Financial Statements of

McMASTER UNIVERSITY

Year ended April 30, 2004

McMASTER UNIVERSITY

FINANCIAL STATEMENTS

APRIL 30, 2004

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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, 2004 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, 2004 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

KPMG LLP
Chartered Accountants
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

AUDITORS' REPORT

The Board of Governors
McMaster University

We have audited the statement of financial position of McMaster University as at April 30, 2004 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, 2004 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 31, 2004

McMASTER UNIVERSITY
STATEMENT OF FINANCIAL POSITION

APRIL 30, 2004, WITH COMPARATIVE FIGURES FOR 2003
(in thousands of dollars)

	2004	2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 139,130	$ 196,039
Research grants receivable	51,895	57,598
Accounts receivable	31,029	26,933
Government grants receivable	18,510	138
Inventories	6,169	6,031
Prepaid expenses	973	752
	247,706	287,491
Long-Term Assets:		
Investments (note 3)	415,858	311,984
Deferred pension asset (notes 9 and 10)	175,990	163,509
	591,848	475,493
Capital Assets, net (note 4)	466,305	400,104
Total Assets	$ 1,305,859	$ 1,163,088
Liabilities, Deferred Contributions and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 54,041	$ 48,554
Unearned fees and other deferred revenue	16,030	16,531
Current portion of long-term debt (note 6)	778	689
	70,849	65,774
Deferred Contributions (note 5):		
Deferred contributions for future expenses	196,575	174,199
Deferred contributions for capital assets	281,022	258,193
	477,597	432,392
Long-term debt (notes 3 and 6)	157,974	157,139
Accrued employee future benefits (note 9)	71,131	64,304
Provision for decommissioning nuclear reactor (notes 3 and 13(c))	4,116	3,292
Net Assets (note 7):		
Unrestricted	10,028	3,351
Reserves	129,987	125,594
Invested in capital assets	95,619	60,688
Internally restricted endowments	129,465	127,535
Externally restricted endowments	159,093	123,019
	524,192	440,187
Total Liabilities, Deferred Contributions and Net Assets	$ 1,305,859	$ 1,163,088

See accompanying notes to financial statements

McMASTER UNIVERSITY
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2004, WITH COMPARATIVE FIGURES FOR 2003
(in thousands of dollars)

	2004	2003
Revenues:		
Operating grants	$ 139,594	$ 120,270
Research overhead grants	12,690	5,707
Research grants and contracts	125,635	119,860
Tuition fees	106,979	92,595
Sales by ancillary operations	64,405	56,651
Donations and other grants	15,820	47,617
Investment income, net	56,554	(6,687)
Other revenue	51,313	52,045
Earned capital contributions	33,243	28,260
	606,233	516,318
Expenses:		
Salaries and wages	273,283	259,202
Employee benefits	37,464	22,851
Supplies and services	189,240	173,567
Amortization of capital assets	48,094	41,848
Interest on long-term debt	10,221	5,587
	558,302	503,055
Excess of revenues over expenses before the following	47,931	13,263
Pension plan surplus withdrawal (note 10)	-	(77,884)
Excess of revenues over expenses (expenses over revenues)	47,931	(64,621)
Transfers/(uses of) excess of revenues over expenses:		
Increase in net assets invested in capital assets	(28,791)	(18,448)
Transfers (to) from internally restricted endowments	(1,930)	9,527
Transfers (to) from reserves	(10,533)	72,422
	(41,254)	63,501
Increase (decrease) in unrestricted net assets	6,677	(1,120)
Unrestricted net assets, beginning of year	3,351	4,471
Unrestricted net assets, end of year	$ 10,028	$ 3,351

See accompanying notes to financial statements.

