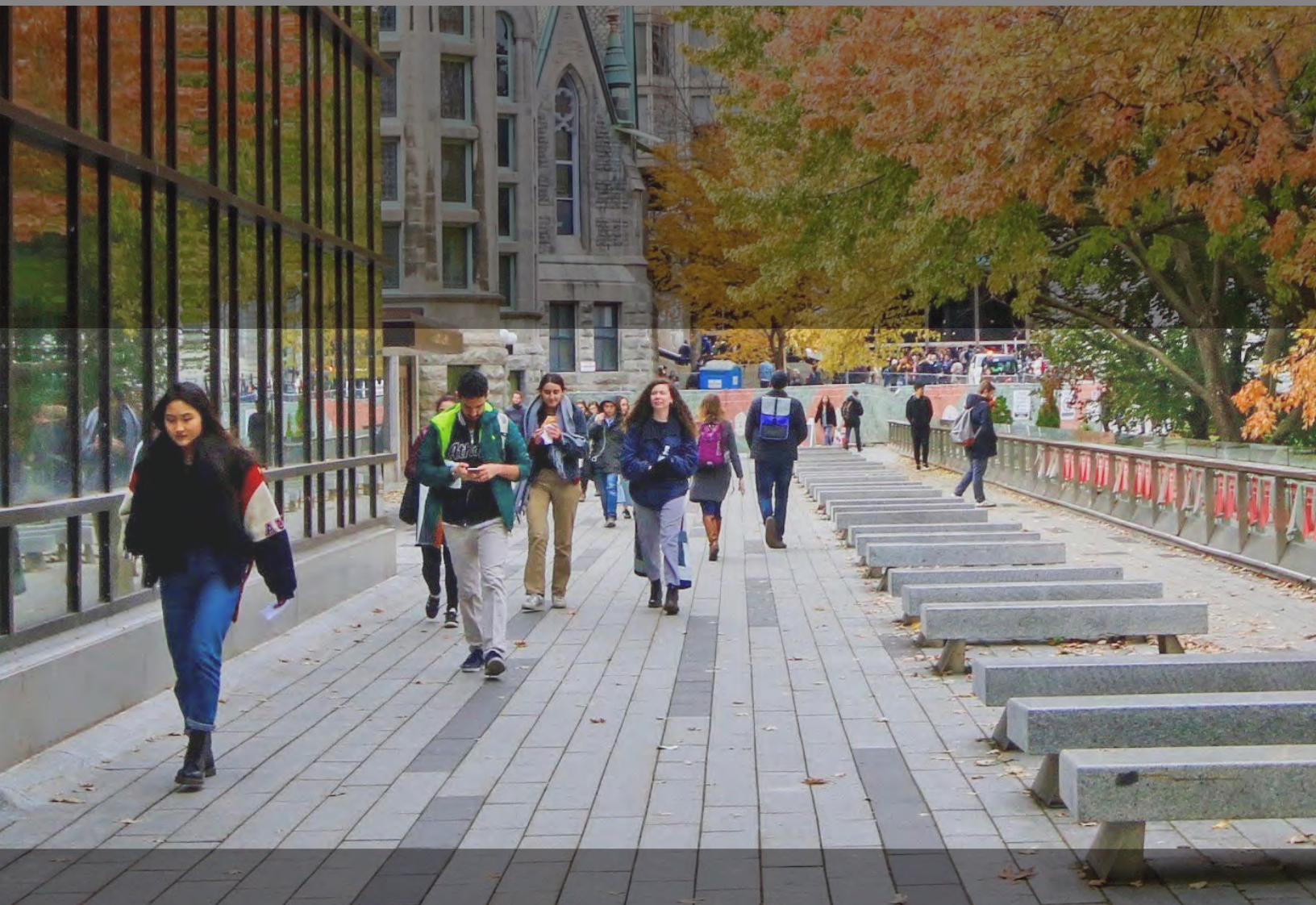
Moody's Investor Services reaffirmed an Aa2, Stable rating in December 2017. Moody's confirmed that the University continues to hold flagship status in the Province of Québec and a dominant national and international market presence. Continued pressure from provincial funding adjustments and instability in tuition setting parameters are adverse factors. It considers McGill to be one of Canada's most prominent and internationally renowned institutions and cites the following factors for the rating:

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

Standard & Poor's Rating Service reaffirmed an AA- (stable) rating in February 2018 and a continued stable outlook McGill's ratings associated with the \$150 million of unsecured debentures in November 2016 and assigned the same rating to the \$160 million in March 2017, citing that McGill has:

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











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

April 30, 2018

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Independent Auditor's Report .....	1
Statement of revenue and expenses .....	2
Statement of changes in net assets .....	3
Balance sheet .....	4
Statement of cash flows .....	5
Notes to the financial statements .....	6–20

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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, which comprise the balance sheet as at April 30, 2018, 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

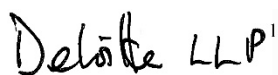
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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, 2018, 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.



October 4, 2018

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<sup>1</sup> 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, 2018

(In thousands of dollars)

	Notes	2018	2017
		\$	\$
<b>Revenue</b>			
Grants			
Federal		204,977	206,590
Provincial		431,238	411,356
United States		6,100	6,440
Other sources		48,071	36,352
Contracts		16,264	17,363
Tuition and fees		319,673	294,314
Sales of goods and services		151,374	145,176
Gifts and bequests		59,380	65,663
Foreign exchange gain		1,728	2,657
Investment and interest income	15	87,449	60,934
		<b>1,326,254</b>	<b>1,246,845</b>
<b>Expenses</b>			
Salaries			
Academic		347,005	334,749
Administrative and support		272,618	238,610
Benefits		116,812	105,295
Student aid		118,617	111,502
Students		39,830	37,384
		<b>894,882</b>	<b>827,540</b>
Non-salary			
Material, supplies and publications		45,441	41,958
Contributions to partner institutions		42,571	51,222
Contract services		22,704	22,272
Professional fees		23,546	23,921
Travel		27,303	27,460
Cost of goods sold		19,147	19,361
Building occupancy costs		34,930	27,440
Energy		19,058	19,304
Other non-salary expenses		42,308	41,306
Hardware and software maintenance		11,983	10,451
Amortization of capital assets		127,122	115,475
Interest		36,240	35,038
Bank charges		1,536	1,327
		<b>453,889</b>	<b>436,535</b>
		<b>1,348,771</b>	<b>1,264,075</b>
<b>Deficiency of revenue over expenses</b>		<b>(22,517)</b>	<b>(17,230)</b>

