Financial Statements of

McMASTER UNIVERSITY

Year ended April 30, 2000

McMASTER UNIVERSITY

FINANCIAL STATEMENTS

APRIL 30, 2000

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STATEMENT OF MANAGEMENT RESPONSIBILITY

The University is responsible for the preparation of the financial statements and has prepared them in accordance with generally accepted accounting principles for not-for-profit organizations. The financial statements present fairly the financial position of the University as at April 30, 2000 and the results of its operations for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. Members of the Audit Committee are not officers or employees of the University. The Audit Committee meets with management and the external auditors to discuss the results of audit examinations and financial reporting matters. The external auditors have full access to the Audit Committee, with and without the presence of management.

The financial statements for the year ended April 30, 2000 have been reported on by KPMG LLP, the auditors appointed under the University Act. The Auditors' Report outlines the scope of their examination and provides their opinion on the fairness of presentation of the information in the financial statements.

Dr. P. George President and Vice-Chancellor	Ms K. Belaire Vice-President, Administration

AUDITORS' REPORT

The Board of Governors
McMaster University

We have audited the statement of financial position of McMaster University as at April 30, 2000 and the statements of operations and changes in unrestricted net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Hamilton, Canada

July 14, 2000

McMASTER UNIVERSITY
STATEMENT OF FINANCIAL POSITION

APRIL 30, 2000, WITH COMPARATIVE FIGURES FOR 1999
(all figures in $000)

	2000	1999
Assets		
Current Assets:		
Cash and cash equivalents (market value 2000 - $81,017; 1999 - $70,357)	$ 80,905	$ 70,296
Research grants receivable	39,322	26,476
Accounts receivable	15,511	12,645
Government grants receivable	-	2,765
Inventories	4,735	4,328
Prepaid expenses	1,821	1,430
	142,294	117,940
Long-Term Assets:		
Investments (note 3)	275,721	203,066
Deferred pension asset	38,521	20,425
	314,242	223,491
Capital Assets, net (note 4)	222,161	196,234
Total Assets	$ 678,697	$ 537,665
Liabilities, Deferred Contributions and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 35,848	$ 26,736
Unearned fees and other deferred revenue	13,202	11,052
Current portion of long-term debt	381	413
	49,431	38,201
Deferred Contributions (note 5):		
Deferred contributions for future expenses	187,385	122,363
Deferred contributions for capital assets	158,024	145,286
	345,409	267,649
Long-term Debt (note 6)	17,897	18,278
Net Assets (note 7):		
Unrestricted net assets	337	321
Reserves	48,675	34,662
Invested in capital assets	48,471	34,362
Internally restricted endowments	86,249	81,969
Externally restricted endowments	82,228	62,223
	265,960	213,537
Total Liabilities, Deferred Contributions and Net Assets	$ 678,697	$ 537,665

See accompanying notes to financial statements

McMASTER UNIVERSITY

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2000, WITH COMPARATIVE FIGURES FOR 1999
(all figures in $000)

	2000	1999
Revenues:		
Operating grants	$ 103,301	$ 100,003
Research grants and contracts	80,992	75,503
Tuition fees	65,232	57,204
Sales by ancillary operations	45,700	44,034
Donations and other grants	26,570	20,154
Investment income	17,801	16,244
Other revenue	30,145	27,231
Earned capital contributions	12,905	11,155
	382,646	351,528
Expenses:		
Salaries and wages	195,032	189,596
Employee benefits (note 9)	9,555	13,392
Supplies and services	120,048	104,070
Amortization of capital assets	23,972	21,234
Interest on long-term debt	1,621	1,683
	350,228	329,975
Excess of revenues over expenses	32,418	21,553
Uses of excess of revenues over expenses:		
Increase in net assets invested in capital assets	(14,109)	(2,777)
Increase in internally restricted endowments	(4,280)	(1,367)
Increase in reserves	(14,013)	(13,413)
	(32,402)	(17,557)
Increase in unrestricted net assets	16	3,996
Unrestricted net assets (deficiency), beginning of year	321	(3,675)
Unrestricted net assets, end of year	$ 337	$ 321

See accompanying notes to financial statements.

McMASTER UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2000, WITH COMPARATIVE FIGURES FOR 1999
(all figures in $000)

	2000	1999
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 32,418	$ 21,553
Increase in deferred pension asset	(18,096)	(12,434)
Amortization of capital assets	23,972	21,234
Earned capital contributions	(12,905)	(11,155)
Loss on disposal of capital assets	-	140
Net increase in deferred contributions restricted for future expenses	65,022	18,533
Net change in non-cash working capital (note 8)	(2,483)	3,732
Cash provided by operating activities	87,928	41,603
FINANCING AND INVESTING ACTIVITIES:		
Increase in deferred contributions restricted for capital assets	25,643	12,096
Contributions to externally restricted endowments	20,005	15,830
Repayment of long-term debt	(413)	(1,394)
Acquisition of capital assets	(49,899)	(24,761)
Acquisition of long-term investments	(72,655)	(38,622)
Proceeds on disposal of capital assets	-	621
Cash used in financing and investing activities	(77,319)	(36,230)
Increase in cash position	10,609	5,373
Cash and cash equivalents, beginning of year	70,296	64,923
Cash and cash equivalents, end of year	$ 80,905	$ 70,296
Supplementary information:		
Interest paid during year	$ 1,621	$ 1,683

See accompanying notes to financial statements.

