2010-2011 Budget Book

McGill University

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McGill

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May 7th, 2010

Dear Members of the McGill Community,

The McGill University Budget for fiscal year 2010-2011 marks a series of transitions – a new accounting methodology, a new fiscal year end, and the closing of our first multi-year allocation plan linked to clearly articulated strategic academic priorities, which include sustaining strength in core fields across the board. As in past years, this budget is designed to keep financial resources and spending aligned with support for quality and excellence in the achievement of McGill's mission, goals, and objectives. When the Board of Governors approved the multi-year budget planning exercise in fiscal year 2005, the executive team and the entire senior administration undertook to reduce annual operating deficits in every one of the five years of the plan. That trajectory was aimed at producing a balanced budget for fiscal year 2011, an expectation shared also by the Ministère de l'Éducation, du Loisir et du Sport (MELS). Notwithstanding increasing revenues, as projected, in each of those years, fulfilling the commitment to balancing the budget for FY2011 became progressively more difficult in the face of the dramatic economic downturn beginning in the fall of 2008 and the resulting economic uncertainty. Nonetheless, we have committed that these externalities must not undermine our unwavering dedication to maintaining and enhancing not only McGill's position among the world's leading publicly funded universities, in service of our communities at home and abroad, but also to high standards of financial accountability, efficient administration and ongoing measurement of performance.

Although revenues have increased, they have not kept pace with increased expenditures in salaries and related compensation, in the recruitment and retention of top academic talent, and in improving our financial support for students. We have aimed to reduce increases in spending whenever possible, while investing in initiatives designed to improve McGill's competitive position nationally and internationally. We will continue on this path. The ongoing financial uncertainties and downturn also pose challenges for the continuing success of our comprehensive campaign and have compressed our endowment and its income stream. In addition, the funding situation for Quebec universities has deteriorated, as has our funding compared to that of universities elsewhere in Canada. Other provinces have increased their grants to post-secondary educational institutions and have been operating within more realistic tuition regimes. We are optimistic that the recently announced Quebec Budget for fiscal year 2010-11 presents an opportunity for a new tuition regime starting in the Fall 2012. Nonetheless, for FY2011 we must manage within the current regulatory regime except for our deregulated and self-funded programs. At the same time, we will continue to build the case that effective tuition increases combined with financial assistance is the best path to improving student accessibility to university education for all income groups, while establishing the capacity to continue building the competitiveness of our programs.

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Virtually every major public university in Canada and across North America faces serious financial challenges and important program and spending trade-offs. We accomplished much last year to reduce expenses, including a three-percent cut in senior salaries and the sacrifice by all staff to postpone pay increases for 6 months. That, combined with some agreed-to reductions in contributions to benefits and a general 1.5% budget cut across the University's non-salary spending, provided some financial relief, but we are still facing a deficit for the next fiscal year and have further to go on realizing base-budget savings. Although the figures for the current 2009-10 year are not yet finalized, we forecast that we will meet our commitment to reduce the annual deficit to $5M. We have not asked our employees to make a comparable across-the-board sacrifice for the coming year; therefore, we must implement new measures to continue decreasing base-budget allocations in appropriate areas, partly by optimizing efficiencies in key areas, such as work load, use of space, and additional revenue generation for priority areas.

Let me be clear: we cannot continue business as usual. The Provost is engaging in a disciplined exercise to align resources to priorities, while cutting expenses, exploring the delivery of programs and services, and finding business efficiencies in many areas of our operations. He, with our senior team of Deans and Vice-Principals, will continue on this path. Our Vice-Principals, Deans, Directors, and Chairs all have a role to play in optimizing the allocation of assigned resources, and in continuing to streamline processes to achieve significant cost-savings via improvements in operations and performance. We will be vigilant in protecting and growing quality, access and competitiveness whenever possible.

Facing fiscal challenges is not new for McGill. According to our five-year planning frame, the budget for FY2011, which is the final year of that cycle, is to break even, and, on an 11-month basis that results from a change in year end, we will reach this goal. However, with approval from the Board of Governors, using a conservative model, we will show operating budget deficits beginning in FY2012 in transition to the anticipated FY2013 tuition increases noted in the Quebec budget, along with other new resources. In our current budget model, we have conservatively assumed continued $100/year per student increases, but anticipate a significant increase in tuition revenue that will be used both to work down the large accumulated deficit and to support underfunded top priorities of the University. During this transition period, we aim to preserve the progress made over the past few years to support McGill's priorities and performance, consistent with our mission.

We will continue to commit 30% of all net new tuition revenue toward student support. This, along with initiatives coming out of the Principal's Task Force on Diversity, Excellence and Community Engagement, will aim to better foster community engagement and the diversity of our students, faculty, and administrative and support staff.

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Seven years ago, in my installation speech, I noted that McGill punches above its weight, and I continue to hold that opinion. This University is performing at measures well above what might be expected given our level of resources. This was demonstrated amply in my exchanges with other university leaders at the Association of American Universities (AAU) Presidents' meeting, which we proudly hosted at McGill last autumn. American universities, with two and three times the per-student funding we receive, were declaring something akin to a state of disaster. We, in contrast, are experienced in making tough choices and have been for much of our history. We should be proud of this remarkable achievement, which was noted by President Clinton during his speech at the special convocation in November when he was awarded a McGill honorary degree. Yet we all know that to continue to do more with less is not sustainable in the medium to long run and we will face ever diminishing returns if our funding base does not continue to grow, and to grow faster than our expenditures.

The operating budget of McGill University has undergone significant change over the last three fiscal years. While revenues from all sources have steadily increased, we must continue to diversify and increase revenue sources strategically and, with disciplined implementation of plans, to realize better support for priorities as well as important new opportunities. Even though resources, especially with respect to tuition, indirect research costs and infrastructure support, have not kept pace with those available to our peers in the rest of Canada and the United States, we have met our deficit reduction plan and have steadily narrowed the gap between revenues and expenses. As we transition to a new strategic academic plan and associated multi-year resource allocation, it is clear that McGill must have more resources if it is to retain and grow its hard-fought and well-earned place among top-tier, publicly funded universities. We will move forward or we will fall back.

In the proposed budget, we remain committed to quality in pursuing our mission in a number of key areas: we will continue to recruit and retain the best academic talent in selected priority areas; to attract the most talented undergraduate and graduate students; to remain one of Canada's leading employers; to offer quality programs and services to our undergraduate and graduate students; to improve student life and learning; to foster diversity among our students and faculty; to promote disciplinary and interdisciplinary priorities in research and learning, including cluster hires for the latter; to provide the highest quality support services to our students and faculty; and, to promote measurable performance indicators to ensure accountability. We will undertake a new round of reviews of our academic units and programs, explore our courses and program delivery, and examine workload issues with an eye to improving student engagement and support, exposing our students more consistently to McGill's outstanding teacher-scholars. All of these measures will help us position ourselves to meet future challenges and to succeed.

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This transitional budget for FY2011 is a reflection of the work that is underway to transform our University, and it is fully consistent with our mission. The budget for FY2011 is designed to protect jobs to the best of our ability, to allow for strategic increases in enrolment, to achieve greater efficiencies in a range of areas, and to generate significant new revenues. All of this will be done while preserving McGill's mission and values and respecting the character and history of this great University.

My enormous thanks to the Provost and his team, the senior administrative team as a whole, the Board of Governors, Senate, and the entire McGill community of colleagues, students and alumni for your superb commitment to building on the strengths, reputation and contributions of McGill and for your unwavering support in achieving our mission of excellence. Your hard work and high standards are the bedrock of McGill's success. These times are challenging, but they are also exciting. Our collective sense of community, combined with a sustained dedication to progress, excellence, and innovation, will steer us and reward us as we further McGill's legacy as one of the world's premier universities.

With warm appreciation and all good wishes,

Sincerely,

Professor Heather Munroe-Blum

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Executive Summary

Along with most other institutions of higher learning in North America, McGill University is facing a time of significant uncertainty and change. Although there has been a rebound in stock markets, the economic downturn is still having a negative impact on corporate earnings, job markets, and as a result, tax revenues that governments use to support publicly-funded universities. As we plan to position McGill for success in the future, notwithstanding these increasingly difficult circumstances, the administration is committed to protecting and even enhancing the considerable progress that McGill has made over the last decade.

The proposed budget for the Operating Fund for FY2011, which is the primary focus of this report, will be "transitional" in several ways. First, it is a transition to the new fiscal year end of 30 April and so it is for 11 months from 1 June 2010 to 30 April 2011. For the 11 month period we are proposing a close to breakeven scenario. Second, it is the final year of McGill's 5 year planning cycle that began with the introduction of the White Paper in 2006 that laid out strategic directions for the University; therefore, it represents the transition year into the next 5 year planning cycle. We began the earlier, multi-year planning cycle with an approximate $20M annual operating deficit, and through making fiscally responsible funding decisions and implementing significant real cuts, we have reduced that deficit to effectively breakeven in the 11 month FY2011. Third, in anticipation of a new tuition regime and after consulting with the Board of Governors, we propose several years of annual budget deficits starting with the full 12-month FY2012. The Quebec Minister of Education, Leisure, and Sports (MELS) has stated that beginning in FY2013, there will be a new tuition fee regime. In our current budget model, we have conservatively assumed that this would only be a continuation of $100/year increases, but there is likely to be a significant upside in tuition revenue that could be used both to work down the large accumulated deficit that has built up over the years and also to fund top priorities of the University that have been underfunded due to the chronic annual funding shortfall.

The proposed budget is designed to keep a responsible balance between the cost of investments in priorities and available resources. As a result of having the lowest tuition in the country, post-secondary education in Quebec continues to be chronically underfunded, which places pressure on universities to find other sources of revenues to support their activities and to sacrifice investments in much needed areas. The revenue gap that exists between Quebec universities and our counterparts in the rest of Canada is considerable. The Canadian average tuition is now approximately $5,500, as compared to the $1,968 allowed by MELS. It has become increasingly difficult to not only sustain McGill's quality (and its approximate 29,000 students) while positioning the University to enhance its competitiveness in the future, but also to meet our obligation to reduce annual operating deficits and achieve a breakeven budget by FY2011. In short, we must be flexibly adaptive in this increasingly competitive domestic and international environment. McGill must continue to attract the best students and faculty, the best minds with the brightest ideas, and we must increase levels of funding for teaching and research activities.

These tasks will not be easy; we must make significant expense reductions and attempt to find new revenue generating activities in order to meet our targeted objectives.

Over the last four fiscal years, the University's operating budget has improved significantly, from an operating deficit of close to $20M down to a projected annual deficit in FY2010 of $5M. We have made great strides in meeting our goals and objectives under exceptionally challenging circumstances. Revenues from all sources have steadily increased; this is true again for FY2011 on a 12 month basis. Mechanisms for the allocation of spending to the Faculties and administrative units have been aligned more tightly with clearly defined strategic academic priorities (primarily in terms of academic renewal, student life and learning, improved support for graduate students, securing support for research initiatives, the Master Plan for campuses, and Campaign McGill). All of these trends continue in the proposed budget.

We cannot afford to lose ground in the priority areas in which we have already been investing. McGill must continue to invest in these and other priorities in order to remain one of the top publicly-funded, research-intensive, and student-centred universities in the world. These priorities include, but are not limited to:

1) increasing compensation levels in order to attract and retain talented faculty and staff;
2) providing financial aid and support to our diverse student population, especially at the graduate level;
3) continuing to concentrate on our documented strategic priorities, including but not limited to such areas as Green Chemistry, Broadband, Pain, Neuroscience, Social and Public Policies, Humanities, and Genomics;
4) maintaining adequately our recently constructed and/or renovated buildings; and,
5) attending to the growing reporting demands from provincial and federal governments.

As one would expect, we have increased support staff and services, both at the institutional level and in the Faculties, as a function of new academic hires and net growth in our total tenure-track and tenured complement of professors. It will be increasingly difficult to retain top academic talent and highly qualified personnel in support roles without substantial, and highly anticipated new investments by the Province, de-regulation or at least significant re-regulation of tuition fees, and development of significant new revenue sources. We are in the midst of a multi-year Province plan in which $25M per year will be dedicated to reducing deferred maintenance backlogs; but this deals with our plant or capital projects funding, not our operational needs. Even though we welcome these one-time-only stimulus-based initiatives, we need to secure on-going funding of a permanent nature to match the annual costs we must incur to avoid further decay of our buildings and facilities. It should also be noted that although this level of investment is significant compared to the prior years, it will still not allow us to address fully McGill University's deferred maintenance projects list. In the medium-to-long term, we must continue to find ways to allocate a portion of our overall revenues to this cause, including some contribution from the Operating Fund.

McGill's overall budget framework consists of four major funds: *Operating* (primarily the grant from the MELS, tuition and fees, overhead on research grants, investment and endowment income, and annual undesignated gifts); *Restricted* (primarily research-related funds from Canadian, Quebec, and international sources and some of the payout from the Endowment); *Plant* (capital projects and assets, including those funded by Quebec capital grants, donations, and other sources), and *Endowment* (endowed gifts, grants, and bequests).

It must be remembered that some of the other funds provide resources that alleviate pressure on the *Operating* Fund: Canada Research Chairs salaries, for example, are reported in the *Restricted* Fund rather than in the salary-mass of the operating budget, some *Plant* or capital funds are used to help set up new professors with start-up grants, and the *Endowment* Fund earns investment income which it distributes as restricted income which is used to pay academic salaries, student financial assistance and other costs that might otherwise have to be incurred by the *Operating* Fund. Even with a reduction in pressure on the *Operating* Fund, the McGill community will need to work together to ensure that we meet our financial commitments while sustaining the highest level of excellence.

1. Objectives to Achieve through the Budget

The following are objectives the University would like to achieve with the adoption of the FY2011 budget.

a) protect jobs, and where possible positions
b) boost quality in delivering on McGill's mission by improve service and support to students, faculty, and staff
c) streamline processes and reduce red tape via continual incremental improvements and large-scale transformations
d) enhance recognition for outstanding research and scholarship
e) gain recognition for teaching excellence and community service
f) recruit, develop, and retain the best academic talent in selected priority areas
g) attract the most talented students, undergraduate and graduate, from around the corner and around the world
h) remain among "Canada's leading employers" by a variety of measures and ratings
i) develop in the McGill community a sense of shared responsibility for and willingness to help achieve priorities and significant cost savings.

2. Update on Strategies of the University

In 2006, a White Paper was developed which detailed the strategic direction of the University. We are presently in the process of evaluating our performance versus these strategies and updating the approaches we want to pursue in the next planning cycle. The FY2011 budget is designed to be consonant with the University's strategic focus and to help us in the transition.

There were two overarching goals that were stated in the White Paper. The first, that we will consistently rank among the top 10 **publicly-funded** research intensive universities worldwide, and in selected areas our performance will unambiguously position the University among world leaders. And second, we will achieve this aided by plans and implementation of them, measuring our progress, and readjusting our road map against our successes, our areas of progress, and the challenges and opportunities that we meet. We are making progress, and FY2011 will continue along those lines.

We planned to achieve these overarching goals by means of 7 institutional objectives:

I. Aggressive academic renewal
II. Quality undergraduate students, programs and services
III. Quality graduate students, programs and services
IV. Disciplinary and interdisciplinary priorities
V. Highest quality support services
VI. Quality work environment
VII. Measurement and accountability

The first objective, **academic renewal**, has been the primary "driver" in the allocations of discretionary or annual marginal increases to the budgets of Faculties. While at a somewhat reduced pace, McGill will continue to pursue an aggressive academic renewal plan.

The second objective, the quality of the programs and services offered to our undergraduate students, emerged as one of the recommendations emanating from the Principal's Task Force on Student Life and Learning.

The third objective was to improve graduate studies. We wanted to make sure that for graduate students, there was in fact a value proposition to come to McGill. We have increased the number of our Ph.D. students by nearly 25% in four years. We have had a little less progress than we had hoped for at the Master's level and we have contained growth at the undergraduate level to areas that have some capacity to grow. Our graduate student funding has increased at McGill by over 25% in the last four years and compared to an average in the G13 of just under 3% -- so we have closed the gap considerably -- putting a lot of resources into graduate work. We also understood that we wanted to build on interdisciplinary areas but we could not build interdisciplinary strengths without making sure that we had foundational strengths in the disciplines and faculties. We have a new graduate student orientation, a new program on graduate program capacity indicators, a working group on graduate student spaces and we are looking at a review of all the processes associated with graduate studies.

The fourth objective was to underpin our foundational disciplines in the Faculties and that was done principally through linking directly with the academic renewal plan. Deans had to come forward with proposals for new positions based on the contributions they make to this plan. We have been modifying and exploring with the Vice-Principal (Research and International Relations) how to better fund a smaller number, but more impactful, research centres, looking at the strategies we have in place for academic recruitment. We have linked space planning and start up funding together. We have also begun a new teaching program development for both undergraduate and graduate students and we are looking at interuniversity partnerships.

The fifth objective was to support these priorities by making sure we have high quality services in all our areas. We have made significant progress in our libraries: collections, renovations, regulations, and the number of hires. Libraries have been a spectacular example of what you can do with spaces that have been previously abandoned and not particularly functional – and when you have an idea about how to link collections back to research activities with professors and working collaboratively - we have a new set of regulations for our academic librarians. IT has also been a strong area at McGill. A new service centre is being opened on McTavish Street side of the library. That is going to be a single point of service for our student services and there will be a whole new approach and a new dynamic in the way we think about space planning. We are planning for growth in a systematic way.