McMASTER UNIVERSITY
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2004, WITH COMPARATIVE FIGURES FOR 2003
(in thousands of dollars)

	2004	2003
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Excess of revenues over expenses (expenses over revenues)	$ 47,931	$ (64,621)
Add (deduct) non-cash items:		
(Increase) decrease in deferred pension asset	(12,481)	131,794
Increase in accrued employee future benefits	6,827	2,570
Amortization of capital assets	48,094	41,848
Earned capital contributions	(33,243)	(28,260)
Net increase (decrease) in deferred contributions restricted for future expenses	22,376	(22,293)
Increase in provision for decommissioning nuclear reactor	824	319
Net change in non-cash working capital (note 8)	(12,138)	11,116
Cash provided from operating activities	68,190	72,473
FINANCING AND INVESTING ACTIVITIES:		
Increase in deferred contributions restricted for capital assets	56,072	41,695
Contributions to externally restricted endowments	36,074	10,312
Repayment of long-term debt	(693)	(203)
Issue of long-term debt	1,617	134,170
Acquisition of capital assets	(114,295)	(109,066)
Net change in long-term investments	(103,874)	(15,689)
Cash (used in) provided from financing and investing activities	(125,099)	61,219
(Decrease) increase in cash position	(56,909)	133,692
Cash and cash equivalents, beginning of year	196,039	62,347
Cash and cash equivalents, end of year	$ 139,130	$ 196,039
Supplementary information:		
Interest paid during year	$ 10,107	$ 5,482

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 with a term to maturity of 90 days or less at date of acquisition are included with cash and cash equivalents and are recorded at cost plus accrued income. Long-term investments are carried at estimated fair values, generally evidenced by the quoted market value. The estimated fair values are based upon market conditions at a specific point in time and may not reflect future fair values. Changes in fair values are included in investment income. Externally restricted investment income is included with deferred contributions and recognized as revenue when the related expenses are incurred. Unrestricted investment income is recognized as revenue during the period in which it is earned. Investment income related to internally restricted endowments is recorded as revenue during the period in which it is earned and is transferred from unrestricted net assets to internally restricted endowments.

(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% to 10%
Site improvements	5%
Library materials	10%
Computing systems	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, $69,000 (2003 - $92,000) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(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 the market related value (smoothed for the difference between actual and expected investment income over five years) 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 actuarial 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.

(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.

(l) Financial Instruments:

The University is party to certain derivative financial instruments, principally interest rate swap contracts, which are used to manage the exposure to fluctuations in interest rates. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

3. INVESTMENTS:

(in thousands of dollars)	2004 Market	2004 Cost	2003 Market	2003 Cost
Equities:				
Canadian	$ 77,110	$ 65,414	$ 60,454	$ 56,623
United States	78,170	90,306	35,295	57,712
Non-North American	82,966	93,048	34,443	56,384
	238,246	248,768	130,192	170,719
Fixed income	175,784	172,616	179,858	174,580
Other	1,828	1,847	1,934	2,080
Total	$ 415,858	$ 423,231	$ 311,984	$ 347,379

Included in investments are the following accounts at market value held for restricted purposes:

	2004	2003
Restricted for debt repayment sinking funds:		
Student residence mortgage due 2011 (note 6(a))	$ 3,883	$ 3,596
Debentures due 2052 (note 6(d))	7,684	6,140
Restricted for provision for decommissioning of nuclear reactor (note 13(c))	4,116	3,292
	$ 15,683	$ 13,028

4. CAPITAL ASSETS:

Capital assets consist of the following:

(in thousands of dollars)	Cost	Accumulated amortization	2004 Net	2003 Net
Land	$ 2,707	$ -	$ 2,707	$ 2,707
Buildings	394,855	164,756	230,099	199,888
Site improvements	5,933	4,817	1,116	1,182
Library materials	96,286	64,318	31,968	30,541
Equipment, furnishings and vehicles	205,756	130,664	75,092	66,060
Computing systems and equipment	81,137	66,291	14,846	13,519
Construction in progress	110,477	-	110,477	86,207
	$ 897,151	$ 430,846	$ 466,305	$ 400,104

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	$ 174,199	$ 258,193
Contributions received and receivable:		
Restricted operating grants	1,435	–
Research grants and contracts	152,458	–
Donations and other grants	63,985	–
Investment income	30,529	–
Transferred to revenue:		
Operating grants	(142)	–
Research grants and contracts	(125,635)	–
Donations and other grants	(13,653)	–
Investment income	(30,529)	–
Amortization of capital assets acquired with capital grants and donations	–	(33,243)
Transferred to acquire capital assets	(56,072)	56,072
Balance, end of year	$ 196,575	$ 281,022

Deferred contributions consist of the following:

(in thousands of dollars)	2004	2003
Research grants and contracts	$ 139,115	$ 137,135
Donations, other grants and investment income	45,485	23,402
Capital grants and donations	10,540	13,520
Other restricted funds	1,435	142
	$ 196,575	$ 174,199