1. AUTHORITY AND PURPOSE:

McMaster University operates by authority of The McMaster University Act, 1976. It is governed by a Board of Governors and Senate, the powers and responsibility of which are set out in the Act. It is a comprehensive research university offering a broad range of undergraduate, graduate and continuing education programs and degrees. The University is a not-for-profit organization and is therefore exempt from income tax under Section 149 of the Income Tax Act.

These financial statements include the assets, liabilities, deferred contributions, net assets, revenues, expenses, and other transactions of the operations for which the University has jurisdiction. They do not include the assets, liabilities and operations of McMaster Divinity College, McMaster Students Union Inc., and McMaster Children's Centre, Inc. which are independently governed and managed. Information on related organizations is disclosed in Note 12 (Related Party Transactions).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements are prepared in accordance with the standards established by the Canadian Institute of Chartered Accountants for not-for-profit organizations.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of revenues and expenses. Actual results could differ from those estimates.

(a) Accrual Accounting:

The University follows the accrual basis of accounting by recording income when earned and expenses when materials or services are received. Commitments for goods and services not yet received are not included in expenses.

Pledges from fund raising and other donations, because of the uncertainty of receipt, are not recorded until the year of receipt of cash or other assets.

(b) Revenue Recognition:

Operating grants are recognized as revenue in the period received or receivable. Operating grants relating to a future period are recorded as deferred contributions and recognized as income in the periods to which they relate.

Tuition fees which relate to academic terms or parts thereof occurring after April 30 are recorded as deferred revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(b) Revenue Recognition (continued):

Grants for sponsored research are recorded as deferred contributions. When research expenditures funded by such grants are incurred during the year, the equivalent amounts are brought into revenue.

Grants and donations received for the acquisition of capital assets are recorded as deferred contributions until such time as they are invested in capital assets. When invested in capital assets, the amounts are transferred to deferred contributions for capital assets and recognized as earned capital contributions revenue in the periods in which the amortization of the related capital assets is recorded.

Endowment donations are recognized as a direct increase in net assets held as endowments. Income earned from the investment of endowments principal, to the extent it is restricted, is recorded as deferred contributions and recorded as revenue in the periods in which the related expenses are incurred.

Other externally-restricted contributions are recorded as deferred contributions and recognized as revenue in the periods in which the related expenses are incurred.

Gifts-in-kind are recorded at their fair market value on the date of receipt or at nominal value when fair market value cannot be reasonably determined.

(c) Investments:

Investments are stated at cost or, when donated, at fair market value at date of receipt, plus accrued income. Gains on sales of investments are recorded in the year of disposal and are included in income from investments. Losses are recognized in the year of disposal or when there is a significant and permanent impairment in value and are netted with income from investments.

Funds are generally pooled and either managed by external fund managers or maintained as working capital and invested in fixed income investments.

(d) Inventories:

Inventories are stated at the lower of cost and net realizable value.

(e) Prepaid Expenses:

Expenditures incurred for materials and services to be consumed in future periods are recorded as prepaid expenses and recorded as expenses in the year consumed.

FOR THE YEAR ENDED APRIL 30, 2000
(all figures in $000)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(f) Capital Assets:

Capital assets are recorded at cost or, if donated, at the fair value on the date of receipt. Amortization is recorded on a straight-line basis at the following annual rates:

Asset	Rate
Land	-
Buildings	2.5%
Site improvements	5%
Library materials	10%
Equipment, furnishings and vehicles	20%
Computing equipment	33.3%
Leasehold interest	Rate applicable to leased assets

(g) Works of Art:

Works of art are expensed in the year of acquisition. During the year, $396 (1999 - $83) of works were purchased or donated.

(h) Contributed Services:

The University acknowledges the receipt of donated services. Because of the difficulty of determining their fair value, donated services are not recognized in the financial statements.

(i) Ancillary Enterprises:

Charges are made to ancillary enterprises for all costs associated with these operations including replacements and renovations of equipment and facilities. The enterprises are self-sustaining and are intended to operate on a breakeven basis.

Any profits/losses from ancillary operations are added to/deducted from reserves.

(j) Retirement Program:

The University has two defined-benefit pension plans covering substantially all full-time salaried and hourly paid employees.