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

# The Royal Institution for the Advancement of Learning / McGill University

## Statement of changes in net assets

Year ended April 30, 2018

(In thousands of dollars)

	Unrestricted	Internally restricted	Externally restricted	Invested in capital assets	Endowments	Total
	\$	\$	\$	\$	\$	\$
Net assets (deficiency), April 30, 2016						
(Deficiency) excess of revenue over expenses	(360,058)	74,636	—	258,398	1,386,063	1,359,039
Pension liability remeasurement*	35,162	4,639	14,689	(71,720)	—	(17,230)
Endowment contributions and gifts in kind	8,295	—	—	—	—	8,295
Investment income items reported as direct increase in net assets	—	—	—	731	31,279	32,010
Net change in internally restricted net assets	8,858	(4,967)	—	—	156,285	156,285
Investment in capital assets	(45,743)	—	(25,403)	71,146	(1,021)	—
Other transfers	(11,090)	10,201	10,714	454	(10,279)	—
Net assets (deficiency), April 30, 2017	<b>(364,576)</b>	<b>84,509</b>	<b>—</b>	<b>256,139</b>	<b>1,562,327</b>	<b>1,538,399</b>
(Deficiency) excess of revenue over expenses	25,147	6,517	17,718	(71,899)	—	(22,517)
Pension liability remeasurement*	3,168	—	—	—	—	3,168
Post-employment benefit remeasurement*	25,103	—	—	—	—	25,103
Endowment contributions and gifts in kind	—	—	—	542	23,390	23,932
Investment loss items reported as direct decrease in net assets	—	—	—	—	(23,526)	(23,526)
Net change in internally restricted net assets	8,734	(4,381)	—	(2,722)	(1,631)	—
Investment in capital assets	(43,757)	—	(16,710)	60,467	—	—
Other transfers	(6,778)	1,750	(1,008)	395	5,641	—
Net assets (deficiency), April 30, 2018	<b>(352,959)</b>	<b>88,395</b>	<b>—</b>	<b>242,922</b>	<b>1,566,201</b>	<b>1,544,559</b>

\* As at April 30, 2018, the accumulated post-employment benefit remeasurement is \$40,050 (\$14,947 as at April 30, 2017) and the accumulated pension liability remeasurement is \$54,748 (\$57,916 as at April 30, 2017).

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

# The Royal Institution for the Advancement of Learning / McGill University

## Balance sheet

As at April 30, 2018

(In thousands of dollars)

	Notes	2018 \$	2017 \$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		24,229	15,493
Short-term investments	17	35,325	26,392
Receivables	3	490,373	370,585
Prepaid expenses		11,105	7,109
Inventory		1,641	1,476
		<b>562,673</b>	421,055
Marketable securities	17	1,769,151	1,789,659
Grants and contracts related to research receivable		43,942	63,698
Capital grants receivable	4	669,255	730,511
Loans receivable	5	5,494	7,112
Capital assets	6	1,544,930	1,410,764
		<b>4,595,445</b>	4,422,799
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness	7	89,155	106,654
Accounts payable and accrued liabilities	8	242,183	198,698
Unearned revenue		29,008	23,124
Current portion of long-term debt	11	193,606	113,832
		<b>553,952</b>	442,308
Deferred contributions	9	558,686	506,858
Deferred capital contributions	10	895,973	876,492
Long-term debt	11	898,029	873,407
Accrued pension liability	12	53,334	70,846
Post-employment benefit obligation	12	90,912	114,489
		<b>3,050,886</b>	2,884,400
Commitments and contingent liabilities	19 and 20		
<b>Net assets (deficiency)</b>			
Invested in capital assets		242,922	256,139
Externally restricted for endowment purposes	13	1,566,201	1,562,327
Internally restricted	14	88,395	84,509
Unrestricted		(352,959)	(364,576)
		<b>1,544,559</b>	1,538,399
		<b>4,595,445</b>	4,422,799

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

Approved by the Board of Governors

 \_\_\_\_\_, Governor

 \_\_\_\_\_, Secretary - General



# The Royal Institution for the Advancement of Learning / McGill University

## Statement of cash flows

Year ended April 30, 2018

(In thousands of dollars)

	Notes	2018 \$	2017 \$
<b>Operating activities</b>			
Deficiency of revenue over expenses		(22,517)	(17,230)
Adjustments for:			
Amortization of capital assets		127,122	115,475
Amortization of bond discount		202	213
Amortization of deferred contributions	9	(386,559)	(371,893)
Amortization of deferred capital contributions	10	(60,967)	(57,249)
Change in fair value of investments	15	1,823	(3,293)
Change in fair value of derivative financial instruments	15	(3,068)	808
Change in pension liability		(14,344)	(21,548)
Change in post-retirement benefit obligation		1,526	1,565
		(356,782)	(353,152)
Net change in non-cash working capital items	16	31,686	(15,153)
(Increase) decrease in government grant receivable		(32,428)	12,172
(Increase) decrease in grants and contracts related to research receivable		(4,213)	14,800
Increase in deferred contributions		438,387	388,310
		76,650	46,977
<b>Investing activities</b>			
(Increase) decrease in short-term investments		(8,933)	11,144
Acquisition of capital assets		(249,901)	(132,008)
Purchase of marketable securities		(1,338,580)	(606,948)
Proceeds from sale of marketable securities		1,360,333	428,247
Change in loans receivable		1,618	1,563
		(235,463)	(298,002)
<b>Financing activities</b>			
Change in bank indebtedness		(17,499)	11,761
Investment (loss) income reported as direct (decrease) increase in net assets		(23,526)	156,285
Endowment contributions		23,932	32,010
Issuance of long-term debt		220,392	75,830
Bond issuance costs		—	(3)
Repayment of long-term debt		(116,198)	(129,933)
Deferred capital contributions		80,448	74,993
		167,549	220,943
Net increase (decrease) in cash and cash equivalents		8,736	(30,082)
Cash and cash equivalents, beginning of year		15,493	45,575
<b>Cash and cash equivalents, end of year</b>		<b>24,229</b>	<b>15,493</b>

