Financial Statements of

McMASTER UNIVERSITY

Year ended April 30, 2002

McMASTER UNIVERSITY

FINANCIAL STATEMENTS

APRIL 30, 2002

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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 Canadian generally accepted accounting principles for not-for-profit organizations. The financial statements present fairly the financial position of the University as at April 30, 2002 and the results of its operations and its cash flows 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, 2002 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, 2002 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Hamilton, Canada

July 10, 2002

McMASTER UNIVERSITY

STATEMENT OF FINANCIAL POSITION

APRIL 30, 2002, WITH COMPARATIVE FIGURES FOR 2001
(in thousands of dollars)

	2002	2001
Assets		
Current Assets:		
Cash and cash equivalents	$ 62,347	$ 83,893
Research grants receivable	46,627	44,401
Accounts receivable	24,614	16,736
Government grants receivable	11,414	249
Inventories	5,801	5,516
Prepaid expenses	716	1,689
	151,519	152,484
Long-Term Assets:		
Investments (notes 3 and 6)	312,286	314,694
Deferred pension asset (notes 9 and 10)	295,303	281,364
	607,589	596,058
Capital Assets, net (note 4)	332,886	267,368
Total Assets	$ 1,091,994	$ 1,015,910
Liabilities, Deferred Contributions and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 36,939	$ 40,767
Unearned fees and other deferred revenue	15,977	13,593
Current portion of long-term debt	270	165
	53,186	54,525
Deferred Contributions (note 5):		
Deferred contributions for future expenses	206,482	208,568
Deferred contributions for capital assets	244,758	194,738
	451,240	403,306
Accrued employee future benefits (note 9)	62,143	57,908
Long-term debt (note 6)	23,591	17,731
Other long-term liabilities (note 13(c))	2,503	2,263
Net Assets (note 7):		
Unrestricted	4,471	3,475
Reserves	262,181	241,396
Invested in capital assets	42,240	57,890
Internally restricted endowments	80,932	86,084
Externally restricted endowments	109,507	91,332
	499,331	480,177
Total Liabilities, Deferred Contributions and Net Assets	$ 1,091,994	$ 1,015,910

See accompanying notes to financial statements

McMASTER UNIVERSITY

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2002, WITH COMPARATIVE FIGURES FOR 2001
(in thousands of dollars)

	2002	2001
Revenues:		
Operating grants	$ 112,664	$ 103,634
Research overhead grants	12,315	6,576
Research grants and contracts	110,708	98,327
Tuition fees	81,125	71,829
Sales by ancillary operations	52,094	48,663
Donations and other grants	6,190	22,675
Investment income	15,780	19,609
Other revenue	45,098	39,392
Earned capital contributions	20,924	16,173
	456,898	426,878
Expenses:		
Salaries and wages	234,855	213,669
Employee benefits:		
Current	27,610	24,620
Future (note 9)	(4,468)	(3,528)
Supplies and services	163,385	138,781
Amortization of capital assets	33,114	27,968
Interest on long-term debt	1,423	1,584
	455,919	403,094
Excess of revenues over expenses	979	23,784
Uses of excess of revenues over expenses:		
Increase in net assets invested in capital assets	(9,778)	(9,419)
Decrease in internally restricted endowments	5,152	165
Decrease (increase) in reserves	4,643	(11,392)
	17	(20,646)
Increase in unrestricted net assets	996	3,138
Unrestricted net assets, beginning of year	3,475	337
Unrestricted net assets, end of year	$ 4,471	$ 3,475

See accompanying notes to financial statements.

McMASTER UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2002, WITH COMPARATIVE FIGURES FOR 2001
(in thousands of dollars)

	2002	2001
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 979	$ 23,784
Add (deduct) non-cash items:		
Increase in deferred pension asset	(13,939)	(13,595)
Increase in accrued employee future benefits	4,235	3,698
Amortization of capital assets	33,114	27,968
Earned capital contributions	(20,924)	(16,173)
Net (decrease) increase in deferred contributions restricted for future expenses	(2,086)	21,183
Increase in other long-term liabilities	240	524
Net change in non-cash working capital (note 8)	(22,025)	6,138
Cash provided by (used in) operating activities	(20,406)	53,527
FINANCING AND INVESTING ACTIVITIES:		
Increase in deferred contributions restricted for capital assets	70,944	52,887
Contributions to externally restricted endowments	18,175	9,104
Repayment of long-term debt	(4,862)	(382)
Issue of long-term debt	10,827	–
Acquisition of capital assets	(98,632)	(73,175)
Net change in long-term investments	2,408	(38,973)
Cash used in financing and investing activities	(1,140)	(50,539)
(Decrease) increase in cash position	(21,546)	2,988
Cash and cash equivalents, beginning of year	83,893	80,905
Cash and cash equivalents, end of year	$ 62,347	$ 83,893
Supplementary information:		
Interest paid during year	$ 1,423	$ 1,584

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 14 (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 Canadian 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.

