ANNUAL FINANCIAL REPORT 2012/2013

McMaster University

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CHANGE & TRANSFORMATION

McMaster University's Annual Report theme is *Change and Transformation* to reflect the 2012/13 efforts of the University toward systems renewal and the new budget model, two projects aligned to supporting *The Emerging Landscape and Forward with Integrity.* [1]

The image of the front cover reflects one of McMaster's earliest Hamilton campus building University Hall (1929) on the left along with the McMaster University Student Centre (2002) and the Michael G. DeGroote Centre for Learning and Discovery (2004) on the right. Pictures throughout the report are mixed with the transformation of the caterpillar to a butterfly, a theme fitting for an environment focused on change and renewal.

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1 The Emerging Landscape and Forward with Integrity: A Letter to the McMaster Community http://www.mcmaster.ca/presidentsoffice/fwi.html

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YEAR IN REVIEW

This year in McMaster University's history will be marked as a year focused on significant *change and transformation.* The 2012/13 year end results represent a consolidated surplus of $60.7 million ($9.1 million last year) across all funds: operating, research, capital, internally and externally restricted trusts and endowments, and ancillary operations. The surplus, which is extraordinary and not repeatable, stands in contrast to the operating fund. The operating fund ended the year with a $13.6 million deficit (compared to a budgeted deficit of $27 million). The significant focus toward technology and infrastructure improvements resulted in $65.5 million more capital related spending than last year. Contributing to the surplus this year is approximately $15 million in supplies expense savings that more accurately reflect the University's investment in longer term equipment related assets that have been capitalized. Overall, 2012/13 will be remembered as the year focused on systems change and infrastructure renewal to support the University's research-centred student-focused excellence.

Contributing to the consolidated surplus in 2012/13 is investment income of $47.1 million ($18.4 million last year) related to investment returns of 10.1% (compared to 0% last year). This additional $28.7 million in income primarily replaces last year's draw on funds due to the 0% return, and allows for the transfer to the preservation of capital in both endowments and trusts. Continued volatility in the financial markets has led to conservative budgeting and a strong capital preservation focus. While it may appear that long term rates are increasing modestly, at April 30, 2013 the long-term rates used to measure pension and non-pension liabilities were significantly lower than last year, resulting in significant increases in unfunded pension and post-retirement benefit obligations. Unfortunately, the interest rates used, as required by generally accepted accounting principles, will substantially increase the required pension and non-pension related expenses for 2013/14.

The most significant financial challenge ahead primarily centres on pension costs. While pension plan assets continue to perform well, the substantial funding gap between the assets and liabilities will require additional contributions to the plan. The funding gap continues to grow substantially, despite significant achievements in plan design and cost sharing agreements between employer and employees, due almost entirely to the low interest rates used to measure the liability.

The financial reality within the operating, research and other funds includes both pension and non-pension cost pressures associated with charging such costs to each employer department with plan employees. While excellent strides have been taken over the last several years to transform, and in some cases, close plans to new membership, the efforts taken to reduce the financial burden have been predominantly overshadowed by the continuing decline in the interest rate environment. In the absence of further pension solvency relief the University will be required to put an additional $44 million per year into the plan over the next seven years to make up the solvency shortfall in assets compared to liabilities. For McMaster, the inevitable cash outflows related to pension solvency measurements will continue to represent a very substantial draw on scarce resources and directly challenge our academic mission. The pension and non-pension financial pressures will be re-evaluated in July 2014 when the next funding valuation of the salary plans will occur. It is anticipated that the improvement in mortality rates coupled with the low interest rates will result in an increased obligation for both liabilities.

Consistent with the theme of change and transformation this year is change within the financial statement presentation. In the year, McMaster transitioned to the required new financial reporting framework for a non-government controlled not-for-profit organization. The transition required certain retroactive restatements to the balance sheet effective May 1, 2011. Changes, which did not impact the operating results, include the re-valuation of McMaster's land resulting in an increased land value of $44.5 million. Further, the University elected to apply hedge accounting resulting in the elimination of deferred unrealized losses of $5.1 million affecting the balance sheet. During this year of transition, the financial statements include three-year columns for the balance sheet and many of the accompanying notes. Future changes to reporting will occur in 2014/15 when McMaster adopts the same methodology used for pension benefit funding valuation purposes in its financial statements. Finally, a new exposure draft released in June 2013 suggests substantial changes to traditional not-for-profit revenue and expense reporting in the future. The exposure draft, if passed, will result in revenue and expense volatility requiring immediate recognition of endowment and capital contributions. As well, fundraising and general support expenses will become separately reported expenses, and all other expenses will be reported by object and function. The evolution of not-for-profit financial reporting and its impact on McMaster University's financial reports continues to be monitored and management remains actively engaged in providing feedback to reporting framework proposals.