6. LONG-TERM DEBT:

Long-term debt consists of the following:

(in thousands of dollars)	Maturity Year	Interest Rate	2004 Principal Outstanding	2003 Principal Outstanding
Student residence mortgage	2011	9.81%	$ 11,544	$ 11,544
Bank loan	2012	6.25%	4,949	5,366
Mortgage	2016	5.38%	1,346	1,420
Bank loan	2033	6.63%	20,913	19,498
Debentures	2052	6.15%	120,000	120,000
			158,752	157,828
Principal due within one year			(778)	(689)
			$ 157,974	$ 157,139

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

2005	$ 778
2006	828
2007	881
2008	937
2009	997

(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 2004. The value of the sinking fund is $3,883,000 (2003 - $3,596,000) and is included in investments at April 30, 2004.

(b) The unsecured bank loan matures December 1, 2012 bearing interest at 6.25% under a 10-year interest rate swap agreement.

6. LONG-TERM DEBT (continued):

(c) During 2004, the original bridge financing was converted to take out financing for the new student residence.

The long-term financing is in the form of a 30-year amortization, 10-year floating rate unsecured term loan. The University has entered into an interest rate swap agreement with the bank whereby an interest rate of 6.63% has been fixed for 30 years.

(d) On October 7, 2002, the University issued senior unsecured debentures in the aggregate principal amount of $120,000,000 at a price of $999.07 for proceeds of $119,888,400. The debentures bear interest at 6.15% payable semi-annually on April 7 and October 7 with the principal payable on October 7, 2052. The proceeds of the issue are being used to finance capital projects including the University Student Centre, expansion of the Health Sciences Centre and various other academic and research buildings. The issue price discount and other debt issue costs were expensed during 2003 and are included in supplies and services expense on the statement of operations and changes in unrestricted net assets. An internal sinking fund has been established to provide funds to repay the debenture principal upon maturity in 2052. An initial amount of $6,140,000 was transferred from internally restricted endowments in 2003 to create the sinking fund. Subsequent increases to the sinking fund are charged to operations. The value of the sinking fund is $7,684,000 (2003 - $6,140,000) and is included in investments at April 30, 2004.

(e) To finance the new student residence, an interest rate swap strategy was adopted to lock in interest rates to match expected cash flows from residence fees. The fair value of interest rate swap agreements was based on amounts quoted by the University's bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at April 30, 2004. At April 30, 2004, the interest rate swap agreements were in a net unfavourable position, representing an unrecognized liability of $2,879,000 (2003 - $2,671,000).

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:

(in thousands of dollars)	2004						2003
	Unrestricted	Reserves	Invested in Capital Assets	Internally Restricted Endowments	Externally Restricted Endowments	Total	Total
Balance, beginning of year	$ 3,351	$ 125,594	$ 60,688	$ 127,535	$ 123,019	$ 440,187	$ 494,496
Excess of revenues over expenses	19,140	–	28,791	–	–	47,931	(64,621)
Internal restrictions:							
Transfers (to) from reserves	(10,533)	10,533	–	–	–	–	–
Transfers (to) from internally restricted endowments	(1,930)	–	–	1,930	–	–	–
Reserve for debenture sinking fund	–	(6,140)	6,140	–	–	–	–
Externally restricted donations received	–	–	–	–	36,074	36,074	10,312
Balance, end of year	$10,028	$ 129,987	$ 95,619	$ 129,465	$ 159,093	$ 524,192	$ 440,187

7. NET ASSETS (continued):

Reserves consist of the following:

(in thousands of dollars)	2004	2003
Employee benefits:		
Pensions	$ 143,356	$ 135,328
Other Post-Employment and Post-Retirement Benefits	(64,332)	(58,373)
	79,024	76,955
Unexpended departmental budgets	41,156	30,218
Other specific purposes	9,807	18,421
	$ 129,987	$ 125,594

8. NET CHANGE IN NON-CASH WORKING CAPITAL:

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

(in thousands of dollars)	2004	2003
Research grants receivable	$ 5,703	$ (10,971)
Accounts receivable	(4,096)	(1,688)
Government grants receivable	(18,372)	11,276
Inventories	(138)	(230)
Prepaid expenses	(221)	(36)
Accounts payable and accrued liabilities	5,487	12,211
Unearned fees and other deferred revenue	(501)	554
	$ (12,138)	$ 11,116

9. EMPLOYEE FUTURE BENEFITS:

The University maintains defined benefit plans providing pension and other retirement and post-employment benefits including extended health care and dental to substantially all full-time employees.