### Non-cash transactions

Capital assets additions amounting to \$31,246 (\$19,859 in 2017), included in accounts payable and accrued liabilities, have no cash flow impact.

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

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2018

(In thousands of dollars)

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### 1. Status and nature of activities

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

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

### 2. 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.

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 2018 is \$542 (\$731 in 2017). The value of contributed volunteer hours is not recognized in these financial statements.

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

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

## **2. Significant accounting policies (continued)**

### *Financial instruments*

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

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

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

### *Foreign exchange*

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

### *Cash and cash equivalents*

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

### *Student loans*

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

### *Inventory*

Inventory, including books and supplies, is valued at the lower of cost (calculated using the first-in, first-out method) and net realizable value. The amount expensed as cost of goods sold during the year was \$19.1 million (\$19.3 million in 2017).

## 2. Significant accounting policies (continued)

### *Capital assets*

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

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

### *Net assets*

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

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

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

### *Employee future benefits*

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits for eligible plan members. The University also has certain post-employment benefits plans and a legacy defined benefit pension plan.

The cost of providing defined pension benefits and post-employment benefit plans other than pensions is determined by independent actuaries. The University has chosen to evaluate the accrued benefit obligations by using the actuarial valuation for funding purposes. The actuarial valuation performed every three years is based on the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial evaluation for funding purposes was dated December 31, 2017.

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



## 2. Significant accounting policies (continued)

### *Employee future benefits (continued)*

The University recognizes:

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

### *Use of estimates*

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

## 3. Receivables

	2018	2017
	\$	\$
Operating, net of provision for doubtful accounts of \$1,257 (\$2,081 as at April 30, 2017)	35,809	33,443
Student loans, net of provision for doubtful accounts of \$550 (\$515 as at April 30, 2017)	4,484	4,712
Investment income	2,782	2,785
Government operating grants	42,552	23,204
Grants and contracts related to research – short-term	212,120	188,151
Capital grants receivable – short-term	192,626	118,290
	<b>490,373</b>	<b>370,585</b>

## 4. Capital grants receivable

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

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2018

(In thousands of dollars)

### 5. Loans receivable

Loans receivable bear interest at rates varying from 3.013% to 4.125% (3.013% to 4.125% as at April 30, 2017), with maturities up to four years.

### 6. Capital assets

	2018			2017
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	28,685	—	28,685	28,685
Land improvements	56,090	20,294	35,796	36,054
Buildings	666,096	365,740	300,356	273,942
Major renovations	1,090,127	333,620	756,507	701,213
Leasehold improvements	18,818	3,891	14,927	10,672
Equipment	501,180	284,449	216,731	206,035
Rolling stock	595	48	547	374
Library materials	179,809	96,170	83,639	77,681
Intangible assets	12,169	7,213	4,956	3,741
	2,553,569	1,111,425	1,442,144	1,338,397
Assets under development	102,786	—	102,786	72,367
	2,656,355	1,111,425	1,544,930	1,410,764

### 7. Bank indebtedness

In accordance with MEES regulations, McGill's Board of Governors has approved maximum borrowings of \$300 million (\$300 million as at April 30, 2017), under short-term credit facilities, of which \$89.2 million has been used as at April 30, 2018 (\$84.0 million as at April 30, 2017). There are no short-term borrowings from Financement-Québec related to capital projects included in bank indebtedness (\$22.6 million in 2017). Unsecured and uncommitted operating lines of credit, totalling \$350 million (\$350 million as at April 30, 2017), are available to McGill and are normally drawn through bankers' acceptances for periods of up to one year. The lines of credit bear interest at the prime rate or banker's acceptance rate. The prime rate averaged 3.16% for the year (2.70% in 2017). Through the use of bankers' acceptances and cross currency swaps, the average cost of borrowing for the year was 1.79% (1.01% as at April 30, 2017). The banker's acceptance rate in effect as at April 30, 2018, was 1.64% (0.93% as at April 30, 2017). There are no bankers' acceptances outstanding at year-end (bearing interest at rates from 0.91% to 0.95% as at April 30, 2017). The cross currency swaps outstanding at year-end amounting to \$89.2 million (\$70 million USD; nil as at April 30, 2017) bear interest at a rate of 1.50%.

### 8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$7,841 (\$7,462 as at April 30, 2017) of government remittances.

## 9. Deferred contributions

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

	2018	2017
	\$	\$
Balance, beginning of year	506,858	490,441
Restricted funds received during the year	390,122	349,299
Gifts and bequests	48,265	39,011
Amortization of deferred contributions	(386,559)	(371,893)
Balance, end of year	558,686	506,858

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

	2018	2017
	\$	\$
Federal grants	310,004	282,542
Provincial grants	94,887	78,339
United States grants	3,380	4,451
Other grant sponsors	17,043	21,957
Contracts	16,362	15,574
Gifts and bequests	97,092	79,029
Endowment income	14,886	20,003
Investment income	5,032	4,963
	558,686	506,858