> "The continued focus on *Forward with Integrity* in 2012/13 has led to many areas across the University developing innovative and integrated approaches to experiential learning and discovery."

The continued focus on *Forward with Integrity (FWI)* in 2012/13 has led to many areas across the University developing innovative and integrated approaches to experiential learning and discovery. Two calls for FWI inspired proposals occurred in 2012/13 leading to an unprecedented number of new project ideas. Proposals totalling 139 submissions across both calls led to 76 approved initiatives, many of which will occur during 2013/14.

McMaster's technology renewal project, Mosaic, approved in 2011/12 completed early planning stages in 2012/13 confirming the design and implementation schedule for finance, research, human resources, and student modules. The integrated system platform, when completed in 2015/16, will enable business intelligence reporting capabilities. Over the next few years, manual processes will predominantly be eliminated and replaced with electronic role-based work environments and workflow accessible through a secured web portal. Mosaic planning has allowed the University to re-envision its processes and policies aiming to simplify and de-bureaucratize areas of existing practice, while improving transparency and

BY THE NUMBERS

$35,600
Total revenue per FTE student vs. $34,000 last year

$187,800,000
Research revenue receipted vs. $179,200,000 last year

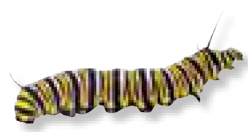
$553,100,000
Endowment funds vs. $519,200,000 last year

$127,800,000
Capital spending vs. $62,300,000 last year

$847,100,000
Total net assets vs. $757,200,000 last year

$938,800,000
Total revenue vs. $880,500,000 last year

26,353
Enrolment (full time equivalent (FTE))
vs. 25,929 last year



$20,988
Endowment per FTE students vs. $20,023 last year

$13,600,000
Excess of revenues over expenses operating fund only vs.$8,600,000 last year

$471,600,000
Employee future benefit unfunded obligation registered pension vs. $281,500,000 last year

$60,700,000
Excess of revenues over expenses vs. $9,100,000 last year

$225,200,000
Employee future benefit unfunded obligation non-pension vs. $219,500,000 last year

$878,100,000
Total expenditures vs. $871,400,000 last year

$249,800,000
Available expendable resources vs. $225,000,000 last year

YEAR IN REVIEW

accountability across the supporting system environment.

Infrastructure renewal was another key theme for the year with the completion of a new annual capital planning process aligned to supporting the McMaster Campus Plan. Additional focus on capital needs from the completion of an Asset Management Plan, an Energy Management Plan, and Campus Accessibility Plan contributed to increased awareness and capital funding contributions from the budget. The contributions toward McMaster's deferred maintenance backlog include increasing base funding over several consecutive years to manage this growing infrastructure need.

McMaster's comprehensive annual capital planning process, approved in 2012/13, led to improved scenario planning capabilities within the multi-year financial projections. In the current year, management was able to project future debt policy compliance based upon the magnitude of capital projects approved or under consideration. This integrated approach to capital and financial planning will enable better capital budgeting, policy monitoring, and planning of activities with and without new debt.

Significant capital projects underway include the McMaster Health Campus in downtown Hamilton and the Halton McMaster Family Health Centre in the City of Burlington. Another key new project was approved and initiated in the year, the L. R. Wilson Hall focused on the liberal arts. Our latest building will occupy the former site of the Wentworth House, which was prepared for construction in the spring of 2013.

Finally, in a year distinct in its substantial focus on change and transformation, the University approved the adoption of a new budget allocation model. The new budget model will come into effect in 2014/15, following the completion of a final model shadow year in 2013/14. The new budget model improves budget transparency and provides faculties with the ability to plan the financial viability of new or enhanced program initiatives. The model also contributes to a better awareness of support service costs and space utilization.

The information contained in this Annual Financial Report is intended to provide the reader with financial information for the fiscal year ended April 30, 2013 and was approved by the University's Board of Governors in October 2013. While the focus of this document is the consolidated operations of all funds on an accrual basis, information regarding the Operating Fund, which operates on a cash basis for budgeting and accounting and represents almost 64% of the consolidated results, has been included on page 22.