The sixth objective was that we would offer professional development to our staff and make sure that every level, administrative, secretarial, clerical and technical would feel supported at McGill. Our Human Resources program has been professionalized, the shared services and outreach have been created, knowledge bases have been implemented, training opportunities have been made available and a continuation of much more than the 1% mandated by law is available in units for staff development.

The last objective we had was to make sure we measure our internal performance – again our internal performance indicators -- and measure our progress against selected peer institutions. This has been by the actions we have undertaken here are to develop key performance indicators being led by Planning & Institutional Analysis (PIA) and we have two major data exchanges that we are now much more fully involved with -- the G13 in Canada and the American Association of Universities and we are participating fully in the data exchange to get information on it. We will be undertaking major surveys of faculty; we have already been surveying our students. It is on faculty satisfaction. We have developed a business enterprise data warehouse and with those exchanges give us the opportunity to truly measure our success.

3. Economic Environment

The impact of the economic crisis on universities in North America is ongoing. Although the economy has likely emerged from the severe recession of 2008 and 2009, jobs have not fully recovered, business profits are lower and, therefore, tax revenues generated by municipalities are reduced. This has an especially significant impact on publicly funded universities.

The Quebec government recently announced its budget plan for 2010, which included several items that will affect universities in the Province and how they operate. Despite the resurgence of economic activity following the recession, Quebec will remain mired in **deficits**. For fiscal year 2009–10, the Province of Quebec will post a deficit of $4.3 billion—equal to 1.3 per cent of nominal GDP—a level not reached since 1996–97. Only by 2013–14, and only by relying upon a highly aggressive expenditure management plan that includes public service pay freezes and rising Hydro-Québec rates, does the Quebec government expect to return to fiscal balance.

It was acknowledged in the budget plan that tuition fees charged by universities in Quebec will be increased in autumn 2012; however, it is uncertain by how much tuition fees will increase. Universities in Quebec continue to be significantly underfunded compared with their peers in the rest of Canada. The Minister of Education called for a meeting in the Fall of partners in education to discuss resources to devote to university education - namely their level, their sources and their financing arrangements. The quality of teaching and research and access to university education will also be a focus of the discussions. The Ministry has also hinted that a return to performance contracts is being considered.

In addition, the Minister of Finance announced that a wage policy will apply to staff of health networks and education, universities, government agencies and Crown corporations. The proposal is to increase the total compensation by 7% over five years. This wage increase would likely be the indexation level for the education grants universities receive from MELS.

4. Resource Allocation and Budget Process

McGill University's budgeting and **resource allocation**[1] process operates within the framework of an integrated multi-year cycle that is designed to attain strategic academic goals and plans, which have been formalised and presented to Senate and the Board in four documents: a white paper call to action entitled *Strengths and Ambitions* (now referred to as the Strategic Academic Plan), the final report of the *Principal's Task Force on Student Life and Learning* (together with the administrative response), the *Master Plan* establishing principles for the development of our

[1] Note: items in bold are defined in the Glossary of Terms on page 22.

campuses, and the general principles governing Campaign McGill, our ambitious comprehensive fund-raising effort.

McGill University's budget process aims to accomplish three objectives simultaneously:

1) align resources with priorities and performance,
2) provide transparency for our sponsors, our governors and our community, and
3) ensure accountability both within and outside the University.

It also illustrates the ways in which McGill will ensure that **resources** continue to be aligned with priorities, will simplify and clarify its budget categories, and will measure success in achieving academic goals, all while remaining fiscally responsible and moving to a balanced budget over the next two years.

Components of McGill's budget

As noted above, the overall University **Budget** is comprised of four funds: **operating**, **restricted**, **capital**, and **endowment**. The first two funds deal with all of those activities normally associated with the University's core teaching and research activities. The primary difference between them is that monies received with specific restrictions on their use (e.g., research **grants**) must be recorded in the restricted fund. Of course, the associated **expenditures** must also be recorded separately to facilitate tracking and reporting. The capital fund records all **revenues** from sources other than operating or restricted funds that are specifically earmarked for the acquisition, construction or renovation of capital **assets**. The endowment fund consists of all **gifts**, donations, and **bequests,** including those for named chairs, financial aid, and other specific purposes for which the capital has been endowed. The presentation of items within these funds will change once GAAP financials are finalized at year end 31 May 2010 (see section 7).

The process

Four main principles guided budget preparations in **fiscal year (FY)** 2011, which are consistent with past years:

1) while the University has asked each Faculty and administrative area for an across the board 1.5% cut, it fully expects units to continue to support priorities and to target their cuts towards **expenses** which least impact University objectives;
2) achieve a balance between investing in priorities of the University and reducing the annual budget deficit to $0 in FY2011, which was the goal of the previous 5 year planning cycle;
3) allocations must provide a clear and accountable picture of how goals will be realised;
4) metrics must be in place to monitor performance and make adjustments as necessary given changing circumstances.

Based on a series of assumptions relative to our revenue sources and taking into account already existing commitments, allocations were made to support the following activities:

(a) academic renewal in strategic areas;
(b) graduate student funding, especially at the doctoral level;
(c) student life and learning, emphasising advising and the research experience;

(d) the Master Plan, particularly in the service of top academic priorities;
(e) Campaign McGill;
(f) **sustainability** and environmental responsibility;
(g) staff professional development;
(h) effective organisational practices.

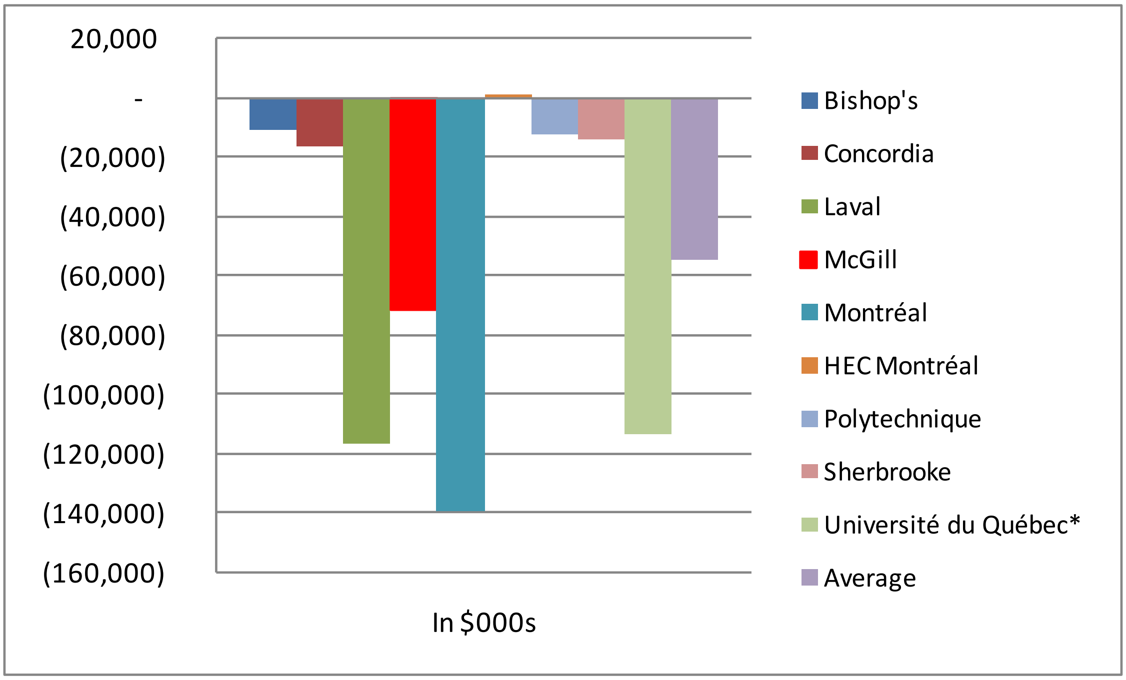
For FY2011, budgeting began by estimating total revenues and projecting confirmed expenses, the largest component being compensation. This includes a priority pool, which represents amounts available for reallocation. We analyzed units that consistently ran budget deficits to determine if there was a structural deficit that could be alleviated through an additional budget allocation or if there was a management issue that required assistance from Human Resources to aid in a restructuring of resource allocations.

The current financial situation and outlook for the future stimulated us to accelerate our evaluation of several aspects of McGill's procedures and processes regarding planning, budgeting, fiscal responsibility, and accountability. Last year, the *Provost's Administrative Task Force on Dealing with Economic Uncertainty (PATFDEU)* was active in bringing forward suggestions and recommendations on reducing expenses and approaching resource allocation more efficiently. Several recommendations stemming from consultations with the Community, along with Deans, Chairs, Vice-Principals, and Directors on how best to monitor targeted expenditures and potential revenues were included in last year's budget. These reduced expenses have provided a lower based off which the FY2011 and beyond expenses will grow.

5. Design of the FY2011 budget and closing out the 5 year cycle: overview of targets and performance

The goals of quality, excellence, and accessibility that figure so prominently in our multi-year plans come at a cost. As stated above, the current fiscal and economic contexts require finding even greater efficiencies in the delivery of academic programs and the provision of services. While autonomously chartered and independently self-governed, McGill nonetheless is publicly-purposed, depends to a large extent on public financing, and operates within the framework of a relatively underfunded Quebec system of universities. A shortfall of revenues, combined with insufficient government reinvestment, has resulted in accumulated operating deficits at all of the major research universities in Quebec, as illustrated in *Figures 1* and *2* below.

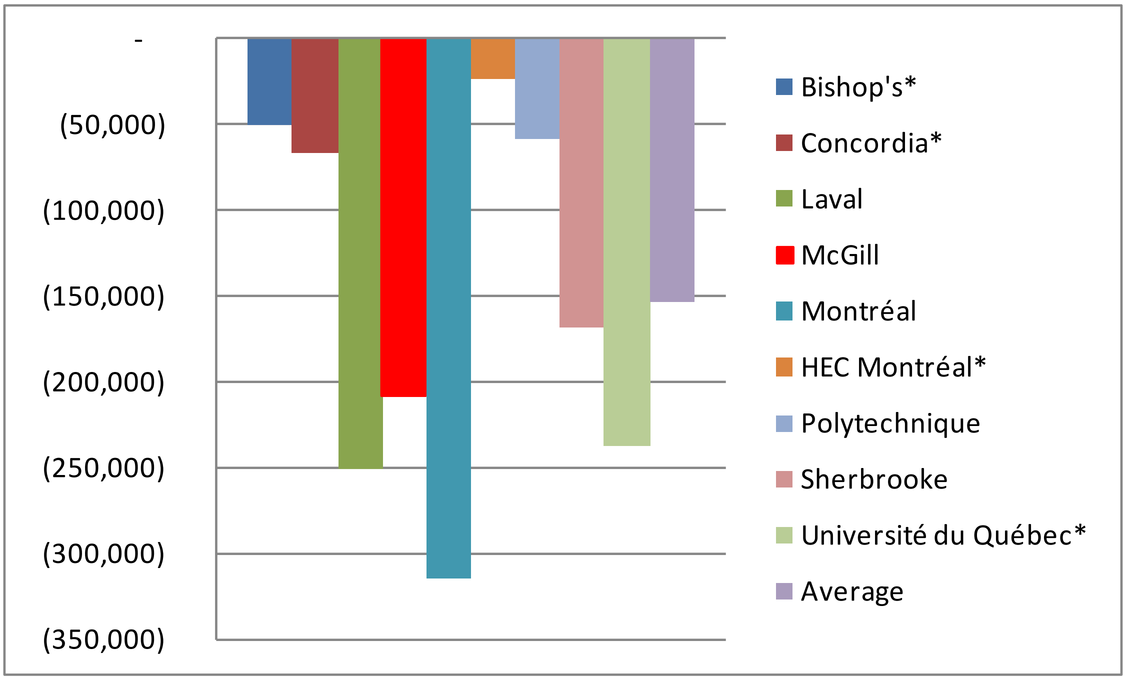
Figure 1: *Accumulated Operating Deficits of Quebec Universities (Actual - May 2009)*



** excludes impact of UQAM capital project deficits*
Source: Conférence des recteurs et des principaux des universités du Québec (CREPUQ)

McGill's **accumulated operating deficit** at May 2009 represented 24% of McGill's current grant from the MELS, although it represents only 12.8% of the total *reseau* deficit (excluding special UQAM provisions). The debt to grant ratio over the entire Quebec system is expected to stand at approximately 20.6% at May 31, 2010. It is reduced somewhat by those universities that are not research-intensive or do not have medical faculties. With the implementation of Generally Accepted Accounting Principles (GAAP), all Universities are expected to experience a rise in their non-cash liabilities/expenses, and an equivalent increase in their overall levels of accumulated deficits. An estimate of this impact can be found in Figure 2 below. In McGill's case, we expect that our long-term obligations relating to post employment benefits will result in an increase to our reported annual deficit, and the corresponding liabilities and negative fund balance. It is uncertain at this point how the MELS will compensate the *reseau* (if at all) for these future liabilities required to be recorded due to the implementation of GAAP. It is our plan to present both the current and the fully implemented GAAP results for FY2010 to facilitate the transition and to allow for maximum transparency.

Figure 2: *Estimated Accumulated Operating Deficits (May 2009 – including GAAP impacts)*



* estimated by Financial Services
Source: CREPUQ, except for "*"

The University's administration is bound by its own philosophy and plans as well as by an obligation to the Board of Governors, to the McGill community, and to the public to be held accountable for the way in which we finance and operate the University. We had a commitment to balance the budget in FY2011 and beyond. This commitment needs to be balanced against spend on top priorities and ensuring that McGill is able to maintain its position as one of the top public, research driven Universities in the world. Consequently, these plans will naturally have to be reassessed in light of the funding situation of all universities in the Quebec system.

We are proposing a transitional budget for FY2011, in part, because of the 11 month fiscal year. While we recognize our commitment in the current 5-year cycle to balance the budget in FY2011 is important, we also recognize that the expense cuts required to achieve that balanced budget on a 12-month basis would have a negative impact on the strategic investments in priorities that have been made over the previous few years. The underfunding of Quebec universities has been recognized by Quebec City as being an issue that needs to be addressed through the increase of tuition rates beginning in FY2013. McGill is counting on these new revenues to not only allow for a balanced budget, but also to work down the accumulated deficit that is expected to continue growing until FY2013 and to invest in priorities that will keep McGill as one of the top publicly funded Universities in the world. We are therefore proposing a deficit budget in FY2011 on a 12 month basis of approximately $9M. Because of the small upside in tuition revenue generated, we expect to achieve close to a breakeven budget on an 11-month basis in FY2011.

While we have made the decision to not jeopardize the investments in priorities the University has made over the past few years, we recognize the need to develop, and put in place, strategies to generate additional revenues and to limit the increase of the accumulated deficit.

These strategies include:

- enhancing recruitment of undergraduate students through the development of additional revenues in targeted programs that have the capacity to receive them;
- engaging in more ambitious recruitment of graduate students, consistent with our enrolment plan and the academic plan to increase the proportion of research students at McGill;
- addressing system underfunding through public policy channels to increase tuition to levels that more closely approximate that of our Canadian peers (toward which we are making progress);
- working to achieve further increases to tuition and **re-regulation** of fees for international undergraduate students across all programs of study, consistent with our commitment to growing student aid equivalent to 30% of all new net revenues from tuition;
- linking replacements to **actual,** and not anticipated, departures of tenure track professors and re-assessing administrative and support positions as they become vacant to optimise efficiencies and reduce costs;
- targeting expense reductions across a broad range of activities within both the Faculties and the administrative and support units wherever possible; and,
- re-allocating significant expenditure budgets to advance initiatives consistent with and informed by the Strategic Academic Plan.

This strategically focused marshalling of resources will help us to further develop critical masses of excellence in targeted areas of teaching and research, thus ensuring McGill's ability to compete with the best institutions of higher learning in the world. By adhering to the multi-year plan for the operating fund, as shown in *Table 1* on page 9, we will be in a better position to respond quickly to emerging inter-disciplinary avenues of discovery and innovation as well as promising areas of fundamental research in our core disciplines that are linked to our distinctive strengths and mission.

In FY2009, McGill incurred an $11.4M deficit. Although the final numbers will not be ready until the summer, our current estimate for FY2010 is that the deficit will be approximately $5M. This is fully in line with our budgeted target.

McGill's senior administration continues to work with all levels of government to help craft public policies that will allow for diversification and enlargement of the revenue streams upon which we can draw. A fundamental pillar of that public policy effort is securing a firm commitment that any future tuition increases will not result in a displacement of government **contributions** to funding universities, especially research-intensive, medical-doctoral institutions. Both sources of revenue are required to sustain and advance excellence, to allow for balanced annual budgets, and to gradually reduce universities' accumulated operating debts. McGill remains committed to the principle that in order not to adversely affect accessibility, tuition increases will be accompanied by increases in student financial aid.

Under the assumptions for revenues and expenditures presented in the FY2011 budget, McGill's overall accumulated operating debt is forecast to be approximately $84M by 30 April 2011 on a non-GAAP basis. See section 7 for estimated impacts of GAAP changes. The key determinants of this projection, all of which will be monitored carefully, are:

- MELS operating grants;
- tuition fee increases;
- stabilisation of the **tenure**-track academic complement;
- re-assessment of the size, composition, and distribution of administrative and support staff;
- indirect costs of research;
- gifts, bequests, and donations and spendable endowment income.

All budgets, and the resource allocations they affect, are based on key assumptions regarding the political, institutional and financial context in which they will be implemented. The following sections present the key principles and significant assumptions underlying operating revenues and expenditures in FY2011.