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%

(g) Works of Art:

Works of art are expensed in the year of acquisition. During the year, $113,000 (2001 - $141,000) 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) Employee Future Benefits:

The University maintains defined-benefit plans providing pension, other retirement, and post-employment benefits for substantially all full-time employees.

Pension plan assets are valued at fair value for purposes of calculating expected return on plan assets. The costs of pension and other post-employment benefits (primarily medical benefits and dental care) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method of estimating the usage frequency and cost of services covered and management's best estimates of investment yields, salary escalation and other factors. The University has elected to use the corridor method to amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses) over the average remaining service life of active employees. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued benefit obligation and the value of the plan assets. A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs of the current active employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(k) 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:

(in thousands of dollars)		2002		2001
	Cost	Market	Cost	Market
Equities:				
Canadian	$ 52,428	$ 60,680	$ 50,465	$ 54,483
United States	57,706	40,739	57,706	46,727
Non-North American	55,885	46,610	54,038	50,365
	166,019	148,029	162,209	151,575
Fixed income	139,189	141,851	145,249	145,704
Other	7,078	6,842	7,236	7,307
Total	$ 312,286	$ 296,722	$ 314,694	$ 304,586

4. CAPITAL ASSETS:

Capital assets consist of the following:

(in thousands of dollars)			2002	2001
	Cost	Accumulated amortization	Net	Net
Land	$ 2,707	$ –	$ 2,707	$ 2,707
Buildings	304,741	147,469	157,272	138,057
Site improvements	5,807	4,548	1,259	1,260
Library materials	82,202	52,856	29,346	27,890
Equipment, furnishings and vehicles	140,317	88,035	52,282	35,059
Computing equipment	62,631	47,994	14,637	12,269
Construction in progress	75,383	–	75,383	50,126
	$ 673,788	$ 340,902	$ 332,886	$ 267,368

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:

(in thousands of dollars)	Deferred Contributions	Deferred Capital Contributions
Balance, beginning of year	$ 208,568	$ 194,738
Contributions received and receivable:		
Restricted operating grants	1,271	–
Research grants and contracts	155,158	–
Donations and other grants	27,326	–
Investment income	800	–
Transferred to revenue:		
Operating grants	(456)	–
Research grants and contracts	(110,708)	–
Investment income	(4,533)	–
Amortization of capital assets acquired with capital grants and donations	–	(20,924)
Transferred to acquire capital assets	(70,944)	70,944
Balance, end of year	$ 206,482	$ 244,758

Deferred contributions consist of the following:

(in thousands of dollars)	2002	2001
Research grants and contracts	$ 129,693	$ 116,865
Donations, other grants and investment income	49,859	52,455
Capital grants and donations	25,659	38,792
Other restricted funds	1,271	456
	$ 206,482	$ 208,568

6. LONG-TERM DEBT:

Long-term debt consists of the following:

(in thousands of dollars)	Maturity Year	Interest Rate	2002 Principal Outstanding	2001 Principal Outstanding
Student residence mortgage	2011	9.81%	$ 11,544	$ 11,544
Leasehold liability for student residences			–	4,796
Mortgage	2016	5.38%	1,490	1,556
Bank loan			4,000	–
Bank bridge financing for new residence construction			6,827	–
			23,861	17,896
Principal due within one year			(270)	(165)
			$ 23,591	$ 17,731

Principal due in each of the following five years are as follows:

2003	$ 270
2004	489
2005	520
2006	553
2007	587

(a) An internal 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 purchase of sinking fund investments is financed by a charge to the residence ancillary operation. No additional sinking fund investments were purchased in 2002. The value of the sinking fund is $3,331,000 (2001 - $3,086,000) and is included in investments at April 30, 2002.