The accrued benefit obligations as determined by independent actuaries and the fair values of the plan assets are as at January 31, 2004, the measurement date.

In 2004, the actuarially determined expense/(income) recognized for the University's benefit plans is as follows:

	2004		2003	
(in thousands of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Net benefit costs (income) incurred	$ 1,366	$ 10,072	$ (12,490)	$ 6,683

9. EMPLOYEE FUTURE BENEFITS (continued):

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

(in thousands of dollars)	2004 Pension Benefit Plans	2004 Other Benefit Plans	2003 Pension Benefit Plans	2003 Other Benefit Plans
Accrued benefit obligation	$ 895,746	$ 145,879	$ 840,780	$ 72,029
Fair value of plan assets	820,841	–	863,579	–
Funded status – plan surplus (deficit) at January 31	(74,905)	(145,879)	22,799	(72,029)
Reconciliation to deferred benefit asset/(liability) at April 30:				
Measurement date adjustment	6,793	-	1,687	2,254
Pension plan surplus withdrawal (note 10)	-	-	(150,443)	-
Unamortized past service cost	180	-	196	-
Unamortized actuarial loss	243,922	74,748	289,270	5,471
Deferred pension asset (Accrued employee future benefits) at April 30	$ 175,990	$ (71,131)	$ 163,509	$ (64,304)

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)	2004 Pension Benefit Plans	2004 Other Benefit Plans	2003 Pension Benefit Plans	2003 Other Benefit Plans
Accrued benefit obligation	$ 64,272	$ 145,879	$ 63,413	$ 72,029
Fair value of plan assets	–	–	–	–
Funded status – plan deficit	$ 64,272	$ 145,879	$ 63,413	$ 72,029

9. EMPLOYEE FUTURE BENEFITS (continued):

Information about the plan assets for the pension benefit plans as at January 31, 2004 include the following:

	Percentage of fair value of total plan	Target allocation percentage	Expected long-term rate of return
Equity securities	61%	65%	8.9%
Debt securities	37%	35%	4.9%
Other	2%	0%	3.2%

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations at January 31, 2004 are as follows:

	Pension Benefit Plans	Other Benefit Plans
Discount rate	6.0%	6.25%
Expected long-term rate of return on plan assets	7.5%	-
Rate of compensation increase	4.5%	4.5%

The significant actuarial assumptions adopted in measuring the University's actuarially determined income/(expense) recognized in the year are as follows:

	Pension Benefit Plans	Other Benefit Plans
Discount rate	6.75%	7.0%
Expected long-term rate of return on plan assets	7.5%	-
Rate of compensation increase	5.0%	5.0%

9. EMPLOYEE FUTURE BENEFITS (continued):

For measurement purposes, a 10% annual rate of increase on the 2004 per capita cost of medical benefits was assumed. The rate was assumed to decrease to 5% in 2014, and remain at that level thereafter. A 5% annual rate of increase is assumed for dental benefits.

	2004		2003	
(in thousands of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Employer contribution	$ 13,155	$ 3,245	$ 6,158	$ 2,912
Employee contribution	7,105	–	3,726	–
Benefits paid	42,861	3,245	39,716	2,912

The most recent actuarial valuation for the pension benefit plans for funding purposes was completed as at July 2003 and the next required valuation will be filed as at July 1, 2004 for hourly-rated employees and July 1, 2006 for all other employees. The most recent valuation for financial statement purposes for other benefit plans was completed by an independent actuary as at January 31, 2004 which is also the measurement date used to determine the accrued benefit obligation for other benefit plans.

10. SALARIED PENSION PLAN SURPLUS WITHDRAWAL:

During 2003, $149,838,000 of excess plan surplus, plus interest of $605,000 was withdrawn from the salaried pension plan. In accordance with an agreement between the University and individuals representing plan members, one-half of the plan surplus plus applicable interest was paid to plan members and one-half plus interest was paid to employers. The amount paid to plan members of $75,169,000 together with $2,715,000 paid or payable to employers other than the University is shown on the Statement of Operations and Changes in Unrestricted Net Assets. The amount of $72,559,000 paid to the University was recorded as a transfer from the reserve for employee benefits to internally restricted endowments.