Other documents to which the reader can refer to provide a more in-depth discussion of the University include:

- Forward with Integrity
- Task Force Reports
- Consolidated Budget – June 2013
- State of the Academy Address – September 2013
- University Fact Book

REVENUES

McMaster University actively manages its sources of funding, including a focus on new revenue generation, to provide a stable financial environment that can reinvest in the student experience through technology transformation and infrastructure renewal.

REVENUES

$ millions		
RESEARCH REVENUE RECOGNIZED	2013	2012
Federal Government	114.7	113.8
Province of Ontario	20.6	27.5
Other sources	52.5	37.9
Total research funds received	187.8	179.2
Less: amount deferred to future	(14.1)	(12.5)
	173.7	**166.7**

In 2012/13, total revenue increased by 6.6% representing revenue per FTE[2] enrolment of $35,600 (2011/12 - $34,000). The $58.3 million revenue increase relates primarily to enrolment growth and increased investment income.

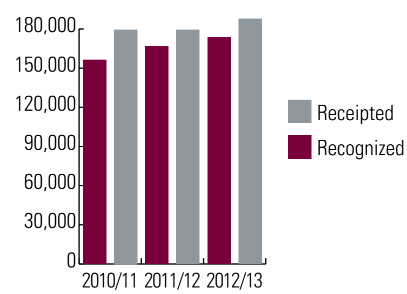
Operating Grants Income

Government operating grants grew by $5.1 million to $242.4 million representing a 2.2% growth over 2011/12 grants. Included in this growth is a $3.2 million increase in funding for undergraduate accessibility, which is based on the University's share of the year-over-year growth across Ontario. Further, an additional $1.1 million in funding was received for MD and Post Graduate medical education to expand the number of physicians in the province.

Research Grants and Contracts

Research revenue increased from the prior year. The revenue received is recognized in the year in which it is earned. Unspent research revenue and revenue spent on capital projects is deferred and recorded as Deferred Contributions on the Statement of Financial Position. Before allowing for deferrals, $187.8 million (2011/12 - $179.2 million) was received for future use. After deferrals, research revenue recognized over the past year increased by 4.2% to $173.7 million (2011/12 - $166.7 million), reflecting an increased level of research spending.

Research Revenue: Receipted vs Recognized in Income – $ thousands



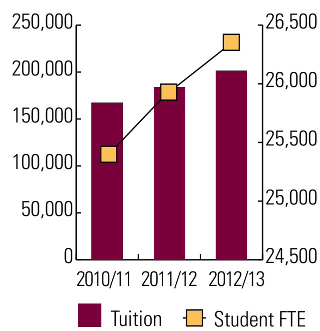
Research revenue recognized by the University does not include hospital research or funding for Networks of Centres of Excellence, such as the Centre for Probe Development and Commercialization hosted by McMaster University. As illustrated in the table above, total research receipts were up from the prior year with increased funding from non-government sources offsetting a decline in provincial government grants.

2 FTE enrolment is calculated as the number of full-time students plus (part-time enrolment/3.5)

Research Overhead Grants

Research overhead grants assist the University in defraying the indirect costs associated with research activities. The province and the federal government fund a portion of the total indirect costs associated with federal research grants and eligible provincial research programs. In 2012/13, $12.8 million was received (2011/12 - $13.4 million) as a partial offset to indirect research costs.

Total Tuition – $ thousands and Number of FTE Students



Tuition Fees

Revenue from tuition fees increased by 9.4% in 2012/13 as a result of a 1.6% growth in student enrolment, regulated tuition fee increases, and a change in mix of students. The 2012/13 tuition fee setting policy permitted the University to increase tuition fees for regulated programs by an overall maximum of 5% per year. In 2012/13, the University adjusted fees by the allowable increase for each regulated program and remained within the overall cap of 5%. Contributing to tuition revenue is a higher number of international students (an increase of 8.4%) whose fees are higher than domestic rates. International students now account for approximately 7.7% (2011/12 – 7.2%) of the student population.