(b) The leasehold liability for student residences was paid during the year and replaced by a non-revolving demand bank loan of $4,000,000. The bank loan bears interest of 2.34% and matures July 17, 2002 at which time it will be renewed until December 1, 2002. At that time, under an agreement with the bank, it will be converted to a 10-year interest rate swap agreement with the bank whereby an interest rate of 6.25% has been fixed for this loan.

6. LONG-TERM DEBT (continued):

(c) Details of the bank bridge financing for new residence construction are as follows:

(in thousands of dollars)	Due date	Interest rate		Amount
Floating rate demand note	Floating	Prime less .50%	$	527
Fixed rate demand note	July 17/02	2.34%		3,000
Fixed rate demand note	October 12/02	2.94%		2,300
Fixed rate demand note	October 26/02	3.06%		1,000
Bridge financing outstanding at April 30, 2002				6,827
Additional bank approved bridge financing available				19,473
Long-term financing commitment from the bank at December 1, 2002			$	26,300

The demand notes will be renewed until December 1, 2002 at which time the bridge financing will be converted to take out financing for the new residence.

The long-term financing commitment by the bank is in the form of a 30-year amortization, 10-year floating rate unsecured term loan of up to $26,300,000. The University has entered into interest rate swap agreements with the bank whereby an interest rate of 6.25% has been fixed for 10 years on $1,600,000 and an interest rate of 6.58% fixed for 30 years on $19,200,000 of these loans.

The interest rate swap agreements, which are in a net unfavourable position at April 30, 2002, constitute an unrecognized financial liability with a fair value of $236,000 (2001 - net favourable position and constituted an unrecognized financial asset with a fair value of $382,000). The fair value of interest rate swap agreements is based on amounts quoted by the University's bank to realize favourable contracts or settle unfavourable contracts, taking into account current interest rates at April 30, 2002.

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:

(in thousands of dollars)	2002						2001
	Unrestricted	Reserves	Invested in Capital Assets	Internally Restricted Endowments	Externally Restricted Endowments	Total	Total
Balance, beginning of year	$3,475	$241,396	$57,890	$86,084	$91,332	$480,177	$447,289
Excess of revenues over expenses	(8,799)	–	9,778	–	–	979	23,784
Internal restrictions	9,795	20,785	(25,428)	(5,152)	–	–	–
Externally restricted donations	–	–	–	–	18,175	18,175	9,104
Balance, end of year	$4,471	$262,181	$42,240	$80,932	$109,507	$499,331	$480,177

7. NET ASSETS (continued):

Reserves consist of the following:

(in thousands of dollars)	2002	2001
Employee benefits:		
Pensions	$ 271,169	$ 261,802
Other Post-Employment and Post-Retirement Benefits	(55,445)	(51,233)
	215,724	210,569
Unexpended departmental budgets	32,030	27,312
Other specific purposes	14,427	3,515
	$ 262,181	$ 241,396

8. NET CHANGE IN NON-CASH WORKING CAPITAL

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

(in thousands of dollars)	2002	2001
Research grants receivable	$ (2,226)	$ (5,079)
Accounts receivable	(7,878)	(1,225)
Government grants receivable	(11,165)	(249)
Inventories	(285)	(781)
Prepaid expenses	973	132
Accounts payable and accrued liabilities	(3,828)	12,949
Unearned fees and other deferred revenue	2,384	391
	$ (22,025)	$ 6,138

9. EMPLOYEE FUTURE BENEFITS:

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits to substantially all full-time employees.

The accrued benefit obligations as determined by independent actuaries and the fair values of plan assets are as at January 31, 2002.

In 2002, the expense/(income) for the University's benefit plans is as follows:

(in thousands of dollars)	2002 Pension Benefit Plans	2002 Other Benefit Plans	2001 Pension Benefit Plans	2001 Other Benefit Plans
Defined benefit plans (income)	$ (8,972)	$ 4,504	$ (8,860)	$ 5,332

Information about the University's defined benefit plans as at January 31, in aggregate, is as follows:

(in thousands of dollars)	2002 Pension Benefit Plans	2002 Other Benefit Plans	2001 Pension Benefit Plans	2001 Other Benefit Plans
Accrued benefit obligation	$ 792,422	$ 70,358	$ 740,096	$ 63,164
Fair value of plan assets	974,753	–	1,011,728	–
Funded status – plan surplus (deficit)	$ 182,331	$ (70,358)	$ 271,632	$ (63,164)
Accrued benefit asset (liability) at April 30	$ 295,303	$ (62,143)	$ 281,364	$ (57,908)