The pension expense for the year is determined based on the best estimate of the costs of benefits earned, of the interest costs of projected benefits and of return on plan assets and includes amortization of experience gains or losses and plan surplus or deficit over the expected average remaining service life of the employee group. Annual expense as well as required funding contributions are determined by independent actuarial consultants.

FOR THE YEAR ENDED APRIL 30, 2000
(all figures in $000)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(k) Benefit Program:

Under agreements with various employee groups the University is committed to provide certain benefits to both active and retired employees. These benefits include life insurance, long-term disability and major medical and dental coverage. It is the University's policy to record the premiums paid to fund these plans as an expense in the year incurred.

(l) Reserves:

The Board of Governors has approved a policy of permitting departments to carry forward unexpended budgets into the subsequent fiscal year for expenditure in that year. In addition, the University reserves other portions of fund balances for specific purposes approved by the Board of Governors.

3. INVESTMENTS:

	2000	1999
Equities:		
Canadian	$ 38,907	$ 56,725
United States	51,276	12,285
Non-North American	45,771	38,376
	135,954	107,386
Fixed income	132,969	92,216
Other	6,798	3,464
Total, at cost	$ 275,721	$ 203,066
Total, at market value	$ 289,306	$ 211,340

(all figures in $000)

4. CAPITAL ASSETS:

Capital assets consist of the following:

			2000	1999
	Cost	Accumulated amortization	Net	Net
Land	$ 2,707	$ –	$ 2,707	$ 2,707
Buildings	265,688	129,798	135,890	135,218
Site improvements	5,676	4,277	1,399	1,539
Library materials	68,745	42,167	26,578	25,944
Equipment, furnishings and vehicles	90,311	65,533	24,778	14,337
Computing equipment	42,261	33,311	8,950	7,651
Leasehold interests	8,712	4,428	4,284	2,097
Construction in progress	17,575	–	17,575	6,741
	$ 501,675	$ 279,514	$ 222,161	$ 196,234

5. DEFERRED CONTRIBUTIONS AND DEFERRED CAPITAL CONTRIBUTIONS:

Deferred contributions represent unexpended amounts which are subject to externally imposed restrictions. Deferred capital contributions represent the unamortized amounts of grants and donations used for the purchase of capital assets. Changes during the year are as follows:

	Deferred Contributions	Deferred Capital Contributions
Balance, beginning of year	$ 122,363	$ 145,286
Contributions received and receivable:		
Restricted operating grants	218	–
Research grants and contracts	119,738	–
Donations and other grants	63,188	–
Investment income	13,607	–
Transferred to revenue:		
Operating grants	(531)	–
Research grants and contracts	(80,992)	–
Donations and other grants	(19,162)	–
Investment income	(5,401)	–
Amortization of capital assets acquired with capital grants and donations	–	(12,905)
Transferred to acquire capital assets	(25,643)	25,643
Balance, end of year	$ 187,385	$ 158,024

FOR THE YEAR ENDED APRIL 30, 2000
(all figures in $000)

5. DEFERRED CONTRIBUTIONS AND DEFERRED CAPITAL CONTRIBUTIONS (Continued):

Deferred contributions consist of the following:

	2000	1999
Research grants and contracts	$ 94,631	$ 71,728
Donations, other grants and investment income	51,397	38,686
Capital grants and donations	41,139	11,418
Other restricted funds	218	531
	$ 187,385	$ 122,363

6. LONG-TERM DEBT:

Long-term debt consists of the following:

	Maturity Year	Interest Rate	2000 Principal Outstanding	1999 Principal Outstanding
Student residence mortgage	2011	9.81%	$ 11,544	$ 11,544
Leasehold liability for student residences	2020-2024	6.88% - 8%	4,889	4,975
Mortgage	2016	5.38%	1,619	1,679
Obligation under capital lease	2001	10.05%	226	493
			18,278	18,691
Due within one year			(381)	(413)
			$ 17,897	$ 18,278

Due in 2002: $165, 2003: $176, 2004: $188, 2005: $200

A sinking fund has been established to provide funds to repay a portion of the principal of the student residence mortgage upon maturity in 2011. The sinking fund investment is financed by an annual charge to the residence ancillary operation. The value of the sinking fund as at April 30, 2000 is $2,542 (1999 - $2,034).

Certain University student residences were constructed by the Ontario Student Housing Corporation on land leased from the University for a term of 50 years. The cost was financed partially through the Ontario Universities Capital Aid Corporation debentures, partially by the University's own funds, and the remainder through the Ontario Student Housing Corporation by mortgage loans provided by Federal and Ontario government agencies. These mortgage loans carry interest rates ranging from 6.88% to 8% and require annual payments of $447 to the year 2020 and $224 thereafter to 2024. The leasehold liability reflects the agreement to reimburse the Ontario Student Housing Corporation for the payment of these mortgage loans.