Table 1: *Multi-Year Operating Budget*

($ 000)

	Actual 2008-09	Forecast 2009-10	Budget 2010-11 12 months	Budget 2010-11 11 months	Outlook 2011-12	Outlook 2012-13	Outlook 2013-14	Outlook 2014-15	Outlook 2015-16
Revenues									
MELS - operating grant	297,621	314,830	316,073	290,255	320,913	326,109	332,409	338,405	345,174
Federal indirect costs of research grant	17,075	16,572	16,979	16,979	16,793	16,793	17,015	17,015	17,015
Tuition and student charges	148,915	162,948	172,658	172,658	182,308	190,471	198,734	207,275	211,421
Sale of goods and services	19,780	13,675	11,438	10,487	11,667	11,900	12,138	12,381	12,628
Gifts and bequests	2,704	1,275	1,100	1,009	1,100	1,100	1,900	2,700	2,754
Short-term investment income	3,910	1,914	2,815	2,580	4,090	4,255	7,073	7,651	7,804
Endowment investment income	71	8,770	8,770	8,039	7,701	6,812	6,344	6,505	6,616
Total operating revenues:	**490,076**	**519,984**	**529,833**	**502,008**	**544,572**	**557,441**	**575,614**	**591,933**	**603,412**
		6.1%	1.9%		2.8%	2.4%	3.3%	2.8%	1.9%
Expenses									
Faculties	292,712	306,290	317,585	294,762	324,442	334,316	343,513	352,559	360,062
Academic services	63,998	63,705	62,377	58,296	63,305	64,170	64,986	65,818	67,138
Support services									
- Administrative units	51,332	53,629	54,945	50,651	55,924	57,181	57,120	58,019	58,955
- Interest and other financial expenses	4,980	1,661	1,948	1,786	3,717	4,106	7,613	8,936	9,114
- Facilities	56,390	59,877	56,013	52,472	55,235	55,676	56,105	56,541	57,590
- Development and Alumni Relations	16,819	15,433	17,294	15,917	17,513	17,697	18,038	18,109	17,553
Institutional expenses	14,082	13,732	11,936	11,211	12,635	12,836	13,039	13,253	13,478
Student assistance	12,816	15,807	17,383	17,383	19,233	20,033	20,783	21,483	21,483
Contingency			3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total operating expenses:	**513,129**	**530,134**	**542,481**	**505,478**	**555,004**	**569,015**	**584,196**	**597,717**	**608,373**
		3.3%	2.3%		2.3%	2.5%	2.7%	2.3%	1.8%
rating surplus (deficit) before self-financing activities:	**(23,053)**	**(10,150)**	**(12,648)**	**(3,470)**	**(10,433)**	**(11,574)**	**(8,582)**	**(5,784)**	**(4,961)**
Self-financing activities									
Revenues									
Teaching, Research and Support	8,304	7,830	7,987	7,322	8,146	8,309	8,475	8,645	8,818
Services to the community	18,586	17,579	18,920	17,343	18,645	19,061	19,553	19,944	20,342
Student Services	19,247	20,186	21,866	20,044	21,292	21,911	22,544	23,195	23,659
Ancillary services	52,612	55,870	61,073	55,984	60,072	62,404	64,951	67,605	68,959
	98,749	101,465	109,846	100,693	108,155	111,685	115,523	119,389	121,778
Expenses									
Teaching, Research and Support	11,152	5,630	5,743	5,265	5,857	5,975	6,094	6,216	6,340
Services to the community	18,622	17,039	18,353	16,824	18,089	18,469	18,934	19,313	19,699
Student Services	19,250	18,487	22,069	20,230	21,527	23,382	23,603	23,496	23,965
Ancillary services	45,595	55,316	60,281	55,258	60,930	63,283	65,851	68,528	69,898
	94,619	96,472	106,446	97,577	106,403	111,107	114,482	117,552	119,902
Net contribution from self-financing activities:	4,130	4,993	3,400	3,116	1,752	578	1,041	1,837	1,876
Total Operating Revenues	588,825	621,449	639,678	602,701	652,727	669,126	691,137	711,322	725,190
Total Operating Expenses	607,748	626,606	648,926	603,055	661,407	680,122	698,678	715,269	728,275
Total inter-fund transfers:	(1,509)	0	0	0	0	0	0	0	0
Decrease (Increase) in accumulated deficit :	**(11,435)**	**(5,157)**	**(9,248)**	**(354)**	**(8,680)**	**(10,996)**	**(7,540)**	**(3,947)**	**(3,085)**
Deficit, beginning of year (i)	(66,681)	(78,116)	(83,273)	(83,273)	(83,627)	(92,308)	(103,304)	(110,845)	(114,792)
Deficit, end of year	(78,116)	(83,273)	(92,521)	(83,627)	(92,308)	(103,304)	(110,845)	(114,792)	(117,877)

(i) Includes a prior period adjustment of ($6.6M) relating to a MELS grant reclassification affecting FY2008

6. Change in Fiscal Year End

MELS has mandated that Universities in Quebec that receive public funding, change their fiscal year end from 31 May to 30 April, beginning in FY2011. This will have a significant impact on budgeting. There will be a transitional 11-month budget for FY2011, ending on 30 April 2011. We plan on recording 100% of all tuition and fees because revenues will have already been earned by 30 April (winter term is completed by then). Most other expenses and revenues will be reduced by 1/12 to account for the shortened year. Certain expenses, such as student assistance and other annual expenses, will not be able to be reduced (see Table 2 below). We expect the tuition revenue upside to exceed the annual expense downside by approximately $9 million in an 11 month FY2011.

Table 2*: Expenses that cannot be reduced by 1/12th*

In $(000s)	1 month expense
Faculties	
TA's	647
Course Lecturers	822
Other 1 time operating expenses	115
Academic Services	
Libraries - collections	1,128
Institutional & Administrative	803
Student Aid	
Operating & Endowment	2,145
Total Non-reduceable Expenses	5,660

7. Adoption of GAAP Accounting

As required by the Government, the University is adopting full Generally Accepted Accounting Principles (GAAP) for the current FY2010. This will create some confusion, in that the presentation of certain numbers and accumulated deficit will change significantly, as future oriented liabilities (e.g. post retirement benefits) will now be recorded. On the other hand, it will bring clarity to other areas, such as restricted revenues will now be recorded in the year in which the expenses are incurred. Some of the major implications on our financial statements due to the conversion to GAAP are:

- “cash” operating deficit will be affected by non-cash accruals (i.e. vacation , post-retirement)
    - vacation accrual (approx $ 33M)
    - post-retirement (minimum of $100M, depending on final actuarial assumptions and discount rate used)

- other GAAP accruals (approx $ 3M)

- the accumulated operating deficit will increase significantly due to recording of the above liabilities which were never allowed under previous MELS reporting guidelines
- GAAP no longer includes purchases of capital assets as “expenses” in either the operating or restricted funds (positive effect on accumulated deficit)
- restricted revenues & expenses will be matched in year expense occurs; no surplus / deficit created in fund balance
- donation pledges will no longer be recorded; donations to be recorded on a cash basis (with note disclosure) to be consistent with industry standards
- other presentation changes to Plant fund assets; amortization calculations & disclosures will also change.

See Appendix 1 on page 39 for proforma forecast of GAAP financials.

8. Key Principles and Assumptions

The University has key principles around which it builds a set of corresponding assumptions that are used to develop the budget. The key principles and assumptions are listed below and supported in more detail in the operating revenue and expense sections.

A. Student enrolment

Faculties will stabilise or increase (where capacity exists) undergraduate enrolment, and significantly grow research graduate enrolment in the short to medium term. They will also strive to reduce time to completion for graduate students.

B. MELS operating grant

McGill will attempt to generate as much income as possible from MELS by way of accurately and in a timely fashion reporting students, space, research and other activities, and by lobbying for changes to the system that would reflect the true costs of certain, mission-specific learning and discovery experiences.

C. Tuition and fees

The University will optimise allowable international fees on de-regulated undergraduate disciplines (Commerce, Engineering, Law, and Science) by immediately setting tuition levels at average of Canadian peer institutions and monitoring market conditions.

Of the total net increase in fees, 30% of net new tuition revenue will be directed to student support.

D. Federal indirect costs of research grant

Mechanisms will be enhanced to allow McGill to increase its share of research revenues from federal funding.

E. Development and Alumni Relations

Even though we remain optimistic that **Campaign McGill** will reach its expected target and generate $750M, with an ongoing goal of $100M in annual revenues thereafter, we have adjusted our projection for FY2010 to below $100M in order to account for the current financial and economic crisis.

F. Endowment

The University will continue to levy a fee to cover direct and indirect costs associated with managing all endowments (currently 0.9%). The annual payout rate for M.I.P. unit holders will continue to be based on 4.25% of a 3 year average of market values.

G. Self-funded units

It is our continued intention to drive ancillary operations so that they generate a surplus and do not infringe on fund operations; residence operations are expected to break-even, including the repayment of loans used to acquire or refurbish buildings. Other self funded services units, such as Student Services, are not expected to generate deficits, unless specific situations exist.

H. Expense reallocations / reductions

Reductions in expenses are required in order to meet the targeted deficit goals and reposition the financial base of the University. More importantly, these are required to shift spending patterns and behaviours in order to free up resources which then can be allocated to priority areas in support of the overall mission.

I. Graduate student enhancement funds

As per the strategic plan outlined in the White Paper, the University will continue to grow research graduate enrolment through various initiatives to improve financial and academic support to graduate students.

J. Library funding

Notwithstanding current financial difficulties, McGill University will continue its commitment to providing a high level of resources to the Library in order to maintain our collections and services at top international standards.

K. Pre-determined Faculty and Administrative Unit Compact agreements

The Provost will continue to stipulate with each Faculty Dean and, beginning in FY2011, each Vice-Principal, the “annual operational **compact**” that will be quality-driven, performance-measured, and accountability-based; these compacts are designed to reflect achievable annual objectives based on the multi-year priorities and goals, but consonant with resource constraints.

L. Salary and benefits increases

It remains McGill's commitment to position total academic compensation to be competitive with the top 3 performing institutions within the G13 research-intensive universities.

M. Academic Renewal

Even as we are nearing the overall University tenure-track complement, McGill will continue to recruit, attract, and retain the best educators and researchers in the world; we will do so while maintaining targeted complement numbers of tenure-track and tenured professors in each of our Faculties.

N. Administrative Priorities

The University's administration, at all levels, will operate with the view to optimising services while reducing operating costs.

O. Facilities and building maintenance

Consistent with our goals of research-intensity, in new buildings and significantly modified spaces in existing structures, the accommodation of major research installations requires that building operating costs related to these installations be funded by the net cost recovery generated by the researchers through indirect costs of research, and by obtaining grants from MELS relative to the educational activities that are conducted in them. These funds must be sufficient to cover expenses related to space and the salaries of building operating staff.

The University will continue to strive to reduce the cost of leasing space off-campus.

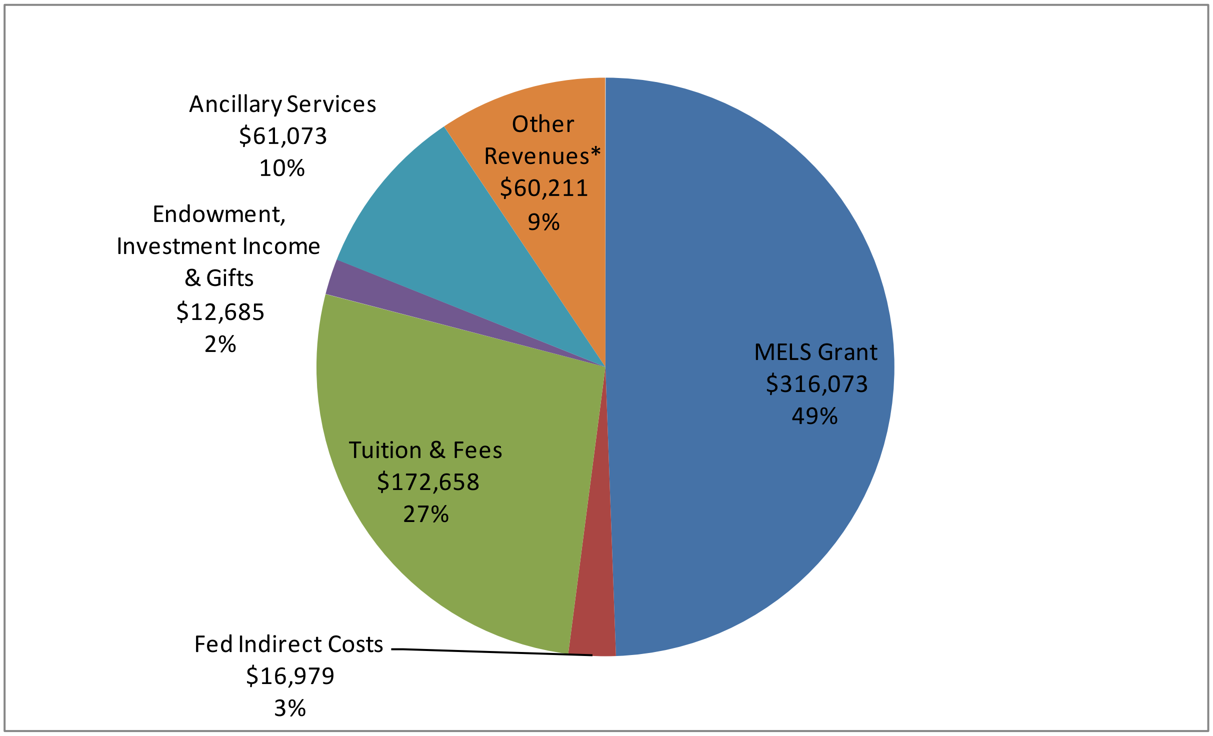
P. Interest Expense

The University will strive to reduce its accumulated deficit, thereby lowering its overall cost of borrowing.

8A. Operating Revenues: Assumptions

The sources of revenue for McGill's operating budget for FY2011 are: MELS grant (49%), tuition and fees (27%), **ancillary** revenues (10%), the federal grant covering the **indirect costs of research** (3%), investment and endowment income and gifts (2%); and "Other" (9%), which includes revenues from self-funded activities, services to the community, and from some student services. For FY2011 total revenues from these sources are projected to be $640M, on a 12 month basis, representing an increase of 3% compared to the forecast for FY2010. The change in fiscal year end from May 31 to April 30 will have an impact on some of the components of the University's revenues. Consequently, we are forecasting a reduction of 1/12 in most revenue categories, except tuition. It is possible that some portion of the MELS grant may actually be recorded at 100% (such as the "teaching grant" which is the largest component of the MELS contribution). McGill is working with the other Quebec universities to ensure a coherent and consistent approach in budget development exercises across the system.

***Figure 3**: Budget Operating Revenue - FY2011 (thousands) $639,678 on 12 month basis*



* Other Revenue includes: Sales of goods and services, self-funded activities, services to the community, student services (see Table 1).

Student enrolments and the MELS operating grant

- McGill's enrolment in FY2011 will reflect the strategic commitment and focus on growing the number of students in all graduate programs, especially those of a research nature. Indeed, based on the work of the Strategic Enrolment Management Advisory enrolment in post-graduate research master's and doctoral programs are projected to increase over the next five years in response to enhanced funding initiatives, improvements in the time to completion, and increased attention to graduate student capacity indicators as per the assessment by Graduate and Post Doctoral Studies (GPDS) and Planning and Institutional Analysis (PIA)**.**
- Undergraduate enrolment is expected to remain stable or increase in specific areas that have a capacity to grow without jeopardising our high quality standards for admission.
- The table below shows the growth assumptions that have been modelled in the planning period. Enrolment will be tracked and measured by PIA.

Table 3*: *Changes in total enrolment (%)

		FY11	FY12	FY13	FY14	FY15	FY16
Undergraduate		1.0	1.0	0.5	0.5	0.5	0.0
Grad	Masters	1.5	1.5	1.0	1.0	1.0	0.0
	PhD	4.0	3.5	2.5	2.5	2.5	1.0

MELS operating grant assumptions

- Based on the latest available information from MELS, the FTE-based components of the grant, such as the amount for operating our physical resources and fixed costs, will be increased by 1.33% in FY2011 over the value it had in FY2010. Further, the Quebec government has indicated that it expects the indexation for public salaries to be 7% over 5 years (or 1.4% annually from FY2012 onward).
- MELS has announced a change in its allocation methodology for the Provincial indirect costs grant. This will lead to a slight decrease in McGill's revenue from this source for FY2011.
- McGill will continue to benefit from the trade-off between the gradual loss of revenues from the "teaching services" grant associated with the disciplines for which international tuition is being deregulated over the next 5 years (at McGill these are Science, Engineering, Management, and Law) and the graduated offset by being able to retain the higher tuition over the same period.

The combination of the MELS operating grant and tuition and fees account for more than 75% of McGill's total operating revenues. For the purposes of the FY2011 budget exercise, we assume the "grille de pondération" (the cost-factor weighted grid, based on student enrolments in programs) remains unchanged. However, we may benefit from a recalculation of the "Clardar codes" assigned to our courses. MELS has indicated McGill will receive an increase in revenue based on our submission for such reconsideration, and we are awaiting official confirmation.

While we project slight and targeted increases in undergraduate numbers, consistent with our strategic plan, we anticipate substantial increases in enrolment in our graduate research programs. Recruitment initiatives to help bring this about were put in place during FY2008 and were very successful. These initiatives will continue in the coming years.