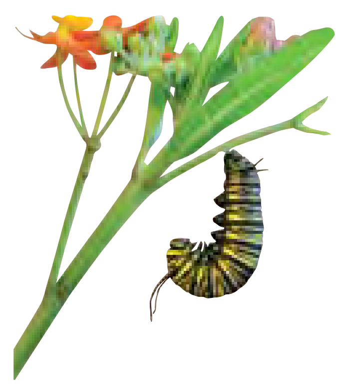
Ancillary Operations

Ancillary operations provide essential support and business services to the University community to enhance the student experience. Ancillary departments aim to provide exceptional and affordable services while covering all related operating and capital costs. Further, ancillary operations contribute essential additional funding to the University for student support and strategic reinvestment. In order to generate revenue, it is critical that ancillary departments provide excellent quality, competitively-priced services and contain costs wherever possible.

In fiscal 2012/13, the University reclassified two of its ancillary programs, Student Health Services and Telecommunications into the Operating Fund to better reflect the mission of those programs.

Sales revenue increased by 0.2% in 2012/13 primarily related to increases in Continuing Education (17.1%) offset by a reduction in sales in the Campus Store

		$ thousands
SALES BY ANCILLARY OPERATIONS	2012/13	2011/12
Campus Store	20,226	21,488
Hospitality Services	20,607	20,646
Housing and Conference Services	22,560	21,919
Media Production Services	4,175	3,125
Parking	4,749	4,249
Continuing Education	5,912	5,048
Miscellaneous	148	144
	78,377	78,241
Less: internal sales	(10,254	(10,235)
	68,123	**68,006**



(formerly the Bookstore). A combination of greater demand for existing programs, introduction of new programs and an increase in business community partnerships has resulted in the increase for Continuing Education. Campus Store general merchandise sales grew in 2012/13, however growth in merchandise sales was more than offset by a continuing decline in traditional book sales and course pack materials. Electronic and print mediums offered by other external vendors are a significant threat to print materials on-campus affecting both the Campus Store and Media Production Services. Both ancillary operations are moving toward competitively-priced electronic materials, in addition to improved print pricing in 2013/14, in an effort to maintain sales and contributions to the University's operations.

		$ thousands
INVESTMENT INCOME	2012/13	2011/12
Recognized in income	47,103	18,428
Net posted directly to external endowments	17,690	(15,097)
	64,793	**3,331**

Investment Income

The performance of most global capital markets improved over the last year compared to the prior year but continued to be volatile. Investment returns for the endowment fund fluctuated over +/- 3% month to month. This volatility contributes to difficulty in budgeting and projecting investment income, which has a significant financial impact on the operating results of the University. Management uses a conservative investment income budgeting approach and provides multi-year financial projections that include investment sensitivity analysis to highlight the potential variance in investment income that can occur during volatile market environment. The 2012/13 rate of return (after expenses) for the long-term investment pool was 10.1% compared to 0% in 2011/12.

The endowment fund asset mix benchmark is 60% equities and 40% fixed income and real estate. As at April 30, 2013, this portfolio's annual rate of return was 10.5% which was slightly below the benchmark return of 10.9%.

Total investment income, summarized in the table above, includes both short-term and long-term investment earnings that are allocated between income in the Statement of Operations and as protection of capital in the Statement of Changes in Net Assets.

Investment returns on endowed funds are used in accordance with the purposes set out by donors or, where discretionary, by the Board of Governors. Annual endowment spending is targeted at a rate of 4% for spending and 1% for advancement administration determined using a five-year average market value. In 2012/13 approximately $16.5 million (2011/12 – $16.4 million) of expenses were funded from the external endowment of which a significant portion is directed towards student scholarships, bursaries and funding of chairs and professorships.

COMPENSATION AND BENEFITS

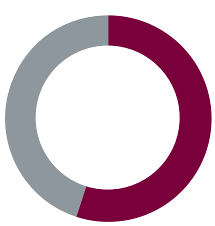
McMaster University is committed to investing in its people, by providing competitively benchmarked compensation and benefits that enhance the quality of life for our faculty and staff during their career and into retirement, while also managing the current and future costs of the total compensation plans to ensure a sustainable financial environment.

COMPENSATION AND BENEFITS

Salary and wage expenses are shown together in the Statement of Operations with related employee benefit costs identified as a separate line in the same Statement. The employee benefit expenses include accruals for pension and non-pension or post-retirement benefits (primarily medical benefits and dental care) that are earned in relation to current year service. In accordance with generally accepted accounting principles, only a portion of the total pension and non-pension liabilities are recognized on the Statement of Financial Position. The difference between the recorded Statement liability and the total measured pension and non-pension liabilities is referred to as the unfunded deficit and is reflected in Note 6 to the Financial Statements. Additional information related to the current year expenses, total pension and non-pension liabilities and the unfunded deficit are included in this section.