(all figures in $000)

7. NET ASSETS:

Net assets are classified as follows:

(a) Unrestricted Net Assets: General funds available for future operations or, if negative, cumulative operating deficit.

(b) Reserves: Funds allocated for specific purposes and unexpended budgets carried forward for future expenditures within budget units.

(c) Invested in Capital Assets: Internally generated funds invested in capital assets, exclusive of capital assets financed through long-term debt or capital contributions.

(d) Internally Restricted Endowments: Unrestricted donations and bequests which have been endowed by action of the Board of Governors, including unspent investment income.

(e) Externally Restricted Endowments: Non-expendable donations and bequests. Unspent investment income is shown as deferred contributions for future expenses.

Changes in net assets for the year are:

	2000						1999
	Unrestricted	Reserves	Invested in Capital Assets	Internally Restricted Endowments	Externally Restricted Endowments	Total	Total
Balance, beginning of year	$321	$34,662	$34,362	$81,969	$62,223	$213,537	$176,154
Excess of revenues over expenses	18,309	–	14,109	–	–	32,418	21,553
Internal restrictions	(18,293)	14,013	–	4,280	–	–	–
Externally restricted donations	–	–	–	–	20,005	20,005	15,830
Balance, end of year	$337	$48,675	$48,471	$86,249	$82,228	$265,960	$213,537

Reserves consist of the following:

	2000	1999
Pension reserve	$ 23,300	$ 8,700
Unexpended departmental budgets	18,923	16,989
Other specific purposes	6,452	8,973

	$ 48,675	$ 34,662

(all figures in $000)

8. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital consists of the following:

	2000	1999
Research grants receivable	$ (12,846)	$ (948)
Accounts receivable	(2,866)	(2,383)
Government grants receivable	2,765	(2,022)
Inventories	(407)	(470)
Prepaid expenses	(391)	(744)
Accounts payable and accrued liabilities	9,112	9,007
Unearned fees and other deferred revenue	2,150	1,292
	$ (2,483)	$ 3,732

9. EMPLOYEE BENEFITS:

Employee benefits include statutory payroll taxes (CPP, EI, EHT), fringe benefits (as explained in Note 2 (k)), and pension expenses (as explained in Note 2 (j)). Payroll taxes and fringe benefit expenses are determined based on amounts paid or payable. Pension expenses are determined based on actuarial estimates:

	2000	1999
Payroll taxes and fringe benefits	$ 23,744	$ 21,601
Pension expense for hourly-rated employees	411	491
Pension credit for salaried employees	(14,600)	(8,700)
	$ 9,555	$ 13,392

The pension credit of $14,600 resulted from the significant surplus in the Pension Plan for Salaried Employees. This amount has been appropriated as a reserve (see note 7).

The status of the University's defined benefit pension plans at April 30, is approximately as follows:

	2000	1999
Market value of pension assets	$ 976,960	$ 934,865
Present value of accrued pension benefits	$ 619,093	$ 579,413

Additional pension program liabilities to be funded outside the plans are estimated at $70,700 (1999 - $68,300).

10. PLEDGES RECEIVABLE:

Outstanding pledges, not included in revenue and accounts receivable, are: $30,784 (1999 - $18,683).

11. COMMITMENTS AND CONTINGENT LIABILITIES:

(a) Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE), a self-insurance co-operative comprised of over forty Canadian universities and colleges. CURIE insures property damage, general liability and errors and omissions risks. If premiums collected are insufficient to cover expenses and claims, the University may be requested to pay additional amounts.

(b) McMaster Nuclear Reactor:

It is expected that at some undeterminable future date the McMaster Nuclear Reactor will be decommissioned. A 1996 study estimated the cost of decommissioning at between $4,000 and $4,500. An amount is being charged to Reactor operations annually to provide for this cost. At April 30, 2000 the accumulated accrual, included in accounts payable and accrued liabilities, is $1,634 (1999 - $1,135).

(c) University Centre:

McMaster University, McMaster Students Union Inc. and McMaster Association of Part-Time Students have entered into an agreement to build and operate a University Centre. The McMaster University Centre will be incorporated as a separate corporation whose business will be overseen by a Board of Management composed of representatives from the above-mentioned parties.

The estimated cost to complete the University Centre is $31,000.

12. RELATED PARTY TRANSACTIONS:

Certain fundraising activities are carried out by the following related organizations: The McMaster Medical Fund, The McMaster University Trust, the McMaster University Foundation, Friends of McMaster Incorporated. The assets and liabilities and operations of these organizations have not been consolidated with and are not material to these financial statements. Funds donated by these organizations to McMaster University during the year were $215 (1999 - $1,212).

13. COMPARATIVE FIGURES

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