Table 4: *MELS Operating Grant*

$000s	*Notes*	**2008-09 Actual**	**2009-10 Forecast**	**2010-11 Budget 12 Mos.**
Teaching services	a	236,910	260,678	266,812
Administrative and support services	b	43,483	46,820	48,010
Other MELS Operating Grant	c	21,586	11,806	11,806
Facilities and buildings		31,140	33,981	34,981
General fixed costs		2,269	2,394	2,526
Total Operating (Permanent) Grant		**335,388**	**355,679**	**364,135**
Contribution to student aid	d	(6,723)	(7,420)	(8,140)
Canadian fee supplements		(23,481)	(26,450)	(27,219)
International fee supplements	e	(39,464)	(42,127)	(41,969)
Total MELS Recoveries:		**(69,668)**	**(75,998)**	**(77,328)**
Allocation for graduation premiums	f	6,097	6,036	6,239
Indirect Cost of Research Grant	g	18,433	16,419	16,747
Information technology and libraries		2,591	2,630	2,670
Other grants	h	4,780	10,064	3,610
Specific (Temporary) Grants		**31,901**	**35,149**	**29,266**
Total Operating Grant		**297,621**	**314,830**	**316,073**

Notes:

a) Based on weighted FTEs

b) Based on unweighted FTEs

c) Includes reinvestment, International fees compensation, and enrolment adjustment

d) Increasing due to higher tuition - QC keeps 25% of $100 tuition increase

e) Offsetting impacts of increased supplement and higher % of forfaitaire kept by McGill (40% in FY11)

f) $500 per undergraduate, $1,000 per Masters and $7,000 for PhD graduates

g) Reduction in contribution to salary awards was primary cause for $2M drop from FY09 to FY10

h) Includes matching donation, lease rental, Chantiers and other support envelopes from MELS; FY10 includes $4.2M from Calculs Definitif 08/09

Tuition and other student charges

The Quebec government announced it would consider an increase in university tuition fees as of fall 2012 to ensure adequate funding for our universities, and the calling of a meeting of education partners to flesh out the details of the increase and discuss the performance and funding of the university network. We are taking a conservative approach in our budget assumptions.

- The net revenues from basic tuition fees will increase by $75 each year (gross increase = $100/yr) to FY2016, net of claw-back by Quebec for student aid.
- 10% increase in FY2011 for in course international deregulated students; 8% increase in FY2011 for students who started in FY10
- Due to higher tuition and **forfaitaire** capture incremental $2.2M revenue projected (net of 30% to student aid) each year through 2014
- FIO's (Frais Institutionnels Obligatoire or general student fees) will increase by $15 annually, other than those fees with entente
- The MELS imposed "forfaitaires" will increase by the following:

Table 5*: MELS forfaitaires*

	FY 2011	FY 2012	FY 2013	FY 2014
Out-of province supplement	1.89%	2.5%	2.5%	2.5%
International supplement	8%	7%	7%	7%

Table 6*: MELS imposed tuition fees for FY2011*

Basic fee	Out-of-Province Supplement	International Supplement
$2,068	$5,668	$11,267 – $12,811

In order to secure medium to long-term financial positions, McGill and the entire Quebec university network must be allowed to re-regulate tuition fees and reverse the trend of declining accessibility and quality in the province's post-secondary education system. Along these lines, McGill has been and remains committed to re-investing 30% of the resulting new net revenues in needs-based student aid, such as the **entrance bursary program** and graduate student aid programs.

Average tuition at McGill's non-Quebec Canadian peer institutions has now reached approximately $5,500. In comparison, the Quebec average tuition in FY2010 is $1,968 per student FTE. This represents as much as a $60M-$80M shortfall in revenues each and every year as compared to our Canadian peer institutions.

Research revenues

Federal indirect costs of research grant assumptions

- the environment for federal grants will become increasingly competitive as the numbers of tenure track staff grow in all universities, as the grant budgets are not increased commensurately, and as more funds are being targeted towards centres and infrastructures; we are estimating McGill's share of the total federal envelope will remain at approximately 7.5%-7.7% share range over the planning period;
- the total indirects envelope available in Ottawa is expected to increase by $8M from $325M in FY10 to $333M in FY11 (one year increase).

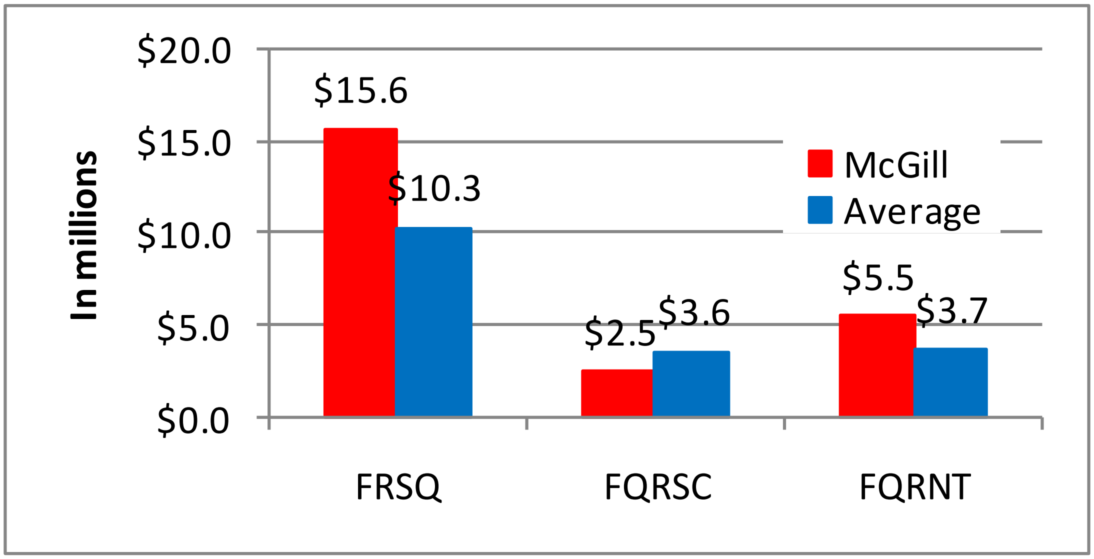
Research funds are the largest source of restricted funds, but the latter also includes investment income, restricted donations, and other government grants for either restricted purposes or capital projects. The research activities of our professors generate additional income to support the direct operating expenses incurred in the production of new knowledge. One of the most significant contributions to McGill's academic renewal envelope comes from the Canada Research Chair program which now provides 159 tenure-track professorial positions at McGill; but this is down from the allocated 163 in the last round, reflecting a decline in our relative share of Federal Tri-Council grants. This negative trend must be reversed.

Both the federal and provincial governments recognise the need to support the full administrative "institutional" or "indirect" costs of administering and managing top-notch research activities, i.e.: those activities that are not directly attributable to a specific research project, such as maintaining and heating buildings and providing a large array of services from the optical backbone network to Library subscriptions to research journals to hazardous waste removal and the like. Research contracts and grants generally provide some compensation to the University for the increased operating costs that it incurs in conjunction with such research.

The MELS compensates the University in the amount of 50-65%, depending on the type of research conducted, of total research revenues from grants paid by its accredited agencies: Fonds de recherche en santé du Québec (FRSQ), Fonds québécois de la recherche sur la nature et les technologies (FQRNT) and Fonds québécois de la société et la culture (FQRSC). This funding is included in the **MELS grant** and therefore directly included in the operating budgets of the University. While the total funding envelopes are relatively small, McGill will work to increase its presence and success rates in competitions for provincial research dollars.

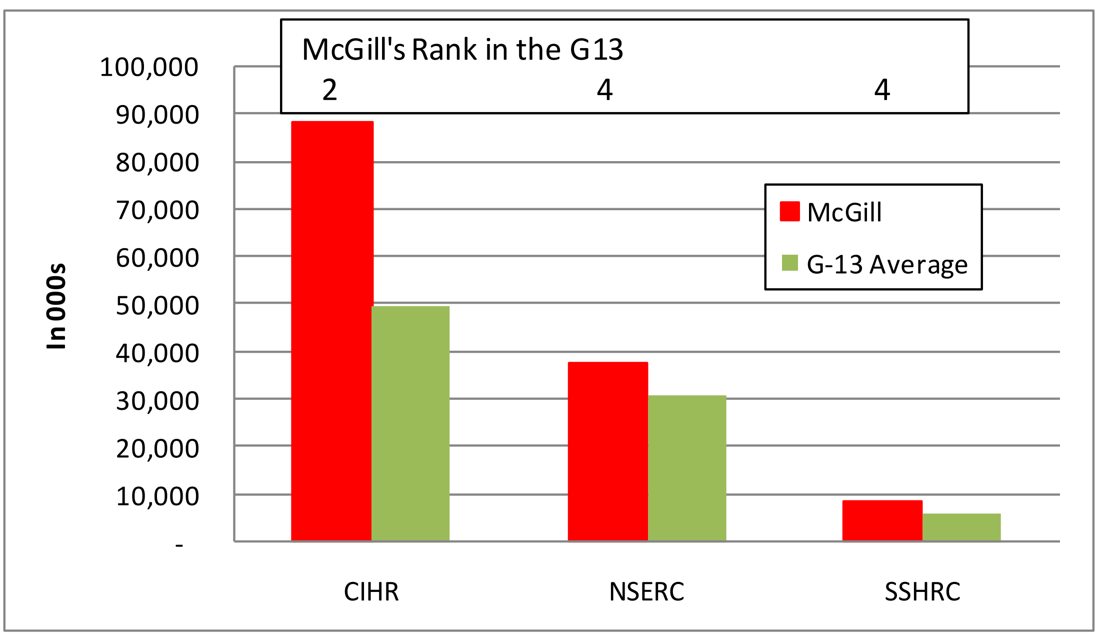
The federal government also provides support for the indirect costs of the research its agencies fund. The support we receive via this envelope is approximately 20% of the funds we receive in Tri-Council grants (the three granting agencies known as the Tri-Council are the Canadian Institutes of Health Research (CIHR), the Natural Sciences and Engineering Research Council (NSERC), and the Social Sciences and Humanities Research Council (SSHRC). McGill shares this income with the Faculties that generate it, with 25% going to the Faculty and 75% being retained to absorb institutional costs. Unfortunately, the current rate of 22% does not cover the full costs incurred supporting research at our institution. We will continue to urge the federal government to provide full funding of the indirect costs of research.

Figure 4: Provincial Granting Agencies (FY2008 - FY2009) vs Province Average



Source : Fonds de la recherche en santé québec, FQRSC and FQRNT

***Figure 5:** Tri-Council Total Amount of Funding (FY2008 - FY 2009)*



Source: G-13 data

Development and Alumni Relations

Campaign McGill, the comprehensive fundraising campaign launched in October 2007, is seeking to raise $750M, with a sustainable goal of $100M in annual support following the end of the

Campaign in December 2012. The Campaign's priorities were determined by McGill's academic leadership, following extensive consultation across the University. The Campaign is seeking endowed and direct-funded gifts for:

- graduate fellowships
- undergraduate aid and scholarships
- undergraduate student counselling and life experience
- chairs and professorships
- academic and research infrastructure
- program support
- Montreal Neurological Institute
- emerging priorities.

Notwithstanding the impact of the current economic situation on philanthropic giving, we are confident that we will attain our $750M objective within the Campaign's announced time frame.

For the upcoming year, we have increased our emphasis on qualifying new prospects, growing McGill's donor pool, and enhancing solicitation strategies to match changing donor circumstances.

We have also taken a hard look at the DAR budget and the deployment of resources. We have reformulated our approach to regional markets and to DAR services in general to increase efficiencies across the unit and reduce event, print and postage costs, while making better use of emerging electronic and social media communication tools to further engage alumni and donors.

Endowment assumptions

- Payout on the endowment to remain on a 3 year rolling average at 4.25%, lowered from 5% in FY09. Shortfalls in Endowed Chair payouts are made up through Operating funds.
- The University is a careful steward of the gifts and donations it receives. We are also very mindful of the obligations we undertake whenever we accept philanthropic support. However, we have recently re-examined some of our practices and discovered that some restrictions that have been applied to these funds were creating a bottleneck in distributing the proceeds. By modifying certain procedures and taking appropriate corrective measures, we expect that this will allow for lower recapitalisations, thus taking pressure off of the operating budget. This will allow us to meet current obligations while still positioning McGill to guarantee the intergenerational equity aspect of all such endowments. The initiative to utilise re-capitalised endowment income is expected to save the University between $2M and $4M in operating funds for FY2011 and beyond.

Self-funded units assumptions

- There will continue to be a positive contribution from self-funded operations.
- This contribution though is expected to decrease by approximately $1.7M in FY2011 due to sustainability efforts (reduced parking spaces on campus) and no longer receiving contributions from printing services (savings will be held in units, not centrally).

- Self-funded units expected to continue to be investing in academics activities and student support and reducing prior year fund balances.

8B. Operating Expenditures: Principles, assumptions and distribution

A balance must be achieved between investment in top University priorities and fiscal responsibility. Some budget cuts will be necessary in order to achieve the financial goals to which we are firmly committed.

Budget cuts require action on the part of the McGill community

For FY2011, Faculties and administrative and support units will be required to reallocate some of their internal resources to priority areas. In addition, there will be a 1.5% expense cut that will be returned centrally in order to reduce the University's deficit. A portion of this cut will also be used to fund University priorities and initiatives. Difficult management decisions will have to be made, but be consonant with and guided by McGill's strategic objectives. In the preliminary multi-year model, we are projecting that only two years of cuts will be needed (1.5% in FY2011 and an additional 1.0% in FY2012), especially if tuition relief via a new tuition regime emerges.

After postponing an increase in salaries from 1 December 2009 to 1 June 2010, salary policy that was postponed will be incorporated in FY2011 and beyond with a 1 June start. While only a deferral of the start of the pay increase, the delay also shifted the cycle to June and provided a lower base from which future increases are to be calculated.

Overall, and projected on a 12-month basis, expenses for FY2011 are expected to grow by approximately 3.6% over what they were in FY2010. However, the change to an 11-month FY2011 will have a considerable impact on the University's budgeted expenses. The majority of budgeted operating expenses are regular, being either bi-monthly or monthly. Therefore, for FY2011, most expenses will be reduced by $1/12^{th}$. Expenses such as student aid, library collection and TA's will not be able to be reduced by $1/12^{th}$. The total of such expenses will be approximately $5M, which partially offsets the tuition upside of approximately $14M.

Alignment of resources to University priorities

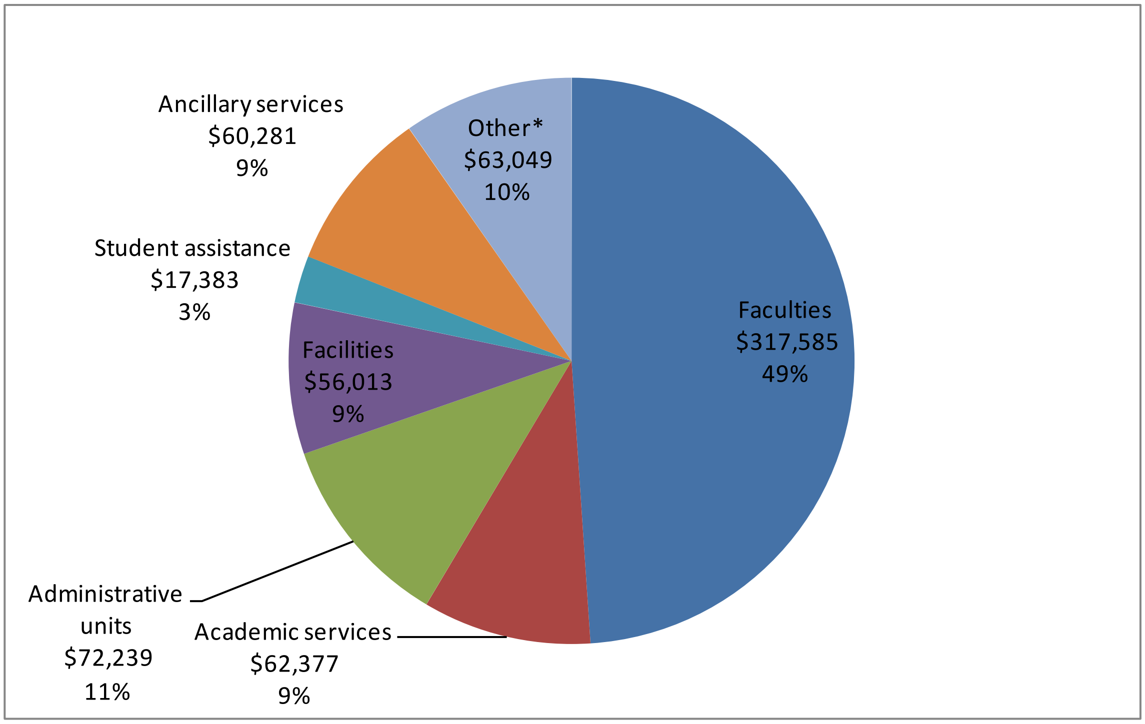
There are several University priorities that will require significant resource investments.

- McGill Genome Quebec Innovation Center investment – hiring of a new director and additional support
- CERC areas – although McGill was not able to land any of the 4 Canadian Excellence Research Chair (CERC) finalists, the University is committed to investment in Broadband, Green Chemistry, Pain and Alzheimer's.
- other faculty research initiatives
- future rounds of CFI competition.