## 10. Deferred capital contributions

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

	2018	2017
	\$	\$
Balance, beginning of year	876,492	858,748
Deferred capital contributions received	80,448	74,993
Amortization of deferred capital contributions	(60,967)	(57,249)
Balance, end of year	895,973	876,492
Composed of contributions from the following sources:		
MEES	459,388	459,157
Other provincial	151,565	149,068
Federal	150,575	128,932
Gifts and donations	122,344	127,556
Specific grant agreements	12,101	11,779
Balance, end of year	895,973	876,492

# The Royal Institution for the Advancement of Learning / McGill University

## Notes to the financial statements

April 30, 2018

(In thousands of dollars)

### 11. Long-term debt

	2018	2017
	\$	\$
Government of Québec debt Notes <sup>(i)</sup>		
2.323%, due December 1, 2017	—	53,240
2.472%, due December 1, 2017	—	15,925
2.213%, due June 1, 2018	<b>132,940</b>	143,752
2.112%, due June 1, 2018	<b>2,092</b>	2,673
2.406%, due December 1, 2018	<b>12,452</b>	13,561
2.413%, due May 29, 2019	<b>172,753</b>	184,315
4.125%, due August 24, 2020	<b>2,117</b>	2,768
1.709%, due March 1, 2022	<b>7,363</b>	8,181
2.947%, due September 1, 2022	<b>6,369</b>	7,674
2.947%, due September 1, 2022	<b>6,119</b>	7,373
2.226%, due September 1, 2022	<b>8,312</b>	—
3.013%, due September 28, 2022	<b>4,994</b>	5,907
2.044%, due October 1, 2022	<b>4,485</b>	—
1.639%, due March 1, 2023	<b>4,341</b>	5,149
2.324%, due September 1, 2024	<b>11,666</b>	—
2.949%, due March 1, 2025	<b>37,081</b>	42,220
2.408%, due September 1, 2026	<b>49,680</b>	52,440
2.149%, due September 1, 2026	<b>16,615</b>	18,241
2.280%, due September 1, 2027	<b>43,440</b>	—
2.787%, due September 1, 2027	<b>65,087</b>	—
4.991%, due June 1, 2034	<b>17,000</b>	18,000
3.680%, due June 1, 2034	<b>46,200</b>	48,300
3.161%, due June 1, 2034	<b>50,600</b>	52,800
2.933%, due December 1, 2042	<b>60,579</b>	—
Total	<b>762,285</b>	682,519
McGill Senior Unsecured Debentures <sup>(ii)</sup> ,		
6.150% Series "A", mature on September 22, 2042	<b>150,000</b>	150,000
3.975% Series "B", mature on January 29, 2056	<b>160,000</b>	160,000
Loan payable <sup>(iii)</sup>	<b>24,454</b>	—
Other	<b>36</b>	62
Bond discounts and issuance costs	<b>(5,140)</b>	(5,342)
Total long-term debt	<b>1,091,635</b>	987,239
Current portion	<b>(193,606)</b>	(113,832)
	<b>898,029</b>	873,407

## 11. Long-term debt (continued)

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

	Annual payment	Final payment on maturity
	\$	\$
2.213%, due June 1, 2018	—	132,940
2.112%, due June 1, 2018	—	2,092
2.406%, due December 1, 2018	—	12,452
2.413%, due May 29, 2019	11,562	161,191
4.125%, due August 24, 2020*	677	—
1.709%, due March 1, 2022	819	4,906
2.947%, due September 1, 2022*	1,291	720
2.947%, due September 1, 2022*	1,344	750
2.226%, due September 1, 2022	1,847	924
3.013%, due September 28, 2022*	940	—
2.044%, due October 1, 2022	994	509
1.639%, due March 1, 2023	808	1,109
2.324%, due September 1, 2024	1,795	896
2.949%, due March 1, 2025	5,140	6,241
2.408%, due September 1, 2026	2,760	27,600
2.149%, due September 1, 2026	1,626	3,607
2.280%, due September 1, 2027	1,738	27,798
2.787%, due September 1, 2027	4,077	28,394
4.991%, due June 1, 2034	1,000	1,000
3.680%, due June 1, 2034	2,100	12,600
3.161%, due June 1, 2034	2,200	15,400
2.933%, due December 1, 2042	2,423	2,427

\* Annual payments vary from year to year.

- (ii) In September 2002, McGill issued \$150 million of unsecured debentures. In January 2016, McGill issued \$160 million of unsecured debentures. Unlike MEES notes, McGill will be required to repay these obligations from resources generated by McGill. Semi-annual interest payments are paid by McGill.
- (iii) In August 2017, McGill entered into a 10-year loan agreement of \$25 million, with a 20-year amortization period. The loan bears interest at the banker's acceptance rate plus 0.73% with a 10-year rate swap for an all-in rate of 2.84%.



## 11. Long-term debt (continued)

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

	\$
2019	193,606
2020	195,903
2021	34,868
2022	38,363
2023	31,001

## 12. Employee future benefits

### *Pension plans*

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

The University measures its accrued benefit obligations and fair value of the plan assets for accounting purposes as at April 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as at December 31, 2017, and the next required valuation will be no later than as at December 31, 2020.

### *Post-employment 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, 2018, is estimated at \$90.9 million (\$114.5 million as at April 30, 2017). These amounts are recorded as liabilities.

### *Pension plan defined contribution plan*

The University has a defined contribution pension plan offered to basically all employees. The University contributes to the Plan up to a maximum of 10.8% of the employees' basic earnings depending on the age of the employee.