Faculty Members and Permanent Staff as at October 2012 – 7,449

- Academic *(includes Faculty, Post Doctoral Fellows, Librarians, Teaching Assistants)* (4,115) 55%
- Support (3,334) 45%



Expense

Total compensation-related expenses account for 64% of total expenditures and represent a total of 7,449 permanent faculty and staff members as of October 2012 (October 2011 - 7,284).

The total number of faculty and staff members increased by 2.3% (compared to 3.3% growth in 2012). Salary and wage expenses increased by 3.4% (compared to 5.3% growth last year). Employment increases relate to targeted enrolment growth supported by an increase in teaching assistant hours and specifically funded programs. Employment expenses represent $558.4 million this year compared to $539.3 million (7,284 employees) and $524.9 million (7,054 employees) in 2011/12 and 2010/11 respectively.

Employee Future Benefit Obligations (Pension and Other)

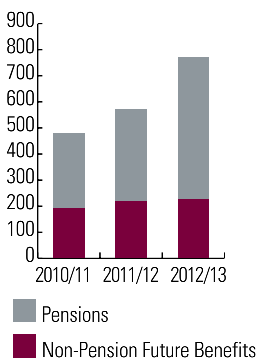
Included in total compensation expenses are both defined benefit pension, group RRSP and non-pension benefit costs. The non-pension benefit costs include extended health, dental and life insurance for most faculty and staff. The annual earned benefit costs are expensed in addition to a portion of the unrecorded deficit balance using an accounting method supported by generally accepted accounting principles. The accounting method for future benefit obligations allows unrecorded balances to be amortized into expenses over the average remaining service life of active employees. The pension and non-pension plan obligations continue to be one of the University's greatest challenges causing a significant draw on university resources. Compounding the financial challenges posed by the future benefit obligations are continued low long-term interest rates used to measure the obligation. As long-term interest rates used to measure the liability have continued to decline the unfunded liability has grown substantially.

Pension

Several positive steps have been taken over the last few years to manage the pension liability, such as revised eligibility rules for some groups, increased employee contributions and the introduction of a defined contribution group RRSP plan for new employees in some groups. Approximately 5% of the full time employees are now in the group RRSP. Despite these changes, the decline in the interest rates used to measure the long-term liabilities has increased the unfunded obligations as shown in the chart on the following page. Additional funding contributions to the defined benefit plans from employees and the university will be required to address the plan shortfalls and will continue to place significant pressure on all programs for many years to come. Increased funding requirements related to the gap between assets and liabilities are being driven primarily by the decline in the long-term interest rates used in the cost estimation methodology of the actuaries.

Provincial focus on publicly funded organizations' pension plan asset management has grown over the last two years aiming to find efficiencies in asset plan management. However, publicly funded organizations' pension issues relate to liability measurement methodology used by actuaries in Canada, not asset management. The wide variance in asset rate of returns and liability measurement rates causes a significant measurement gap, resulting in additional funding requirements. Further provincial and actuarial focus is needed to address measurement methodology that has publicly funded organizations injecting substantial operating funding into pension plans to address temporary measurement shortfalls.

Pension and non-pension future benefits unfunded obligations



During the year, the pension expense increased by 17.5% from $51.8 million to $60.8 million primarily due to an increase in the amortization of actuarial losses of $22.4 million (2011/12 - $16.7 million).

The funded status, calculated on an accounting basis, of the defined benefit Hourly and Salary Pension Plans for each of the last two years is summarized in the chart on the left.

Investment returns for the year ended April 30, 2013 reduced the deficit by $147.1 million. The interest rate (referred to as the discount rate) used to measure the plan decreased to 4.1% from 5.0% resulting in a significant negative impact on the funded position. The discount rate represents a blended 10-year government investment yield used to measure the long term (average 14 year) investment duration of the liabilities. Also contributing to the