Total Expenditures

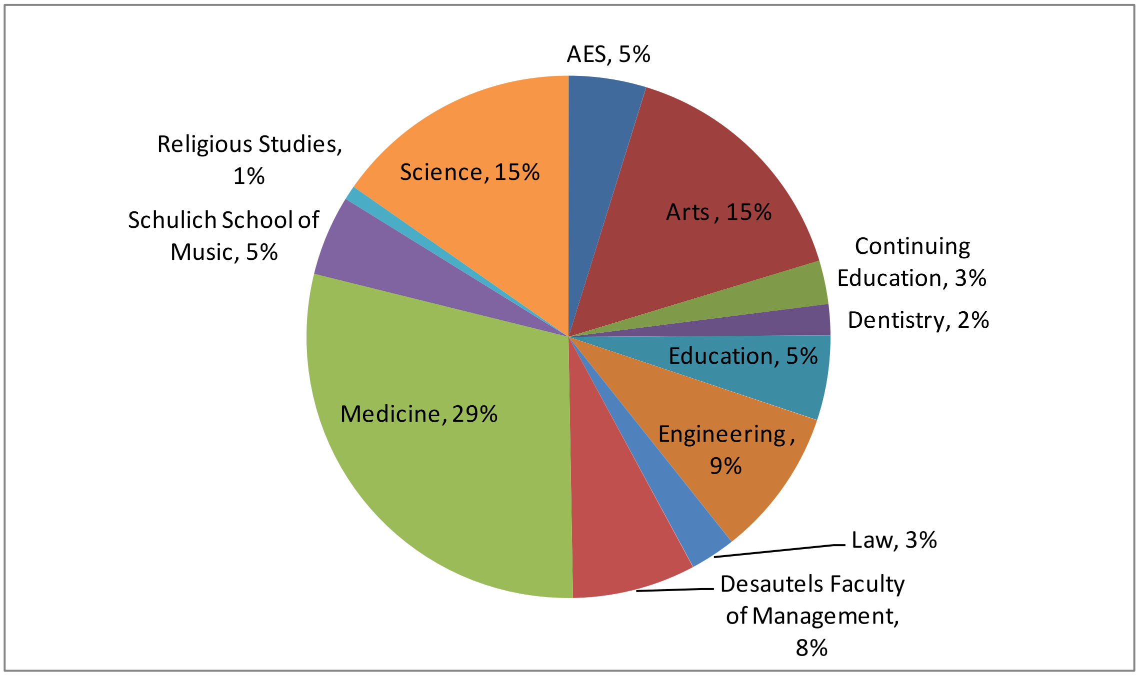
The planned distribution of operating revenues to various units is illustrated by the Figure 6 on page 22. A further distribution of Faculty expenses is provided in Figure 7 on page 22. Most operating expenses are for the compensation of existing staff and new hires, including the incidental costs of investing in the new hires, such as recruitment costs and operating support costs.

Figure 6: *Budget Operating Expenses (by unit) - FY2011 (thousands) $648,926 – 12 month*



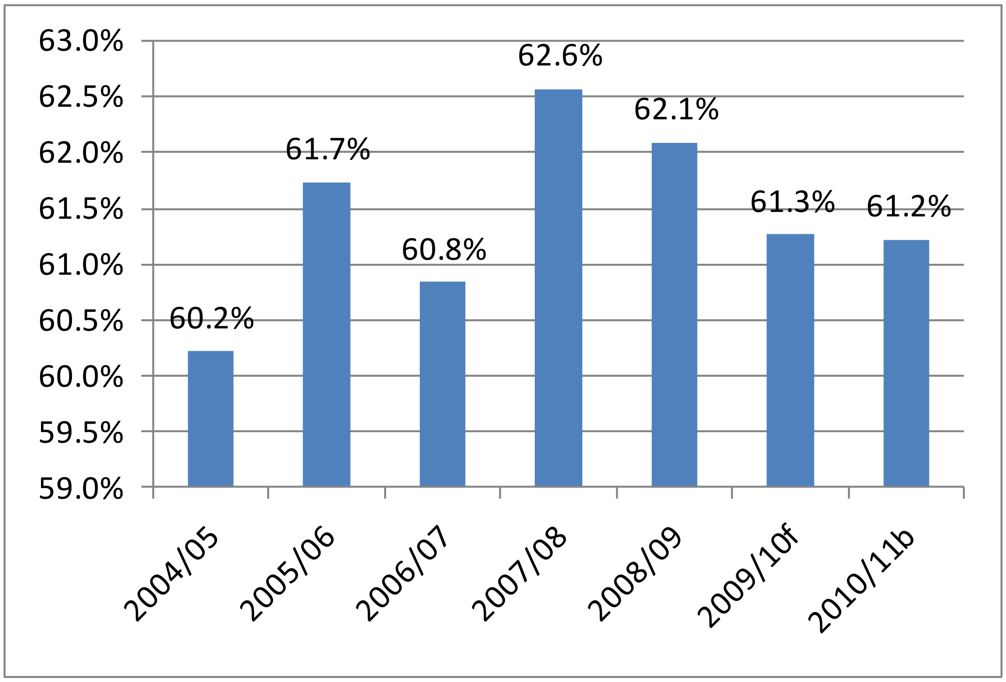
*Other includes interest expense, emerging needs fund, student and community services, teaching support

Figure 7*: Approximate Distribution of Faculty Expense - FY2011 (thousands) $317,585*



Overall expenses in FY2011 are budgeted to grow 3.6% vs. FY2010 projected expenses. *Figure 8* below shows the ratio of salaries (excluding benefits) to total operating revenue. As seen in the graph, this ratio is expected to decline from 62.1% in FY2009 to a forecasted 61.3% in FY2010, and to a budgeted 61.2% in FY2011. We will monitor this indicator relative to our principle peer comparators in Canada's G13 and for the research-intensive group in the United States, the American Association of Universities, both of which McGill is a member and participant in the data exchanges.

Figure 8*: Total Salaries (excluding benefits) to Operating Revenue*



*S*ource: Office of the Budget

Alignment of resources to University priorities

Despite the cuts in expenses, the FY2011 budget is in keeping with the following strategic goals:

- recruit and retain high-calibre, full-time academic staff members; continue to invest $4M in our McGill / Dawson programs, as well as our $2M investment in research centres; continue to allocate significant amounts (approx $5M) of our Federal indirect cost of research grants to our academic units;
- facilitate recruitment of research graduate students; we will continue our significant investments made in graduate student support. In addition, we have provided for additional support for student endowments which will be affected by the reduction in distribution rate;
- continue to enhance the student learning environment;
- ensuring efficient administrative support, including the streamlining of some of our current procurement practices and overall research administration activities;
- upgrade and maintain facilities and campus infrastructures.

Graduate student enhancement funds

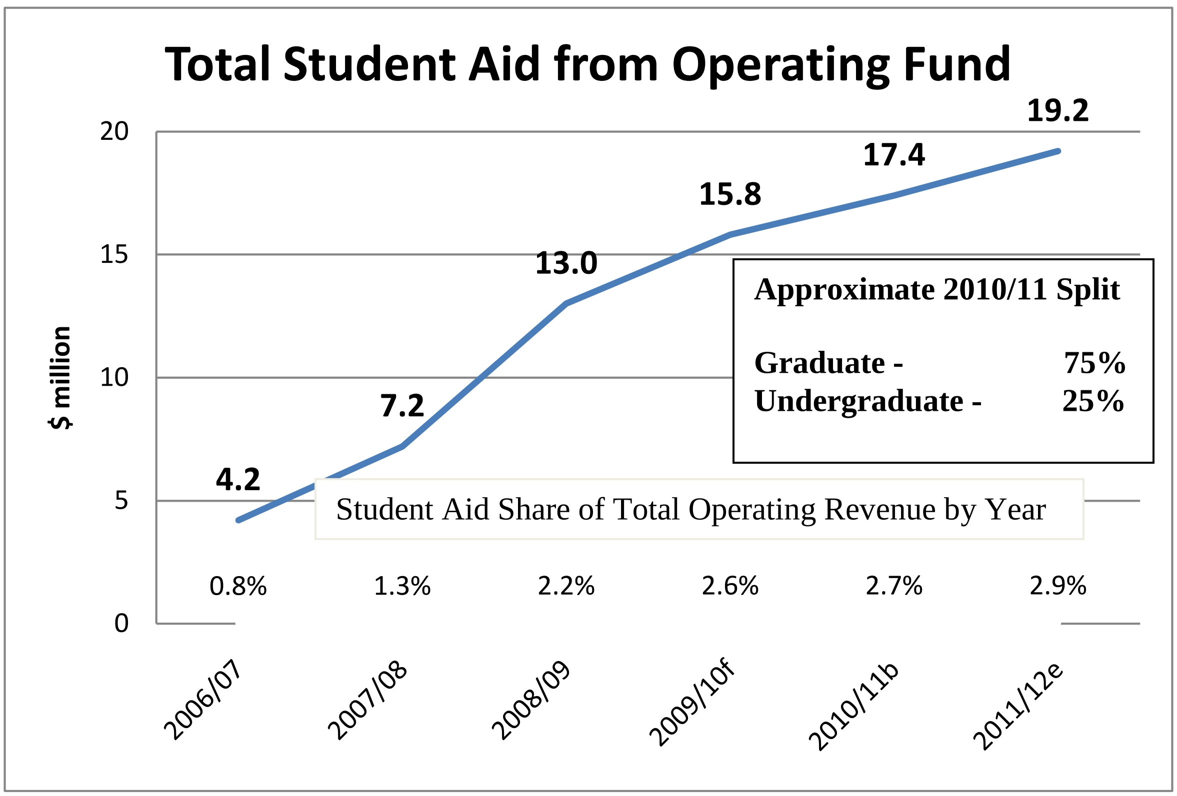
Graduate student enhancement funds assumptions

- Funding will be frontloaded to facilitate graduate recruitment against a resulting increase in MELS grant.

Increased funding will be available for graduate students through initiatives such as the following: the MIDAs program ($4.2M), the graduate student enhancement program ($5.8M), the Principal's Graduate Fellowship ($2.2M), along with various donor directed and endowed funds.

Figure 9 depicts total student assistance from the Operating Fund. Included in this number is an estimate of the 30% portion of net tuition increases that will be directed toward students. It should be noted that restricted funds (donor funded fellowships and other endowment income) also make a significant contribution to student aid (approximately $31M annually). Additionally, the University expects to pay student salaries in the amount of approximately $62M through the operating and restricted funds.

Figure 9*: Student Assistance from Operating Fund*



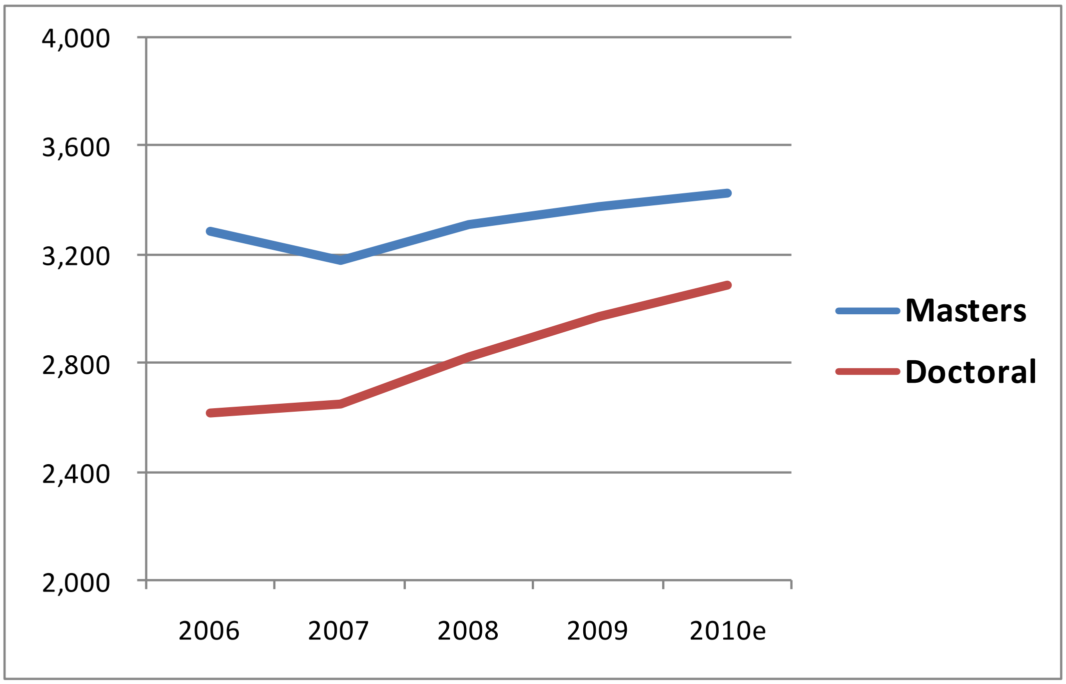
Source: Financial Services, Office of the Budget

As outlined in the *Strategic Academic Plan*, the University will continue to enhance graduate enrolment through various initiatives. The competition for graduate students is fierce. Achieving the goals of increasing quality graduate student enrolment involves several objectives for FY2010:

- making graduate student support packages more competitive to help Faculties attract the best students, both domestic and international;
- providing adequate space for increased graduate student research, scholarship, and teaching;
- assuring adequate professorial numbers for increased graduate student supervision;
- enforcing times to completion commensurate with disciplinary norms; this will be tracked and benchmarked by PIA;
- developing Graduate Program Capacity Indicators with the Faculties through PIA to help put McGill in the top rank in graduate students per tenure track faculty among peer publicly funded research intensive universities.

Figure 10 highlights the growth in Graduate enrolment at McGill over the past 4 years. Growth in Masters enrolment in fall of 2008 was 4.2% higher than the previous fall and continued to grow almost 2% in fall of 2009. PhD enrolment grew close to 7% in 2008 vs 2007 and by more than 5% in 2009 vs 2008.

***Figure 10**: Graduate Student Enrolment based on Fall Enrolment*



Source: Enrolment Graduate (Banner) Report

Enhance learning

Library funding assumption

- Spending on libraries' collection had increased $ 1M per year for the 5 years ending FY2010. The goal for FY2011 is to maintain the level of spending that had been built up over the previous years and after the new Director of Libraries is recruited, to assess the need for additional resources and support, especially for information technology.

Beginning in FY2004, the University established the investment in its libraries as a high priority, one it has continued annually in order to enhance the quality and availability of library resources and services to all users. Over the last four years ending in FY2010 the increased expenditure of $1M per annum has resulted in an expansion of physical collections to over 7 million items. There has been considerable growth of online resources to 70,000 e-journal titles and 2 million e-books. There has been considerable attention placed on service to students and the Libraries have enhanced their communication services with the implementation of social networking tools such as Twitter and promoted M-learning (mobile learning) at the Library. McGill students noticed the changes, awarding the Library top marks in Canada and an “A” grade in the most recent Globe and mail University Report card on student satisfaction.

Retain high-calibre academic staff

Pre-determined Faculty Compact agreement assumptions

- Faculties’ Discretionary Funding Envelopes are preserved.
- All “equipment” allocation to Faculties will be negotiated through the compact agreements to ensure compliance with tightened purchasing guidelines and practices.
- Specific commitments that have been made to Deans during the current academic year will be honoured through funding in the FY 2011 compacts.
- Priorities Pool envelope at $3.1M in FY2010, is expected to remain stable for FY2011.

Salary and benefits increase assumptions

- Changes in benefits implemented as of 1 January 2010, expected to save $1M annually.
- **Retention** and anomaly envelope, along with promotions for academic staff will be retained at approximately $1M in FY2011.
- McGill’s academic salaries will increase by 3.65% beginning June 1, 2010 and 4.65% beginning June 1, 2011. Expect 2.5% salary growth from FY2013 and beyond.