Included in the above accrued benefit obligation and fair value of plan assets are the following amounts in respect of plans that are not fully funded:

(in thousands of dollars)	2002 Pension Benefit Plans	2002 Other Benefit Plans	2001 Pension Benefit Plans	2001 Other Benefit Plans
Accrued benefit obligation	$ 62,484	$ 70,358	$ 62,589	$ 63,164
Fair value of plan assets	–	–	–	–
Funded status – plan deficit	$ 62,484	$ 70,358	$ 62,589	$ 63,164

9. EMPLOYEE FUTURE BENEFITS (continued):

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations are as follows:

	Pension Benefit Plans	Other Benefit Plans
Discount rate	6.75%	6.75%
Expected long-term rate of return on plan assets	8.0%	8.0%
Rate of compensation increase	5.0%	5.0%

For measurement purposes, a 10% annual rate of increase in the per capita cost of medical benefits was assumed for 2002. The rate was assumed to decrease to 5% by 2005, and remain at that level thereafter. A 5% annual rate of increase is assumed for dental benefits.

	2002		2001	
(in thousands of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Employer contribution	$ 4,967	$ 2,206	$ 4,738	$ 2,018
Employee contribution	3,702	–	3,207	–
Benefits paid	39,019	2,206	27,718	2,018

10. SALARIED PENSION PLAN SURPLUS SHARING PROPOSAL:

During 2001, the University and individuals representing the salaried pension plan member groups entered into an agreement to withdraw $150,000,000 excess plan surplus to be divided equally between the University and plan members. The surplus sharing agreement has received approval from the Ontario Superior Court of Justice. Application to withdraw the surplus has been filed with the Financial Services Commission of Ontario and approval is expected in September, 2002. The surplus and related expenses will be withdrawn in 2002-2003. It is the intention of the University to invest the University's share of the surplus and apply the investment income earned toward payment of the interest on a proposed private placement debt issue of up to $120,000,000 (see note 13(d)).

11. PLEDGES RECEIVABLE:

Outstanding pledges expected to be received in future years, not included in revenue and accounts receivable, are $17,342,000 (2001 - $22,977,000).

12. ONTARIO STUDENT OPPORTUNITY TRUST FUND:

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid as a result of raising an equal amount of endowed donations.

(in thousands of dollars)	2002	2001
Endowment balance, beginning of year	$ 31,224	$ 30,901
Donations	–	132
Matching funds from the Government of Ontario	–	89
	31,224	31,122
Investment income (provided from) allocated to preservation of capital	(509)	102
Balance, end of year	30,715	31,224
Funds available for awards, beginning of year	384	279
Investment income	1,372	1,536
Bursaries awarded (2002: 1,322 awards; 2001: 1,345 awards)	(1,756)	(1,431)
Funds available for awards, end of year	–	384
Total funds	$ 30,715	$ 31,608

13. 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) Outstanding Legal Issues:

The University is involved from time to time in litigation which arises in the normal course of operations. With respect to claims outstanding at April 30, 2002, the University believes it has valid defenses and appropriate insurance coverage in place. In the event that any claims are successful, the settlements of such claims are not expected to have a material effect on the financial position of the University, except as follows:

During 2001, a legal claim was served on the University alleging that the University breached various duties in failing to remunerate a former employee with respect to patents that have been filed. The claim alleges damages of a percentage of revenues arising from the patents, or, in the alternative, a lump sum of $75,000,000. The University is actively defending this action and has filed a defense which denies all of the allegations. The probable outcome of this litigation cannot be determined at this time.

13. COMMITMENTS AND CONTINGENT LIABILITIES (continued):

(c) McMaster Nuclear Reactor:

It is expected that at some undeterminable future date the McMaster Nuclear Reactor will be decommissioned. The current estimated cost to decommission the reactor is $6,100,000. An amount is being charged to Reactor operations annually to provide for this cost.

(d) Capital Commitments:

The estimated cost to complete approved major capital projects is $165,800,000 at April 30, 2002 (2001 - $30,224,000). These costs, together with unfunded costs to date of $25,428,000, which have been temporarily financed from reserves, will ultimately be financed by unexpended departmental budget reserves, government grants, fundraising, bank financing and an approved private debt issue of up to $120,000,000.

14. 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 $482,000 (2001 - $2,000,000).

15. COMPARATIVE FIGURES

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