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

	2018	2017
	\$	\$
Cash payments recognized	51,226	57,731
Benefit costs	22,982	21,565
Accrued pension liability		
Defined benefit cost		
Current service cost	7,340	7,382
Interest cost on accrued benefit obligation	2,229	3,538
	9,569	10,920

## 12. Employee future benefits (continued)

### *Pension plan defined contribution plan (continued)*

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

	2018	2017
	\$	\$
Accrued benefit obligations	317,231	338,387
Fair value of plan assets	263,897	267,541
Plan deficit	53,334	70,846
Accrued pension liability	53,334	70,846

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

	2018	2017
	%	%
Cash equivalents	2.0	1.9
Alternative assets	3.1	9.2
Equity	50.6	39.4
Fixed income	44.3	49.5

The significant assumptions used are as follows:

	2018	2017
	%	%
Discount rate		
Active	5.75	5.75
Retirees	4.50	3.90
Price inflation allowance	3.00	3.00

### *Post-employment benefit obligation – unfunded benefits*

	2018	2017
	\$	\$
Balance, beginning of year	114,489	112,924
Current service cost	1,210	1,144
Interest cost on accrued benefit obligation	5,190	5,077
Benefits paid	(4,874)	(4,656)
Net actuarial loss	(25,103)	—
Balance, end of year	90,912	114,489

## 12. Employee future benefits (continued)

*Post-employment benefit obligation – unfunded benefits (continued)*

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

	2018	2017
	%	%
Post-employment benefit obligation as at year-end		
Discount rate – active	5.75	5.75
Discount rate - retirees	4.50	3.90
Rate of compensation increase – Academics	5.70	5.70
Rate of compensation increase – Non-academics	3.00	3.00
Health care cost trend rates		
Current trend rate	4.00	5.50
Ultimate trend rate	4.00	5.00
Year of ultimate trend rate	2040	2019

## 13. Externally restricted for endowment purposes

	2018	2017
	\$	\$
Faculty endowments	588,696	610,914
Student aid	461,875	476,444
Research endowments	118,930	125,884
Emerging priorities	21,455	23,996
Library endowments	25,531	27,173
Student services	9,514	10,542
Annuities	3,930	4,289
Accumulated income	336,270	283,085
	1,566,201	1,562,327

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.

### 13. Externally restricted for endowment purposes (continued)

Investment income on endowments, which comprises interest, dividends and realized and unrealized gains and losses, is recorded in the statement of revenue and expenses when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. A policy has been established by the University with the objective of protecting the real value of endowments by limiting the amount of income made available for spending and requiring reinvestment of income not made available. The amount made available for spending is set by authorization of the Board of Governors at 4.25% plus an additional 0.25% from fiscal year 2016 to fiscal year 2019 of the average fair value of the endowments of the past three years. The excess of actual income over the amount made available for spending is recorded as a direct increase in endowment funds. In the event that the actual income is less than the amount made available for spending or the income is negative, the shortfall is taken from the accumulated reinvested income and is recorded as a direct decrease in net assets. In accordance with the policy, the unspent portion of the amount made available for spending is capitalized and recorded as a direct increase in endowment funds. For individual endowment funds without sufficient accumulated reinvested income, endowment capital may be encroached upon. These amounts are expected to be recovered by future net investment income.

In addition, the Board of Governors has approved a charge of 1.1% (1.1% in 2017) of the fair value of investments to cover internal and external investment management costs. As these costs are recorded in the operating and restricted funds, this amount is included in the interfund transfers each year.

### 14. Internally restricted net assets

	2018	2017
	\$	\$
Self-financing teaching and research	31,767	30,427
Professor start-up funds	7,489	9,436
Other	49,139	44,646
	<b>88,395</b>	<b>84,509</b>

### 15. Investment and interest income

	2018	2017
	\$	\$
Change in fair value of investments	(1,823)	3,293
Change in fair value of derivative financial instruments	3,068	(808)
Investment and interest income	86,204	58,449
	<b>87,449</b>	<b>60,934</b>

## 16. Net change in non-cash working capital items

	2018	2017
	\$	\$
Receivables (operating, student loans and investment income)	(2,135)	(1,982)
Prepaid expenses	(3,996)	(2,190)
Inventory	(165)	2
Accounts payable and accrued liabilities	32,098	(10,871)
Unearned revenue	5,884	(112)
	<b>31,686</b>	<b>(15,153)</b>

## 17. Financial instruments

### *Financial risks*

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

The University has foreign currency risk arising from its foreign-denominated marketable securities. As at April 30, 2018, McGill's foreign-denominated marketable securities had a fair value of \$1.07 billion (\$1.04 billion as at April 30, 2017), the most significant of which were US dollar-denominated marketable securities of \$660 million (\$744 million as at April 30, 2017).

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, 2018, the most significant financial liabilities are bank indebtedness, accounts payable and accrued liabilities and long-term debt.

### *Derivatives*

As approved by the Investment Committee of the Board, McGill has forward contracts outstanding of US\$259.5 million with a forward rate of 1.2812 as at April 30, 2018, maturing through June 2018 (US\$298 million with a forward rate of 1.3368 as at April 30, 2017 that matured on May 30, 2017). As at April 30, 2018, the fair value of these contracts was an unrealized loss of \$1.5 million, which was recorded in marketable securities (an unrealized loss of \$16.7 million as at April 30, 2017).

In October 2003, McGill entered into an agreement with RBC Dominion Securities (RBCDS) whereby it invested in a US\$13 million US dollar-denominated bond maturing in 2029. Under this agreement, the bond principal and the semi-annual interest payments due to McGill were swapped with RBCDS in exchange for RBCDS paying McGill \$85.7 million in 2029. The fair value of the bond and the swap agreement is \$61.5 million (\$64.3 million as at April 30, 2017) and is included in marketable securities.



## 17. Financial instruments (continued)

### *Derivatives (continued)*

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, 2018, the fair value of the swap is \$38.7 million (\$38.6 million as at April 30, 2017).

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

The University entered into bond forward contracts amounting to \$207 million with a settlement date of May 17, 2018. As at April 30, 2018, the fair value of the forwards is an unrealized loss of \$3.9 million which has been included in marketable securities (an unrealized loss of \$10.2 million as at April 30, 2017).

The University also entered into cross-currency swaps amounting to \$89.2 million with settlement dates between May 16, 2018 and June 12, 2018 and bearing interest at a rate of 1.50%. As at April 30, 2018, the fair value of the swaps approximate their carrying value and therefore no gain or loss was recorded in the statement of revenue and expenses.