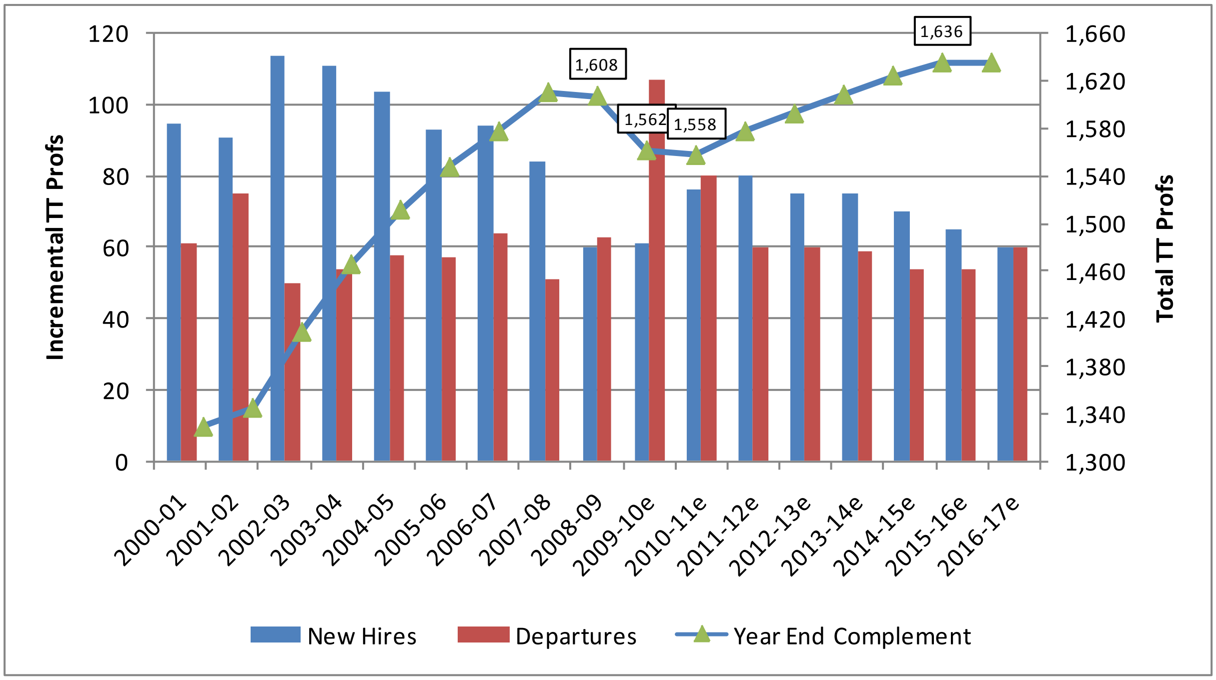
Academic Renewal assumptions

Academic renewal is a crucial exercise that shapes and re-defines academic units as departing academic staff members are replaced by new professors who contribute to leading-edge disciplinary and inter-disciplinary scholarship. In FY2010, the University implemented a retirement incentive program, which surpassed expectations. The goal of the plan was for 50 tenure track professors age 64 and older to sign up for the package, which was 1.33 times annual salary. Additionally, future operating expenses will be lower as replacements are hired at a lower salary and benefit costs (pension contributions) will likely be lower. The program would be paid for by not rehiring the positions for at least 1.33 years. The program was a success as more than 80 tenure track professors accepted the buyout. The dip in the graph below represents the departures related to the program, while the upswing reflects the “course-correction” that is expected.

Academic renewal refers to the intense tenure-track hiring activity and the plans McGill put in place since early 2000. The academic renewal envelope (ARE) is the funding source which contributes towards the academic renewal activity found in the compacts. Typical expenditures covered by the academic renewal envelope include salaries of new recruits, retirement allowances, and contributions towards recruitment costs as well as operating start-up costs.

A target TT complement is set by the Provost for each Faculty. The target is compared to the actual staff count for each Faculty to determine the number of available positions.

***Figure 11**: Tenure-Track Staff (FY2001 - FY2017)*



Note: Year End Complement in Figure 11 includes approximately 30 individuals who are spousal hires or senior administrators in "vacated academic positions" that cannot be used for tenure-track hiring,. McGill is expected to achieve the target complement by FY2016.
Source: Academic Management Office, Academic Staff & Faculty Affairs

Estimated tenure-track academic staff hires and departures are shown in the table below:

***Table 7**: Tenure-Track Complement*

	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
New hires	76	80	75	75	70
Departures	80	60	60	59	54
End of year complement	1558	1578	1593	1609	1625

The number of expected annual departures will remain at approximately 60. The 2010/11 departure bulge is explained by the retirement incentive program.

The net cost of academic renewal is estimated at $1.3M savings (perm) and $11.1M (temp) for FY2011. Of the $11.1M temp, $5.7M is related to the retirement incentive program

Costs include:

- Operating start-up costs.
- Capital start-up costs.
- Retirement incentive.
- Other non-salary costs, such as recruitment costs, salary award contributions, and regular retirement allowances.

Currently projected costs of the ARE (in millions):

Table 8*: Cost of Academic Renewal*

	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Perm	(3.2)	(1.3)	1.2	0.7	0.9
Temp	13.2	11.1	7.5	7.2	6.7
Total	10.1	9.8	8.7	7.9	7.6

Source: Academic Management Office
Notes:
1) The 2010/11 is an 11 month year.

Ensuring efficient administrative support

Administrative Priorities assumptions

- Priorities Pool envelope is expected to be approximately $1M in FY2011, a 50% increase from FY2010.
- Non-academic salaries will increase by between 3.0% and 3.5% beginning 1 June 2010 (except for some trades: 2.0%).
- A new “compact” discussion will take place between the Provost and each Vice Principal, specifying budget allocations and performance expectations.

Administrative and support positions, contract academic staff, teaching support staff, and trades and services all play vital roles supporting the mission of the University. Yet, we must re-assess the number and skill sets of the current staff positions in order to allow them to develop professionally and to support the University’s top academic priorities.

McGill can only remain competitive and continue to achieve its academic priorities, goals, and objectives by ensuring the administrative and support staff are well-matched to their roles and provided with the tools and support required to be successful. The significant contributions of these employees are recognised through on-going professional development programs, as well as by means of internal training and development courses. We also intend to continue the "Financial Specialists" program, which has as its prime objective to bring financial specialists to work directly with researchers in the Faculties. Our current administrative and support staff includes approximately 3,204 full time individuals and is distributed as shown in *Figure 12.* We fully expect these numbers will remain relatively flat, and by means of strategic attrition, will likely decrease slightly, over the next few years.

Figure 12: *Administrative & Support Staff (by type)* – Full time only as of May 31

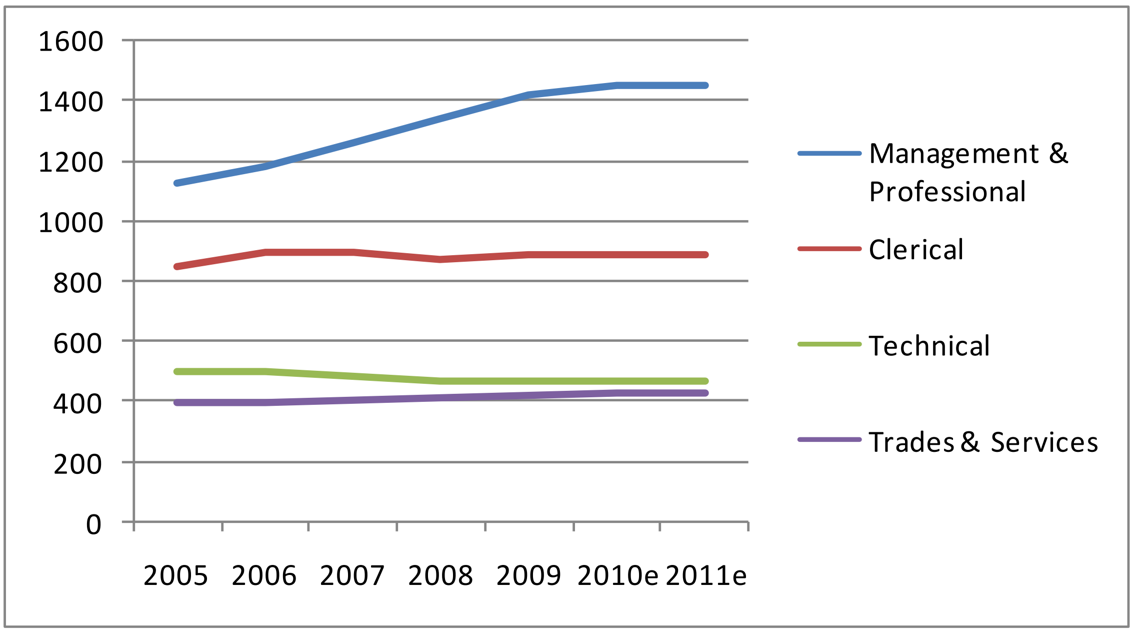


Figure 12 source: McGill Staffing Report, Office of the Budget

Facilities and building maintenance assumptions

- The building operating costs for research installations will be provided through Faculty or University portion of indirect (or institutional) costs of research.

The operating assumptions are that building costs for research installations will be provided through Faculty or University portion of indirect cost of research. This is the case in FY2011, as the Francesco Bellini Life Sciences Building and the Cancer Research Pavilion will both incur a full year of operating costs. We learned from MELS that funding for Bellini was approved and is anticipated to increase the allocation for space by approximately $1M.

While all of the recent construction projects on the McGill campuses have met or exceeded environmental standards, we are most proud of the fact that one of the new pavilions in the life sciences complex is our first building with a "green roof". Indeed, McGill operates in a manner that reflects our deep respect for and is sensitive to concerns about the need for "sustainability".

Interest Expense assumptions

- Cost of borrowing expected to be 1.8% in FY2011 and total interest expense expected to be $2M in FY2011. We have anticipated that this rate will rise to 2.8% in FY2012.

9. Capital (Plant) Fund

The capital fund includes capital grants received for the purposes of adding new buildings or renovating existing space.

MELS has not yet confirmed the total capital budget for FY2010, so the figures for FY2011 are not yet available either. However, based on the FY2009 capital budget, it is expected that the FY 2010 budget will include two renovation/development 'envelopes' of $15.3 M (to be used primarily to fund capital projects related to new academic hires, Faculty major renovation projects, renovation projects for classrooms/teaching labs, and institutional capital priority renovations), $ 25.9 M for deferred maintenance (with no requirement for the University to match the funds), $3.5 M for a "correction envelope" for renovations, and $3.5 M for information technology (IT) equipment, and IT development. The specific grants would be as follows:

Envelope for developing existing space	$ 3.0 M
Envelope for renovating existing space	$ 12.3 M
Deferred Maintenance (current program)	$ 10.1 M
Deferred Maintenance (new program)	$ 15.8 M
Corrections envelope for renovations (new envelope)	$ 3.5 M
IT Capital and Equipment (MAO-TIC)	$ 1.6 M
Subtotal ('Maintien des actifs')	$ 46.3 M
IT Development	$ 1.9 M
TOTAL	$ 48.2 M

In addition to these funds, the University will also receive $45.9 M from the federal Knowledge Infrastructure Program for four projects related to the research infrastructure upgrades in the McIntyre Medical, Macdonald Engineering, and Otto Maass Chemistry buildings and for the construction of a brain imaging facility at the Douglas Hospital. These projects will also receive $42.4 M from the MDEIE and $3.3 M from MELS.

In order to build our multi-year budget projections, we have assumed that this funding level from MELS will continue for the next five years, and that the envelopes for **deferred maintenance** will continue for 15 years, as indicated in Quebec's own budget for FY2009. It is expected that MELS will confirm the FY2010 allocations this spring, as the March 2010 budget made references to this funding. Furthermore, the $3.5 M allocation denoted as a "new envelope" for renovations is a new program meant to address funding shortfalls in the past that have resulted in deferred maintenance. At present, we do not know for how long this additional funding will be available. We have built these new MELS policies into the budget for FY2011 and into preliminary planning for subsequent fiscal years.

Our Quebec deferred maintenance deficit is estimated at more than $647 M in work that was identified in our deferred maintenance inventory, as estimated in a Province-wide exercise led by CREPUQ in 2007. It should also be noted that our annual deferred maintenance backlog continues to grow due to the shortfall between the capital grant and the amount that should be invested each year in renovations. The MELS “Deferred Maintenance New Program” should allow us to cease having to borrow, at least in the short term, but we will need to reassess the progress and status of the deferred maintenance backlog over the coming years.

In March 2009, the University submitted a comprehensive analysis to MELS of our deferred maintenance situation and McGill’s particular needs given the number and age of our buildings. The document will be used to press our public policy agenda for additional deferred maintenance and capital funding from MELS and other government bodies.

Excluded from the above total are supplemental specific capital grants as follows:

- new construction/initiatives,
- capital grants received from CFI, and Quebec’s matching contribution, donations,
- capital research grants from the Quebec research agency FQRNT

For new construction and capital initiatives, McGill submitted the following projects for FY2010 as part of the annual MELS *Plan Quinquennal d’investissments* submission:

- Teaching Laboratory and Classroom Renewal
- New Bio-engineering Building
- Lyman Duff Building Renewal

It is anticipated that a similar submission will be made this spring for FY2011 and will also include a request for support of additional rental costs. MELS did not comment on the FY2010 submission, and early indications are that MELS’ funds will continue to be extremely limited for new capital initiatives for the next few years.

The CFI funds are allocated via the CFI funding program on a project by project basis.

For FY2011, the University has also extensively lobbied MELS to increase the University’s subsidized space allocations to include the Montreal Neurological Institute and various recent building acquisitions; e.g., the Durocher Street Building and Martlett House. The University has received verbal confirmation that many of these buildings will be subsidized for FY2011, which should increase the capital grant and the building operating grants by $2 M to $3 M. Written confirmation from MELS is expected this spring.

For FY2011, the university anticipates allocating $51.1M in capital allocations, including for Deferred Maintenance (DM) projects, as follows:

Faculty Compact Allocations	$	5.0 M
Non Faculty Base Allocations	$	0.9 M
Campus Facility Maintenance	$	3.0 M
Institutional Priorities	$	4.2 M

DM to address the backlog	$	25.0 M
Renovations for academic projects	$	3.5 M
Capital Repayment of DM Loans	$	5.1 M
IT Projects	$	3.4 M
Contingencies	$	1.0 M
TOTAL	$	51.1 M

It is noted that while the allocations are $2.9 million greater than budget for the year, due to the cash flow nature of capital projects, the actual funds expended during the year will be within the funds available. This follows our "traditional" assumptions regarding the allocation of these funds.

Within the Faculty Compact Allocations, an allocation is calculated for capital start ups for new recruits, which contribute to the research lab renovation development for them. These are calculated and adjusted based on the expected academic renewal.

Within the FY2011 allocations are the completion of the renovation program for the Faculty of Arts, a continuation of the classroom upgrade program, the third year of the multi-year program to upgrade and improve the University's teaching laboratories (with the major project being the Faculty of Agriculture and Environmental Sciences' Nutrition Laboratories), the completion of the major new initiative to integrate central student services into the ground floor of the McLennan Library, and the project to make the Centennial Centre at the Macdonald Campus accessible.

Table 8 highlights the Capital Budget Framework for FY2011 and also the anticipated allocations for the following year.

Table 9*: Capital Budget*

Capital Renovation Allocations		**Budget**	
($ 000) **Fiscal Year ending May 31**	***2010***	***2011***	***2012***
TOTAL (Proposed Capital Renovation Allocations)	**$26,882**	**$26,049**	**$26,049**
TOTAL (Proposed Capital Budget MELS Revenues)	***$22,300***	***$22,300***	***$22,300***
OVER-ALLOCATION	(4,582)	(3,749)	(3,749)
ACCUMULATED OVER-ALLOCATION	(11,502)	(15,251)	(19,000)

Deferred Maintenance Allocations	***2009***	***2010***	***2011***
TOTAL (Deferred Maintenance Allocations)	**$25,064**	**$25,064**	**$25,064**
TOTAL (Deferred Maintenance Budget)	**$25,900**	**$25,900**	**$25,900**
GRAND TOTAL CAPITAL ALLOCATIONS	**$51,946**	**$51,113**	**$51,113**
GRAND TOTAL MELS CAPITAL BUDGET **(excl FRQNT)**	**$48,200**	**$48,200**	**$48,200**

Source: Campus & Space Planning, University Services

10. Restricted Fund

The Restricted fund is primarily composed of research and other restricted revenues, received in the form of donations or other revenues which are to be spent in accordance with the wishes of the donors. With respect to research revenues (excluding those of our teaching hospitals) our multi-year plan incorporates the expectations in *Table 9*, which are based on trends as at either February 2010 or May 2009, unless otherwise known from other sources.

Table 10*: Research Revenues*

in $(000s)	Research Revenues	
	Forecast 2010	11 Month Budget 2011
Federal Government		
NSERC	52,639	47,667
CIHR	40,818	41,250
Canadian Foundation for Innovation (CFI)	15,936	14,667
Canada Research Chairs	18,473	16,958
SSHRC	9,401	8,617
National Cancer Institute	3,596	3,667
CIDA	3,377	3,117
Health Canada	389	367
Tri-Council	1,272	1,100
Environment Canada	467	458
Other	1,917	1,833
Total federal government:	148,286	139,700
Provincial Government		
MSSS	-	917
FRSQ	11,347	10,542
FQRNT	8,445	7,792
FQRSC	4,772	4,400
MELS - CFI	10,479	4,583
MELS - Government grant	44	46
Genome Quebec	2,732	4,583
Other	2,579	2,383
Total provincial government :	40,396	35,246
US Government	6,751	5,061
Other Sources		
Canadian corporations	2,388	2,383
Canadian foundations and associations	14,636	14,208
US corporations	31	92
US foundations and associations	1,637	1,833
Other various sources	1,520	1,375
Total other sources:	20,212	19,892
Contracts	10,785	13,750
Tuition & Fees		
Sales of Goods & Services	3,600	3,392
Gifts and bequests	4,000	4,125
Short-Term Interest	300	321
Investment income	45,500	42,167
Total research revenue:	279,829	263,653

Source: Financial Services

In addition to the operating expenses for running and equipping modern laboratories and/or for research infrastructures and services, an important part of research grants is used to support the education and training of graduate students and post-doctoral fellows. In 2002, the Federal government recognised that research activity also resulted in an increased level of indirect costs which required funding. These costs are incurred for common resources and activities that cannot be attributed specifically to a specific project or activity, and it is difficult to assess precisely which users should pay what share. In FY2004, the Federal government formally created an "indirect cost of research grant program" based on recognised sponsored research grants to our professors intended to cover some of these costs. Unfortunately, this level of funding indirect costs falls short of the real indirect costs of conducting research on campuses such as McGill's. In the past few years, we have allocated 25% of these revenues (net of amounts owed to the teaching hospitals) directly to the Faculties in proportion to their tri-council research grant performance. The remainder of the grant is used for institutional expenses such as utilities, building operations, library investments, the optical backbone IT network, and other truly "indirect" costs relative to conducting research.