11. PLEDGES RECEIVABLE:

Outstanding pledges expected to be received in future years, not included in revenue and accounts receivable, are $72,864,000 (2003 - $11,144,000).

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.

(a) ONTARIO STUDENT OPPORTUNITY TRUST FUND – Phase I

The following schedule represents the changes for the year ended April 30, 2004 and 2003 in the first phase of the Ontario Student Opportunity Trust Fund balance:

(in thousands of dollars)	2004	2003
Endowment balance, beginning of year	$ 29,617	$ 30,715
Donations	–	–
Matching funds from the Government of Ontario	–	–
	29,617	30,715
Investment income (provided from) preservation of capital	1,727	(1,298)
Investment income transferred (to) from expendable income	(47)	200
Balance, end of year	31,297	29,617
Funds available for awards, beginning of year	–	–
Investment income	1,527	1,448
Bursaries awarded (2004: 1185 awards; 2003: 907 awards)	(1,574)	(1,248)
Investment income transferred from (to) preservation of capital	47	(200)
Funds available for awards, end of year	–	–
Total funds	$ 31,297	$ 29,617

(b) ONTARIO STUDENT OPPORTUNITY TRUST FUND – Phase II

The Ontario government requires separate reporting of balances as at March 31 and details of the changes in the balances for the period then ended with respect to the second phase of the Ontario Student Opportunity Trust Fund of McMaster University.

The following is the schedule of donations received for the period from March 27, 2003 to March 31, 2004:

(in thousands of dollars)	
Eligible for matching	$ 672
Unmatched cash donations	906
Outstanding pledges received between January 1, 2004 and March 31, 2004	421
Cash and pledge total	$ 1,999

12. ONTARIO STUDENT OPPORTUNITY TRUST FUND (continued):

(b) ONTARIO STUDENT OPPORTUNITY TRUST FUND – Phase II (continued)

Certain cash donations received between March 27, 2003 and March 31, 2004 are eligible for matching in fiscal 2004 by the Ministry of Training, Colleges and Universities ("MTCU") in accordance with the July 2003 Program Guidelines and Reporting Requirements.

Cash donations received in excess of an institution's annual matching ceiling may be reported as unmatched cash donations and be considered for matching in future years (subject to the availability of funding and the institution's matching ceilings).

The following is the schedule of changes in the endowment balance for the period from March 27, 2003 to March 31, 2004:

(in thousands of dollars)		
Balance, beginning of year	$	–
Cash donations received within annual matching ceiling		672
Funds received from MTCU		524
Funds receivable from MTCU		148
Unmatched cash donations		906
Fund balance, end of year	$	2,250

The following is the schedule of changes in the expendable funds for awards for the period from March 27, 2003 to March 31, 2004:

(in thousands of dollars)		
Balance, beginning of year	$	–
Investment income, net of direct investment-related expenses and preservation of capital contributions		49
Bursaries awarded (total number: 8)		(10)
Balance, end of year	$	39

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.

13. COMMITMENTS AND CONTINGENT LIABILITIES (continued):

(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, 2004, 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.

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. Pursuant to a settlement agreement, an amount has been included in accounts payable at April 30, 2004 in full settlement of the claim.

(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 dispose of the nuclear fuel and place the reactor in a safe state is $2,940,000 with a further $7,322,000 required for disposal of remaining nuclear waste, building decommissioning and demolition, as well as site rehabilitation. An amount is being charged to reactor operations annually to provide for these costs. The provision for decommissioning at April 30, 2004 of $4,116,000 (2003 - $3,292,000) is shown as a long-term liability and the related investments restricted by the Board of Governors exclusively for this purpose are included in long-term liabilities.

(d) Capital Commitments:

The estimated cost to complete approved major capital projects is $95,760,000 at April 30, 2004. These costs, will be financed by unexpended departmental budget reserves, government grants, fundraising, student contributions, bank financing, the proceeds of the $120,000,000 debenture issue and future ancillary operations revenue streams.

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, McMaster University – Hong Kong Foundation Limited. 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 $249,000 (2003 - $1,584,000).

15. COMPARATIVE FIGURES

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