### *Marketable securities*

The marketable securities portfolio comprises the following types of investments:

	2018	2017
	%	%
Canadian equity	10	13
U.S. equity	20	22
Non-North American equity	22	18
Canadian fixed income	17	15
U.S. fixed income	1	2
Hedge funds	11	13
Alternate strategies, including private equity and other	19	17
	100	100

Short-term investments consist of highly liquid fixed-income securities maturing within one year and bearing interest rates ranging from 0.79% to 6.83% (0.48% to 5.65% as at April 30, 2017).

## 18. Pledges

Outstanding donation pledges, net of provision for doubtful accounts of \$1.1 million, as at April 30, 2018, amounted to \$210.0 million (\$179.0 million as at April 30, 2017, net of doubtful account of \$0.6 million). These have not been recognized in the financial statements.

## 19. Commitments

### *Operating leases*

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

	\$
2019	9,603
2020	5,782
2021	5,716
2022	5,540
2023	5,177
2024 and thereafter	15,945
	<u>47,763</u>

### *Construction in progress*

McGill has undertaken the construction of several new buildings and, as a result, has commitments totalling \$115.4 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 \$139.6 million within the next four years in accordance with its arrangements with these funds.

## 20. Contingent liabilities

### *Litigation*

In the normal course of its activities, McGill is party to various legal proceedings, including claims related to labour laws and the *Civil Code of Québec*. Although it is not possible to determine the ultimate outcome of such proceedings initiated and ongoing as at April 30, 2018, management is of the opinion that they will be resolved without material effect on McGill's financial position. Any amount McGill may be required to pay will be charged to operations in the year of settlement; if the amount can be estimated and is considered likely to occur, it will be provided for in accrued liabilities.

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

## 21. Comparative figures

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

D18-23 Appendix B

# **Report on the Financial State of the University**

Year Ended April 30, 2018  
Presentation to Senate

December 5, 2018



## Operational Highlights Fiscal 2018

- For purposes of MEES allocations, a separate formula is used to calculate operating results, which results in an operating deficit of \$31 million.
- MEES does not account for pension and post-employment adjustments as well as vacation accruals
- Operating surplus for the year of \$14.0 million on a GAAP basis, including interfund transfers
- Capital expenditures allocated to the Series B debentures were \$28.5M for IT projects and \$80.1M for deferred maintenance
- IT projects include R2R
- Income distribution on endowment funds amounted to \$66.6M





# Audit Highlights Fiscal 2018

- Unqualified opinion expressed by Deloitte
- Unadjusted errors were not significant
- Actuarial valuations performed by actuaries for pension and post employment benefit obligation
- *Subvention conditionnelle* of \$30.4M for FY18 was received in August 2018
  - Based on a “modified” cash basis
  - Excludes pension, post employment and vacation accrual adjustments



# Summary of Operating Fund Results Fiscal 2018 Actual to Forecast and Budget

	2018			Variance Actual to Forecast		2017	Variance to Actual 2018 vs 2017
	Actual	Forecast	Budget	\$	%	Actual	
<b>Revenues</b>	<b>853.0</b>	<b>844.5</b>	<b>815.0</b>	<b>8.5</b>	<b>1.0%</b>	<b>797.7</b>	<b>55.3</b>
<b>Expenses</b>							
Salaries	664.8	666.8	626.0	(2.0)	(0.3%)	610.5	54.3
Non Salaries	153.7	167.4	154.3	(13.7)	(8.2%)	143.8	9.9
<b>Total Expenses</b>	<b>818.5</b>	<b>834.2</b>	<b>780.3</b>	<b>(15.7)</b>	<b>(1.9%)</b>	<b>754.3</b>	<b>64.2</b>
<b>Surplus before Interfund transfers</b>	<b>34.5</b>	<b>10.3</b>	<b>34.7</b>	<b>24.2</b>	<b>235.0%</b>	<b>43.4</b>	<b>(8.9)</b>
<b>Interfund transfers</b>	<b>(20.4)</b>	<b>(34.4)</b>	<b>(44.6)</b>	<b>14.0</b>	<b>(40.7%)</b>	<b>(38.3)</b>	<b>17.9</b>
<b>Increase/(Decrease) in Fund Balance</b>	<b>14.1</b>	<b>(24.1)</b>	<b>(9.9)</b>	<b>38.2</b>	<b>(158.5%)</b>	<b>5.1</b>	<b>9.0</b>
<b>Surplus as a % of total revenues</b>	<b>1.7%</b>	<b>(2.9%)</b>				<b>0.6%</b>	



# Financial Highlights

## REVENUES

- Actual revenues higher than forecast by \$8.5 million
  - Government grant higher than forecast by \$1.8 million
  - Higher interest and investment income and foreign exchange of \$6.31 million