11. Endowment Fund

McGill's endowment dropped by 15.3% FY2009 ($764M vs $902M), but is projected to rebound by approx 11.3% in FY2010 ($850M vs $764M). In FY2010, it was decided that in order to avoid further erosion of capital and to bring McGill more in line with our peers, to reduce the payout on the Endowment from 5% down to 4.25%, representing a 15% decrease. While the Academic Renewal envelope, which funds all tenure track professors, will cover the shortfall in endowed chair salaries for tenure track professors, there are a number of endowment supported activities in the Faculties and Administrative Units that will need to be rationalised.

Development and Alumni Relations (DAR) activities will continue to meet the annual gifts and donation objectives over the next few years and are not expected to require subsidisation from the endowment fund.

12. Conclusion

The overall expense budget of the University for FY2011 is highlighted in *Figure 13* on page 35. These total expenses are to be supported by various revenue budgets derived from several funding sources, as highlighted by *Figure 14* on page 35.

While the budget proposed for FY2010 includes the need for significant sacrifices being made, it has been designed to continue investing in priority areas for the university. This budget builds on past investments and continues to lay the groundwork for future successes. The annual operating deficit will be reduced, but we will continue to show progress in academic renewal and faculty research, graduate student numbers, funding, and quality, enhanced learning experiences for undergraduates, and increased commitment to sustainability and to the professional development of our staff. It will be challenging, but the McGill community is up to the task.

Figure 13: *Total Budget Expenses - FY2011 (thousands) $1,117,395 (12 months) vs $1,030,394 (11 months)*

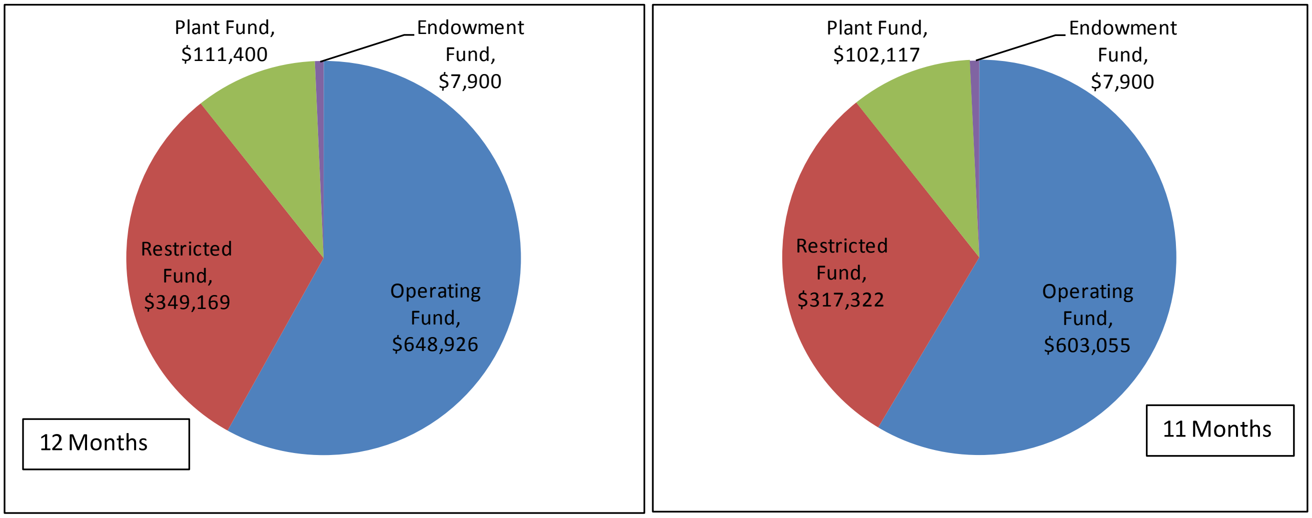


Figure 14: *Total Budget Revenue - FY2011 (thousands) $1,103,356 (12 month) vs $1,031,490 (11 months)*

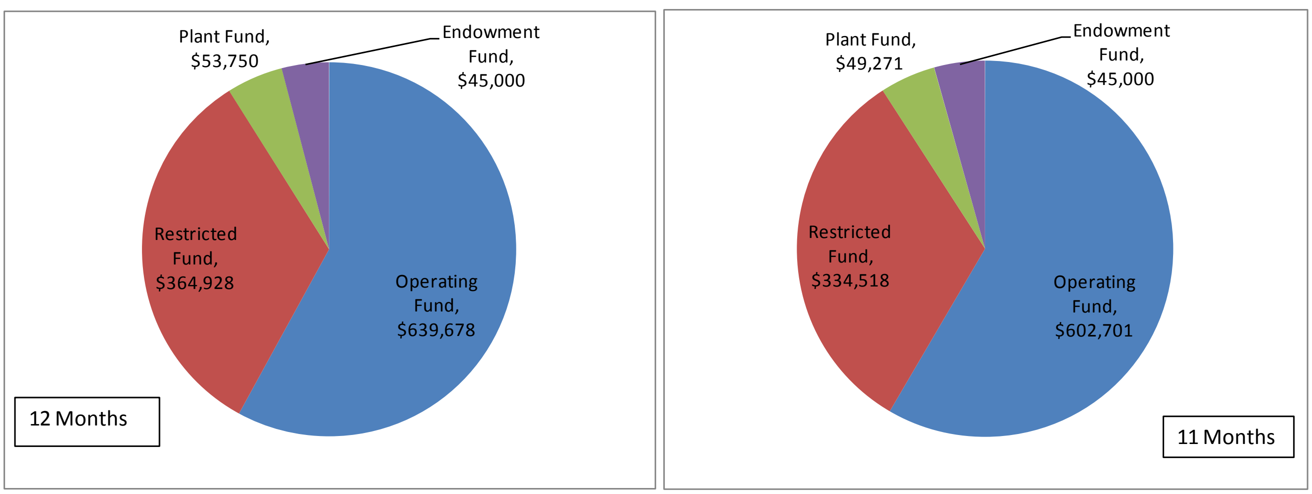


Table 11 below provides a detailed breakout for each of the four funds in terms of forecasted revenue sources and expenditures for FY2010 and the 11 month budgeted revenues and expenditures for FY2011 are shown in Table 12. All these amounts are presented pre-GAAP adjustments. Appendix I contains a comparison of the current MELS presentation of revenues and expenditures and the impact of implementing GAAP. A GAAP and non-GAAP balance sheet is also presented for FY2010.

***Table 11**: Statement of revenue and expenses and changes in fund balances – FY2010*

	Forecast Fiscal year 2010				
	Unrestricted	*Plant*	*Restricted*	*Endowment*	*All Funds*
	Total	**Total**	**Total**	**Total**	**Total**
Revenue					
Government Sources					
Canada	16,572	-	165,805	-	182,377
Quebec	316,823	41,496	48,034	-	406,353
United States		-	6,824	-	6,824
Grants - Other Sources		-	21,684	-	21,684
Contracts		-	10,861	-	10,861
Tuition & fees	176,153	-	-	-	176,153
Sales of Goods & Services	99,942	761	8,288	-	108,991
Gifts & Bequests	1,275	5,424	46,380	38,195	91,273
Short Term Interest	1,914	4,317	349	-	6,580
Investment Income (loss)	8,770	-	49,549	-	58,319
Total Revenues	**621,449**	**51,998**	**357,773**	**38,195**	**1,069,414**
Expenses					
Salaries:					
Academic Salaries	195,883	-	62,064	-	257,947
Non-Academic Salaries	170,710	-	23,667	-	194,377
Student Salaries	10,175	-	52,417	-	62,592
Student Aid	15,807	-	30,298	-	46,105
Benefits	65,006	-	18,241	-	83,247
Total Salaries	457,581	-	186,687	-	644,268
Non-Salary:					
Materials & Supplies & Publications	25,675	-	28,111	-	53,786
Transfers to Partner Institutions	1,294	-	24,954	-	26,247
Contract Services	9,144	-	5,289	-	14,433
Professional Fees	12,049	-	4,239	7,844	24,132
Travel	8,762	-	14,174	-	22,936
Cost of Goods Sold & Services Rendered	17,019	-	-	-	17,019
Building Occupancy Costs	23,577	-	9,197	-	32,774
Tuition	1,122	-	636	-	1,757
Energy	14,732	-	402	-	15,134
Other Non-Salary Expenses	30,845	-	27,999	-	58,844
Capital Purchases	19,586	1,386	35,841	-	56,813
Amortization	-	83,124		-	83,124
Interest & Bank Charges	4,861	24,933	24	-	29,818
Total Non-Salary	168,666	109,444	150,864	7,844	436,818
Total Expenses	**626,247**	**109,444**	**337,551**	**7,844**	**1,081,086**
Excess (deficiency) of revenue over expenses:	**(4,798)**	**(57,446)**	**20,221**	**30,351**	**(11,672)**
Unrealized Gain (Loss) on Investments	2,121		21,990		24,112
Interfund Transfers Unrealized (Gain) Loss on Investments	(2,121)		(21,990)	24,112	-
Over/(Under) distributed income	(10)		(21,448)	21,458	-
Net capz & decapz of investment income	-		(2,890)	2,890	-
Interfund Transfers - Operations	(349)	1,213	3,819	(4,683)	-
Capital Expenditures Financed by Other funds		38,359			38,359
Increase (Decrease) in Fund Balance:	**(5,157)**	**(17,874)**	**(298)**	**74,127**	**50,799**

***Table 12**: Statement of revenue and expenses and changes in fund balances – Budget FY2011 – 11 Months*

	Budget Fiscal year 2011 (11 months)				
	Unrestricted	*Plant*	*Restricted*	*Endowment*	*All Funds*
	Total	**Total**	**Total**	**Total**	**Total**
Revenue					
Government Sources					
Canada	16,979	-	155,027	-	172,007
Quebec	$292,266	38,958	44,911	-	376,136
United States		-	6,381	-	6,381
Grants - Other Sources		-	20,275	-	20,275
Contracts		-	10,155	-	10,155
Tuition & fees	185,793	-	-	-	185,793
Sales of Goods & Services	96,034	688	7,749	-	104,471
Gifts & Bequests	1,009	5,500	43,365	45,000	94,874
Short Term Interest	2,580	4,125	326	-	7,031
Investment Income (loss)	8,039	-	46,328	-	54,367
Total Revenues	**602,701**	**49,271**	**334,518**	**45,000**	**1,031,489**
Expenses					
Salaries:					
Academic Salaries	184,844	-	58,599	-	243,443
Non-Academic Salaries	163,483	-	22,346	-	185,829
Student Salaries	9,314	-	49,491	-	58,805
Student Aid	17,383	-	28,607	-	45,990
Benefits	59,601	-	17,222	-	76,823
Total Salaries	434,625	-	176,264	-	610,889
Non-Salary:					
Materials & Supplies & Publications	26,251	-	26,284	-	52,535
Transfers to Partner Institutions	1,323	-	23,332	-	24,654
Contract Services	9,350	-	4,945	-	14,294
Professional Fees	12,320	-	3,963	7,900	24,183
Travel	8,959	-	13,253	-	22,212
Cost of Goods Sold & Services Rendered	17,401	-	-	-	17,401
Building Occupancy Costs	24,106	-	8,599	-	32,706
Tuition	1,147	-	594	-	1,741
Energy	14,241	-	376	-	14,617
Other Non-Salary Expenses	40,544	-	26,179	-	66,723
Capital Purchases	15,026	1,283	33,511	-	49,820
Amortization	-	77,917	-	-	77,917
Interest & Bank Charges	1,786	22,917	22	-	24,725
Total Non-Salary	172,454	102,117	141,058	7,900	423,528
Total Expenses	**607,079**	**102,117**	**317,322**	**7,900**	**1,034,417**
Excess (deficiency) of revenue over expenses:	**(4,378)**	**(52,846)**	**17,196**	**37,100**	**(2,928)**
Unrealized Gain (Loss) on Investments	1,000		20,561		21,561
Interfund Transfers Unrealized (Gain) Loss on Investments	(1,000)		(20,561)	21,561	-
Over/(Under) distributed income	-		(20,054)	20,054	-
Net capz & decapz of investment income	-		(2,963)	2,963	-
Interfund Transfers - Operations	4,024	917	3,571	(8,511)	-
Capital Expenditures Financed by Other funds		36,667			36,667
Increase (Decrease) in Fund Balance:	**(354)** -	**(15,263)**	**(2,251)** -	**73,167**	**55,299**

The Challenge

The proposed budget for FY2011 is a transitional budget in that we are ending our previous 5 year cycle where the commitment was made to balance the budget. With the help of the 11 month fiscal year, this is possible to accomplish. However, continuing to propose a break even or positive budget would require cutting expenses and stopping investments in priority areas that would hurt the progress we have made over the past few years.

Everyone can, should, and must play a significant role in allowing the budget for FY2011 to become the framework for developing a totally new budget process for McGill in subsequent years.

Appendix I: Proforma GAAP Financials for FY2010 Projection and FY2011 Budget

MELS has requested that universities comply with Generally Accepted Accounting Principles (GAAP) in the preparation of their financial statements for the year ending May 31, 2010 and onwards. In doing so, several significant presentation changes will be introduced, as described below.

Preliminary Estimate of GAAP Impact over the Planning Period

Outlook - Current (MELS)			11 Month					
	FY09a	FY10f	FY11b	FY12	FY13	FY14	FY15	FY16
Annual Surplus/(Deficit)	(11.4)	(5.2)	(0.4)	(8.7)	(11.0)	(7.5)	(3.9)	(3.1)
Accumulated Surplus/(Deficit)*	(78.1)	(83.3)	(83.6)	(91.3)	(103.3)	(110.8)	(114.8)	(117.9)

Outlook - Preliminary Estimate of GAAP Impact			11 Month					
	FY09a	FY10f	FY11b	FY12	FY13	FY14	FY15	FY16
Annual Surplus/(Deficit)	(5.4)	(1.7)	8.2	(0.2)	(2.5)	1.0	4.6	5.4
Accumulated Surplus/(Deficit)*	(208.5)	(216.8)	(208.6)	(208.8)	(211.3)	(210.3)	(205.7)	(200.3)

a = actual; f = forecast; b = budget; all other years are plan

* Note there was a prior period adjustment of ($6.6M) impacting Accumulated Deficit due to MELS overpayment in FY08

Implementation of Generally Accepted Accounting Principles (GAAP)

For fiscal 2010 and onwards, as mandated by MELS the University's financial statements will be prepared in accordance with GAAP. Although certain GAAP adjustments are known at this time, other adjustments which require external valuations, such as actuarial valuation of the post retirement benefits and pension obligation will only be performed as at May 31, 2010. The following are the most significant GAAP changes:

1. *Pledges*

In fiscal 2010, pledges are no longer recorded as receivables, as gifts and bequests revenue will be recorded on a cash basis (as received). Pledges receivable will be disclosed in the notes to the financial statements, consistent with other Canadian Universities and industry practice.

2. *Discounting of Long-Term Grants Receivable*

Under GAAP, long-term receivables are discounted to their present value. In the past, MELS has dictated the use of a 0% discount rate, which is not GAAP. A rate based on risk of the counter party will be agreed to. This valuation will be performed at year-end.

2. *Deferral of Research and Capital Grants*

Unspent research funds will now be recorded as deferred revenue, rather than as grant revenue,to reflect an equivalent amount of revenue to match the related expense in any one year. In the past, the total revenue related to any one year was recorded. This resulted in an excess of revenues over expenses in the Restricted Fund, for which the Fund Balances were drawn down in future years as other expenses were incurred. These adjustments will be recorded at year-end once all grant award amounts are known for fiscal 2010.

3. *Capital Assets*

Categorization and amortization rates will be modified based on new MELS guidelines, which are consistent with GAAP. In addition, purchases made using Operating or Restricted funds will no longer be presented as part of expenses in those respective Funds, but rather capitalized directly in the Plant Fund. This change is to conform to GAAP, as the prior presentation accounted for the same asset twice. Current year to date amortization expense reflects the changes in categorization of assets and amortization rates. Restricted funding contributions will be recorded in the Plant Fund as deferred contributions and recognized as revenue simultaneous to the amortization expense.

This change in policy will be applied retrospectively and opening balances will be restated at year end.

5. *Employee Future Benefits, Vacation Accrual and Other Pension Costs*

Under GAAP, accruals for the above items are required to be recorded over the periods of service. The current method used is to record these expenses as they are paid (i.e. cash basis). An actuarial valuation identifying the future liability related to past retirement benefits will be performed at year-end to determine the Balance Sheet liability (and corresponding increase to the accumulated deficit) with respect to these costs and the annual related expense. The valuation will use assumptions and changes made to the current benefit plans during the current fiscal year.

Other accruals, such as vacation ($33 million estimated in note 2 to the May 2009 audited financials) will be updated or recorded for as a liability for the first time.

6. *Other Presentation Changes*

Several presentation changes will be required which will not affect the net results for the year. Presentation changes will be recorded, including restatement of prior year adjustment, at year end.

The following table incorporates both the current “MELS” presentation of revenues and expenses, and the estimated “GAAP” presentation. The GAAP presentation includes our current estimates of year end liabilities and other changes which are being confirmed and finalized on 31 May 2010. Some of these amounts will change once final calculations have been confirmed and audited at year end.