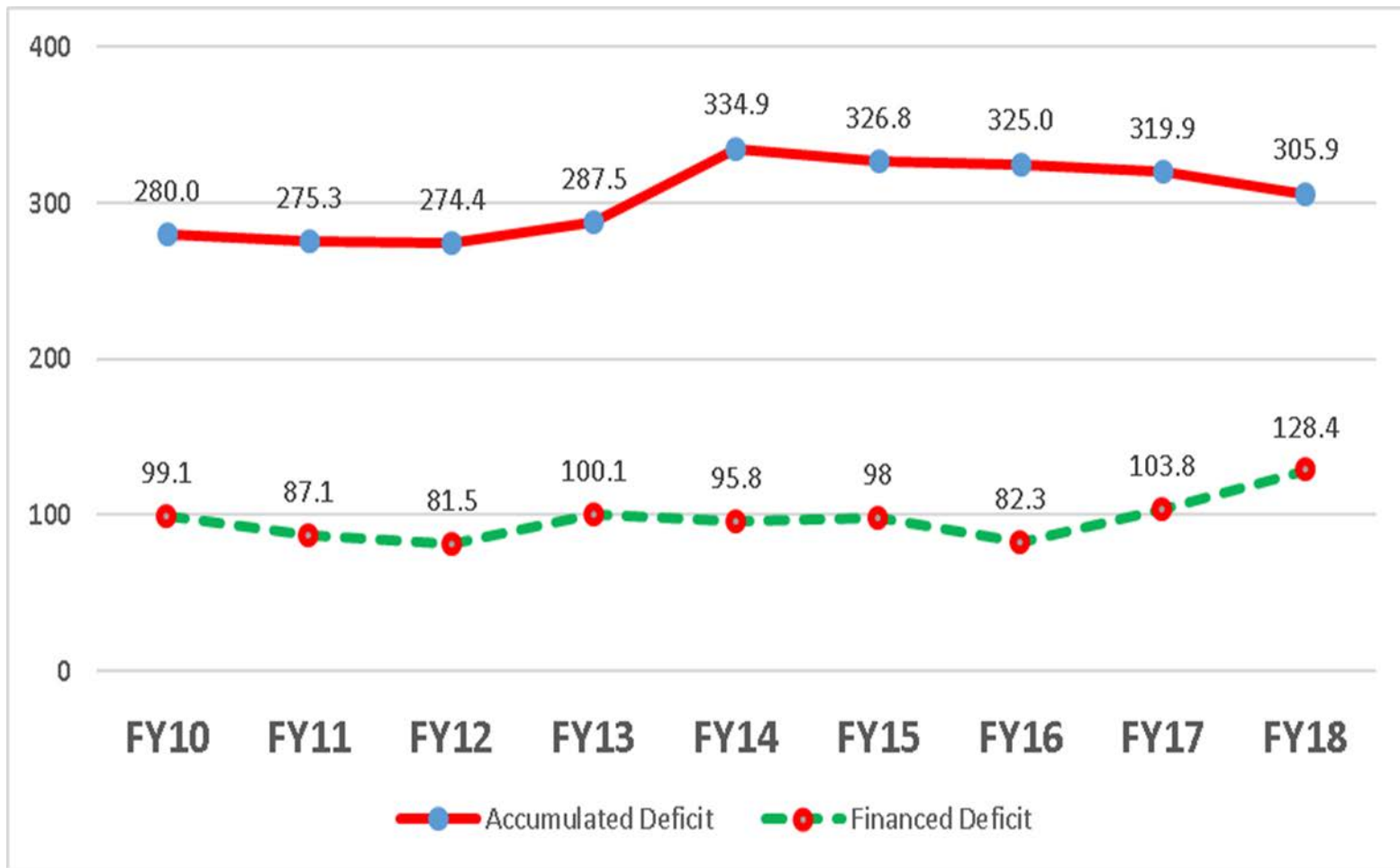
## EXPENSES

- Expenses were lower compared to forecast by \$15.7 million
- Interfund transfers were lower by \$14.0 million due to pension and post employment gains of \$28.3 million which are determined by our actuaries



# Accumulated Deficit – Operating Fund

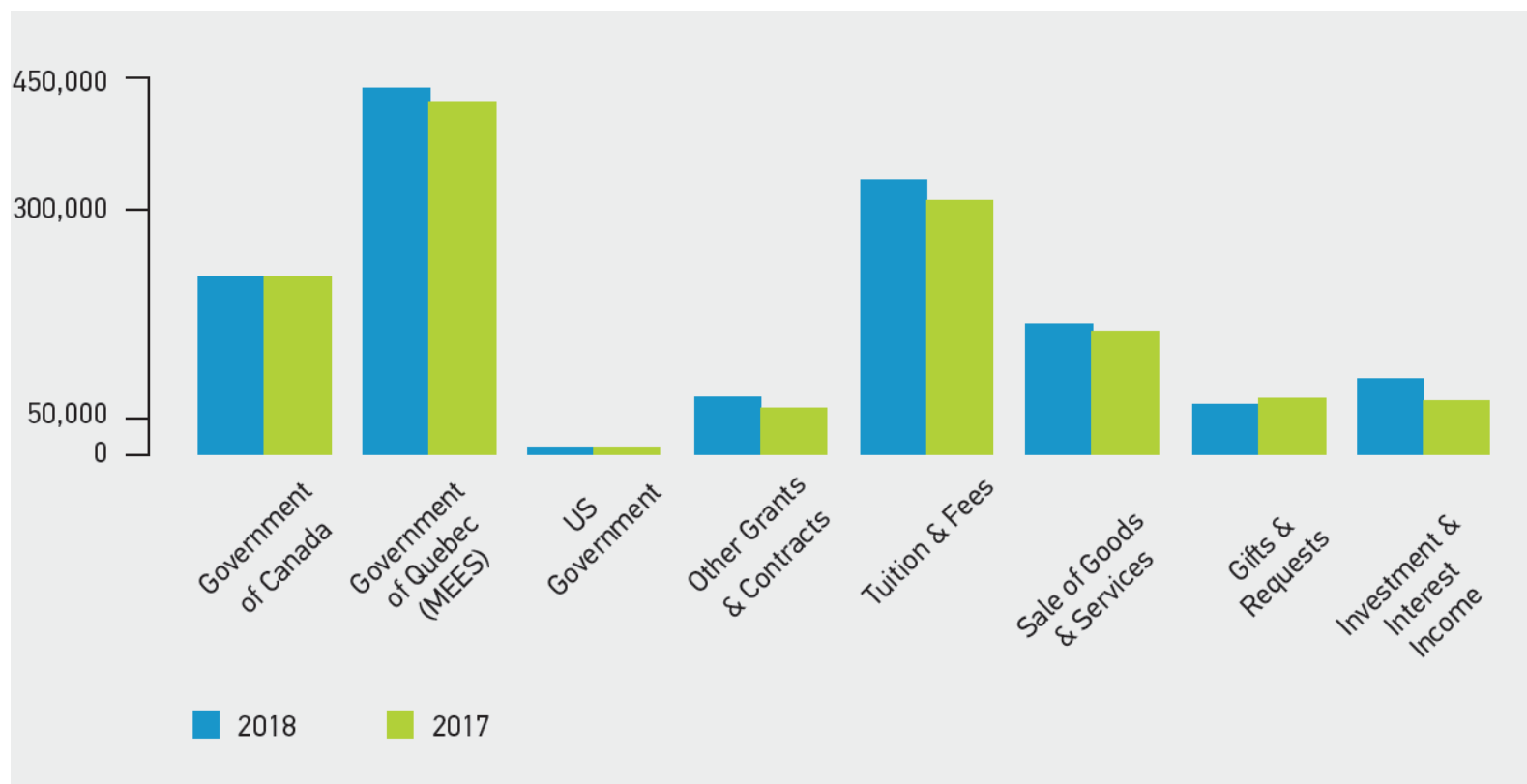
In millions of \$





## Total Combined Sources of Funding

**FY 18 \$1.32 billion**  
**FY 17 \$1.24 billion**

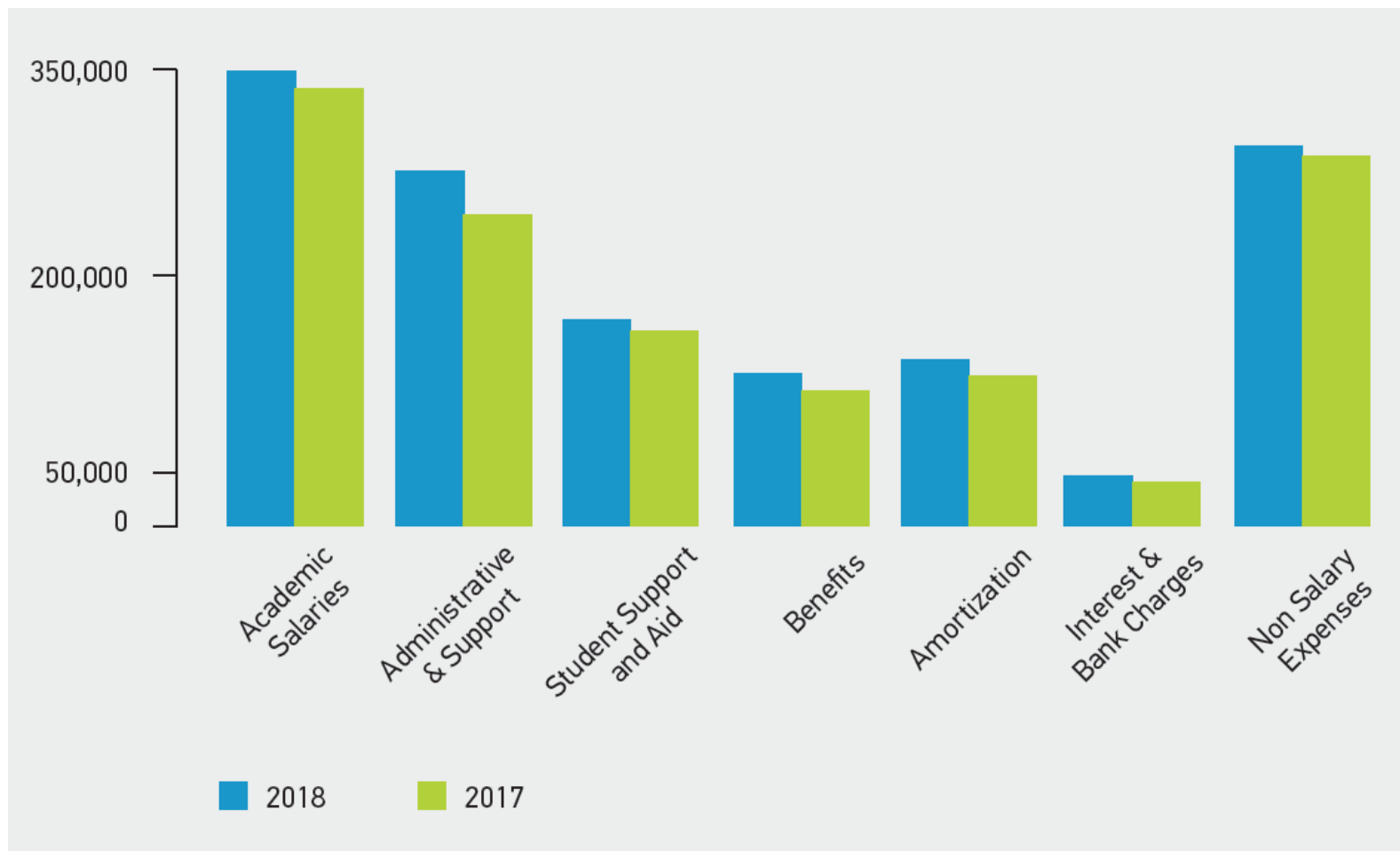






## Total Combined Expenditures

**FY 18 \$1.35 billion**  
**FY 17 \$1.26 billion**





## Deferred Maintenance (DM)

- Ministry annual funding to address DM increased to \$85.8M from approximately \$43.4 million
- Increase includes a special patrimonial envelope of \$5M out of a total of \$12M available for the whole reseau
- \$400M Financing Plan via bond issuance for DM and IT needs
  - \$160M issued in January 2016
  - Next tranche anticipated in calendar 2019
- Strategic Infrastructure Fund (SIF), announced as part of the 2016 Federal budget, amounting to \$68.2 million, has been applied to seven projects
- Currently there are approximately 350 open infrastructure projects

## Various Updates

- New funding formula for purposes of allocating the provincial operating grant implemented in FY19
  - All Universities experience an increase in their allocation
  - Deregulation of all international students
- A '*Plan de Redressement*' was filed in December 2017 and amended in June 2018 with respect to our 2017 operating loss demonstrating a return to balanced budget over the next three to five years
- Meeting with Moody's and S&P in December to reaffirm credit rating
- MNI/MNH agreement on cost sharing signed in May 2018



## Questions and comments