Appendix 1 (continued): Proforma GAAP Financials for FY2010 Projection

	Forecast Fiscal year 2010									
	Unrestricted		*Plant*		*Restricted*		*Endowment*		*All Funds*	
	MELS	GAAP	MELS	GAAP	MELS	GAAP	MELS	GAAP	MELS	GAAP
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
Revenue										
Government Sources										
Canada	16,572	16,572	-	-	165,805	145,583	-	-	182,377	162,155
Quebec	316,823	316,823	41,496	66,496	48,034	48,034	-	-	406,353	431,353
United States		-	-	-	6,824	6,824	-	-	6,824	6,824
Grants - Other Sources		-	-	-	21,684	21,684	-	-	21,684	21,684
Contracts		-	-	-	10,861	10,861	-	-	10,861	10,861
Tuition & fees	176,153	176,153	-	-	-	-	-	-	176,153	176,153
Sales of Goods & Services	99,942	99,942	761	761	8,288	8,288	-	-	108,991	108,991
Gifts & Bequests	1,275	1,275	5,424	5,424	46,380	46,380	38,195		91,273	53,079
Short Term Interest	1,914	1,914	4,317	4,317	349	349	-	-	6,580	6,580
Investment Income (loss)	8,770	8,770	-	-	49,549	49,549	-	-	58,319	58,319
Other	-				-				-	
Total Revenues	**621,449**	**621,449**	**51,998**	**76,998**	**357,773**	**337,551**	**38,195**	**-**	**1,069,414**	**1,035,998**
Expenses										
Salaries:										
Academic Salaries	195,883	205,883	-	-	62,064	62,064	-	-	257,947	267,947
Non-Academic Salaries	170,710	170,710	-	-	23,667	23,667	-	-	194,377	194,377
Student Salaries	10,175	10,175	-	-	52,417	52,417	-	-	62,592	62,592
Student Aid	15,807	15,807	-	-	30,298	30,298	-	-	46,105	46,105
Benefits	65,006	71,506	-	-	18,241	18,241	-	-	83,247	89,747
Total Salaries	457,581	474,081	-	-	186,687	186,687	-	-	644,268	660,768
Non-Salary:										
Materials & Supplies & Publications	25,675	25,675	-	-	28,111	28,111	-	-	53,786	53,786
Transfers to Partner Institutions	1,294	1,294	-	-	24,954	24,954	-	-	26,247	26,247
Contract Services	9,144	9,144	-	-	5,289	5,289	-	-	14,433	14,433
Professional Fees	12,049	12,049	-	-	4,239	4,239	7,844		24,132	16,288
Travel	8,762	8,762	-	-	14,174	14,174	-	-	22,936	22,936
Cost of Goods Sold & Services Rendered	17,019	17,019	-	-	-	-	-	-	17,019	17,019
Building Occupancy Costs	23,577	23,577	-	-	9,197	9,197	-	-	32,774	32,774
Tuition	1,122	1,122	-	-	636	636	-	-	1,757	1,757
Energy	14,732	14,732	-	-	402	402	-	-	15,134	15,134
Other Non-Salary Expenses	30,845	30,431	-	-	27,999	27,999	-	-	58,844	58,430
Capital Purchases	19,586	0	1,386	1,386	35,841	35,841	-	-	56,813	37,227
Amortization		-	83,124	78,124		-	-	-	83,124	78,124
Interest & Bank Charges	4,861	4,861	24,933	24,933	24	24	-	-	29,818	29,818
Total Non-Salary	168,666	148,666	109,444	104,444	150,864	150,864	7,844	-	436,818	403,974
Total Expenses	**626,247**	**622,747**	**109,444**	**104,444**	**337,551**	**337,551**	**7,844**	**-**	**1,081,086**	**1,064,742**
Excess (deficiency) of revenue over expenses:	**(4,798)**	**(1,298)**	**(57,446)**	**(27,446)**	**20,221**	**-**	**30,351**	**-**	**(11,672)**	**(28,744)**
Unrealized Gain (Loss) on Investments	2,121		-	-	21,990	-			24,112	-
	-									
Interfun Unrealized (Gain) Loss on Investments	(2,121)		-	-	(21,990)	-	24,112		0	-
Over/(Under) distributed income	(10)		-	-	(21,448)	-	21,458		(0)	-
Net capz & decapz of investment income	-		-	-	(2,890)	-	2,890		-	-
Interfund Transfers - Operations	(349)	(349)	1,213	-	3,819	-	(4,683)		0	(349)
				-		-			-	-
Capital Expenditures Financed by Other funds			38,359	-					38,359	-
Increase (Decrease) in Fund Balance:	**(5,157)**	**(1,647)**	**(17,874)**	**(27,446)**	**(298)**	**-**	**74,128**	**-**	**50,799**	**(29,093)**

Appendix 1 (continued): Proforma GAAP Financials for FY2011 Budget (11 Months)

	Budget Fiscal year 2011 (11 months)									
	Unrestricted		*Plant*		*Restricted*		*Endowment*		*All Funds*	
	MELS	GAAP	MELS	GAAP	MELS	GAAP	MELS	GAAP	MELS	GAAP
	Total	**Total**		**Total**		**Total**	**Total**	**Total**		**Total**
Revenue										
Government Sources										
Canada	16,979	16,979	-	-	155,027	137,832	-	-	172,007	154,811
Quebec	$292,266	292,266	38,958	58,958	44,911	44,911	-	-	376,136	396,136
United States		-	-	-	6,381	6,381	-	-	6,381	6,381
Grants - Other Sources		-	-	-	20,275	20,275	-	-	20,275	20,275
Contracts		-	-	-	10,155	10,155	-	-	10,155	10,155
Tuition & fees	185,793	185,793	-	-	-	-	-	-	185,793	185,793
Sales of Goods & Services	96,034	96,034	688	688	7,749	7,749	-	-	104,471	104,471
Gifts & Bequests	1,009	1,009	5,500	5,500	43,365	43,365	45,000		94,874	49,874
Short Term Interest	2,580	2,580	4,125	4,125	326	326	-	-	7,031	7,031
Investment Income (loss)	8,039	8,039	-	-	46,328	46,328	-	-	54,367	54,367
Other	-					-				
Total Revenues	**602,701**	**602,701**	**49,271**	**69,271**	**334,518**	**317,322**	**45,000**	**-**	**1,031,489**	**989,293**
Expenses										
Salaries:										
Academic Salaries	184,844	184,844	-	-	58,599	58,599	-	-	243,443	243,443
Non-Academic Salaries	163,483	163,483	-	-	22,346	22,346	-	-	185,829	185,829
Student Salaries	9,314	9,314	-	-	49,491	49,491	-	-	58,805	58,805
Student Aid	17,383	17,383	-	-	28,607	28,607	-	-	45,990	45,990
Benefits	59,601	66,101	-	-	17,222	17,222	-	-	76,823	83,323
Total Salaries	434,625	441,125	-	-	176,264	176,264	-	-	610,889	617,389
Non-Salary:										
Materials & Supplies & Publications	26,251	26,251	-	-	26,284	26,284	-	-	52,535	52,535
Transfers to Partner Institutions	1,323	1,323	-	-	23,332	23,332	-	-	24,654	24,654
Contract Services	9,350	9,350	-	-	4,945	4,945	-	-	14,294	14,294
Professional Fees	12,320	12,320	-	-	3,963	3,963	7,900		24,183	16,283
Travel	8,959	8,959	-	-	13,253	13,253	-	-	22,212	22,212
Cost of Goods Sold & Services Rendered	17,401	17,401	-	-	-	-	-	-	17,401	17,401
Building Occupancy Costs	24,106	24,106	-	-	8,599	8,599	-	-	32,706	32,706
Tuition	1,147	1,147	-	-	594	594	-	-	1,741	1,741
Energy	14,241	14,241	-	-	376	376	-	-	14,617	14,617
Other Non-Salary Expenses	40,544	40,570	-	-	26,179	26,179	-	-	66,723	66,749
Capital Purchases	15,026	-	1,283	1,283	33,511	33,511	-	-	49,820	34,794
Amortization			77,917	77,917	-	-	-	-	77,917	77,917
Interest & Bank Charges	1,786	1,786	22,917	22,917	22	22	-	-	24,725	24,725
Total Non-Salary	172,454	157,454	102,117	102,117	141,058	141,058	7,900	-	423,528	400,628
Total Expenses	**607,079**	**598,579**	**102,117**	**102,117**	**317,322**	**317,322**	**7,900**	**-**	**1,034,417**	**1,018,017**
Excess (deficiency) of revenue over expenses:	**(4,378)**	**4,122**	**(52,846)**	**(32,846)**	**17,196**	**-**	**37,100**	**-**	**(2,928)**	**(28,724)**
Unrealized Gain (Loss) on Investments			-	-	20,561	-			20,561	-
Interfun Unrealized (Gain) Loss on Investments			-	-	(20,561)	-	21,561		1,000	-
Over/(Under) distributed income					(20,054)	-	20,054		(0)	-
Net capz & decapz of investment income			-	-	(2,963)	-	2,963		0	-
Interfund Transfers - Operations	4,024	4,024	917	-	3,571	-	(8,511)		0	4,024
			-	-	-	-			-	-
Capital Expenditures Financed by Other funds			36,667	-					36,667	-
									-	
Increase (Decrease) in Fund Balance:	**(354)**	**8,146**	**(15,263)**	**(32,846)**	**(2,251)**	**- -**	**73,167**	**-**	**55,300**	**(24,700)**

Proforma Balance Sheet
as at May 31, 2010
(In thousands of dollars)

	Operating Fund		Plant Fund		Restricted Fund		Endowment Fund		Total 2010	
Assets	Cash	GAAP	Cash	GAAP	Cash	GAAP	Cash	GAAP	Cash	GAAP
Current assets										
Short-term investments	-	-	-		-	-	64,000	64,000	64,000	64,000
Receivables						-		-	-	-
Operating	20,000	20,000	-	-	100	100	-	-	20,100	20,100
Student loans	-	-	-	-	3,500	3,500	-	-	3,500	3,500
Investment income	-	-	-	-	-	-	3,000	3,000	3,000	3,000
Government grants	60,000	60,000	6,400	21,400	-	-	-	-	66,400	81,400
Grants and contracts related to research	-	-	-	-	151,000	151,000	-	-	151,000	151,000
Pledges	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other assets	5,000	5,000	-	-	200	200	-	-	5,200	5,200
Inventory	2,000	2,000	-	-	-	-	-	-	2,000	2,000
Deferred revenue contributions		-		10,000		40,000		-	-	50,000
Due from (to) other funds	17,000	17,000	(137,000)	(137,000)	120,000	120,000	-	-	-	-
	104,000	104,000	(130,600)	(105,600)	274,800	314,800	67,000	67,000	315,200	380,200
									-	-
Marketable securities, at market value			37,000	37,000	2,600	2,600	780,000	780,000	819,600	819,600
Grants and contracts related to research receivable - long-term	-	-	-	-	102,000	102,000	-	-	102,000	102,000
Pledges receivable - long-term	-	-	-	-	-	-	-	-	-	-
Grants receivable	5,600	5,600	3,200	3,200	-	-	-	-	8,800	8,800
Capital assets (Note 3)	-	-	1,225,000	944,000	-	-	-	-	1,225,000	944,000
Other assets	900	900	6,500	34,500	-	-	-	-	7,400	35,400
Staff mortgages	-	-	-	-	-	-	1,000	1,000	1,000	1,000
Deferred revenue contributions	-	-		50,000		60,000		-	-	110,000
Total assets	110,500	110,500	1,141,100	963,100	379,400	479,400	848,000	848,000	2,479,000	2,401,000
									-	-
Liabilities									-	-
Current liabilities									-	-
Bank indebtedness (Note 7)	135,000	135,000	-	-	-	-	-	-	135,000	135,000
Accounts payable and accrued liabilities	31,000	31,000	13,000	13,000	7,000	7,000	500	500	51,500	51,500
Unearned revenue	19,000	19,000	-	-	100	100	-	-	19,100	19,100
Provisions for specific purposes	1,500	1,500	-	-	-	-	-	-	1,500	1,500
Current portion of long-term debt (Note 8)	-	-	53,600	53,600	-	-	-	-	53,600	53,600
	186,500	186,500	66,600	66,600	7,100	7,100	500	500	260,700	260,700
Long-term debt (Note 8)	-		585,000	613,000	-		-	-	585,000	613,000
GAAP liabilities	-	136,000				-			-	136,000
	186,500	322,500	651,600	679,600	7,100	7,100	500	500	845,700	1,009,700
									-	-
Commitments and contingent liabilities (Notes 12 and 13)									-	-
									-	-
Fund balances									-	-
Invested in capital assets	-	-	494,000	288,000	-	-	-	-	494,000	288,000
Externally restricted (Note 4)	-	-	7,500	7,500	372,300	472,300	816,500	816,500	1,196,300	1,296,300
Internally restricted (Note 5)	35,000	-	(12,000)	(12,000)	-	-	31,000	31,000	54,000	19,000
Unrestricted	(111,000)	(212,000)	-	-	-	-	-	-	(111,000)	(212,000)
	(76,000)	(212,000)	489,500	283,500	372,300	472,300	847,500	847,500	1,633,300	1,391,300
									-	-
Total liabilities and fund balances	110,500	110,500	1,141,100	963,100	379,400	479,400	848,000	848,000	2,479,000	2,401,000

Glossary of Terms

Academic Renewal: The program by which the University sets Faculty-based tenure-track academic targets and provides Faculties with the operating support needed to reach the targets, including operating salaries, start-ups, and recruitment funds.

Accumulated Operating Debt: The total debt (i.e., the sum of the operating deficits) incurred to support the accumulated spending that is in excess of revenues.

Actual: Real revenues, salaries, expenditures, or transfers that have been posted to a fund.

Administrative and Support Services: All institutional administration, including such services as physical plant.

Amortisation: The accounting of a purchased asset, which represents a non-cash expense over a period of time. Also, for those units required to repay internal loans, it represents the systematic repayment of the debt over the agreed upon period.

Ancillary Operations: Resources devoted to the activities and jobs that complement the range of services offered by the University; examples include food services, residences, and printing.

Asset: A tangible or intangible item of positive value to the University. Some examples are: cash, government receivables, a building, or a piece of equipment.

Balance Sheet: A report of financial position at a specific point in time outlining the Institution's assets, liabilities, and fund balances available for future purposes.

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

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

Campaign McGill: An intensive set of operations or actions undertaken by the University to increase the amount of money coming from philanthropic donations to support academic priorities, goals, and objectives.

Campus Renewal Loans: Loans that the University has obtained from financial institutions in order to fund deferred maintenance projects requiring immediate attention.

Capital Fund: Holds all the assets acquired by the University and any debt incurred to acquire such assets.

Compact: An agreement between the Provost and the Deans regarding academic objectives, resource allocations, intended results for specific projects, and other desired outcomes.

Contribution: Gifts, grants, bequests and any similar transfer of resources (both monetary and in-kind).

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

Deficit: Also known as overdraft; the amount by which an account's expenses and transfers out exceed revenues and transfers in, resulting in a balance of less than $0.

De-regulated tuition: Universities allowed to charge the tuition they deem appropriate (refer to regulated and re-regulated tuition)

De-regulation: Government cedes tuition setting authority to university for a program(s).

Entrance Bursary Program: A financial award for students entering McGill.

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

Expenditure: The amount spent for goods delivered or services rendered, whether paid or accrued, including expenses, debt service, and capital outlays.

Expense: Charges incurred, whether paid or accrued, for operation, maintenance, interest, and other charges that are presumed to benefit the current fiscal period.

Fiscal Year (FY): Twelve consecutive months used as an accounting period. For 2009-2010, the university fiscal year was June 1 through May 31. As of 2010-2011, the fiscal year will end on April 30, resulting in an 11-month fiscal year. As of 2011-2012 the 12-month fiscal year will start on May 1, 2011 and end on April 30, 2012.

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

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

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

Grant: A monetary award, allowance or subsidy.

Indirect Cost of research: The institutional costs incurred by the University to support research projects. Costs include items such as central administrative support, utilities and other plant costs.

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

MELS (*Ministère de l'Éducation, du Loisir et du Sport)* **grant:** The grant received from the Québec Ministry of Education in support of teaching and research.

Operating Fund: Revenue primarily from grants, tuition and fees, overhead on research grants, investment and endowment income, and annual gifts. The revenue is pooled and then allocated to units concerned with fundamental and on-going operations, dealing primarily with those activities normally associated with the University's core teaching and research. The operating fund is unrestricted and there are no external constraints as to how these funds are spent as long as the University policies and procedures are respected.

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

Publicly-funded: An educational institution for which the majority of its operating funds are from the government or a government-owned agency or unit.

Regulated tuition: Tuition rates set and frozen by MELS

Re-regulated tuition: Lift of tuition freeze within the framework of increases set by MELS (refer to regulated tuition)

Re-regulation: Tuition adjustments approved by provincial government and the Board of Governors to increase the share of program funding coming from tuition rather than the annual government grant. In the Quebec context, these tuition increases may be accompanied by a reduction in the level of the government's program funding and by the setting aside of a proportion of the tuition increase for student financial assistance to protect student accessibility to tertiary education.

Resources: Assets available (actual and anticipated) for University operations; includes people, equipment, and facilities.

Resource Allocation: The process of distribution resources to units in order for them to achieve their designated activities, absorb operating and/or facilities costs in order to achieve goals for the future.

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

Retention Envelope: An envelope reserved for adjusting the salaries of certain professors to ensure that the University's best can be retained in the face of the external competitive environment.

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

Sustainability: meeting the needs of the present without compromising the ability of future generations to meet their own needs.

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