CHANGE IN FUNDED STATUS OF PENSION BENEFIT PLANS

	APRIL 30, 2013 $ millions	APRIL 30, 2012 $ millions
Funded status, opening balance	(351.1)	(288.6)
Costs in the period:		
Current service cost	(38.7)	(34.5)
Interest on liabilities	(78.7)	(83.5)
Actual gain (loss) on plan assets	147.1	46.9
	29.7	(71.1)
Actuarial loss related to changes in discount rate	(230.3)	(172.3)
Change in cost of living assumption	(126.6)	121.4
Plan amendments	6.6	0.0
Actuarial gain related to other assumptions	67.5	6.3
Plus: University contributions	58.6	53.2
Funded status, closing balance	**(546.6)**	**(351.1)**

liability growth was an update to the assumption regarding the likely 'cost of living' increases required to be provided to pensioners as a result of the increase in the five year investment return average, which resulted in a negative impact of $126.6 million. The impact of the measured increased in accounting deficit will be reflected in the next fiscal year when the required pension expense increases by approximately $30 million (resulting from amortizing the increased deficit into expenses).

An updated funding valuation for the Salary Plan, which accounts for over 96% of the assets, is not required until July 1, 2014. In fiscal 2012/13 the University made deficit payments of approximately $20.8 million based on the results of the previous (July 1, 2011) valuation and qualification for the province's solvency relief program. The provincial government's solvency relief program for universities allows for these increased deficit payments to be spread over a longer period once the university has demonstrated that steps have been taken to ensure the long-term sustainability of the plans. Both the Salary and the Hourly Pension Plan have qualified for this solvency relief program. Solvency relief does not relieve the University from funding going concern deficits or from resolving its solvency deficiencies; it merely allows the contributions to be made over a longer period. In fact, the University will require increased payments to the plan for the foreseeable future. Annual deficit payments are estimated to remain at $20.8 million until 2015/16, at which time they are estimated to increase to over $65 million in the absence of any further solvency relief programs offered by the government.

CHANGE IN FUNDED STATUS OF NON-PENSION BENEFIT PLANS

	APRIL 30, 2013 $ millions	APRIL 30, 2012 $ millions
Funded status, opening balance	(219.5)	(192.4)
Costs in the period:		
Current service cost	(7.8)	(8.8)
Interest on liabilities	(10.7)	(10.8)
	(18.5)	(19.6)
Actuarial loss related to changes in assumptions for discount rate	(31.5)	(25.5)
Plan amendments	3.0	n/a
Gain due to updated mortality data	n/a	8
Gain due to change in trend assumption for health costs	11.5	n/a
Change due to updated utilization data	17.9	n/a
Other	6.1	4.5
University contributions	5.8	5.5
Funded status, closing balance	**(225.2)**	**(219.5)**

Other Post-Retirement and Post-Employment Benefit Plans

Non-pension employee benefit expenses in 2012/13 totalled $14.9 million, a $3.1 million decrease from 2011/12 primarily due to reduced current service costs.

The deficit status of the non-pension post-retirement benefit plan as at April 30, 2013 amounted to $225.2 million, an increase of $5.6 million from April 30, 2012. The significant changes in each of the last two years are outlined in the above chart.

In fiscal 2012/13, the increase in the obligation is primarily the result of the change in the discount rate from 5.0% to 4.1%, offset by changes in trend assumptions for health care costs and updated utilization data.

CAPITAL PROJECTS AND FINANCING

McMaster University is committed to technology transformation, building purpose-focused spaces, and renewing existing infrastructure to ensure its research-focused student-centred identity is maintained in support of an environment of excellence.

CAPITAL PROJECTS AND FINANCING

The McMaster Campus Plan provides a comprehensive framework guiding campus capital development. Its objectives are to maintain and enhance the quality of the campus while meeting McMaster's changing needs and reflecting its strategic priorities. In fiscal 2012/13, three additional facilities plans were adopted which address Asset Management, Energy Management, and Campus Accessibility. The additional plans have resulted in a greatly needed focus on physical infrastructure, which has translated into increased funding allocations to deferred maintenance, investments in energy management, and additional accessibility projects.

Major Capital Projects

The McMaster Health Campus is a project centered in downtown Hamilton. When it opens in the fall of 2014, the new 195,000 square foot LEED-certified building will accommodate over 54,000 patient visits each year. The building will house essential community services such as the Hamilton Maternity Centre and the Shelter Health Network. The plan also includes locating Hamilton Public Health clinics and offices within the new Campus. More than 4,000 students will be served by this Campus including a mix of undergraduate, graduate and health sciences continuing education professionals. The University anticipates some 450 employees will be based in the new building and another 650 jobs will be created during the design and construction.

L.R. Wilson Hall is McMaster's new campus home for the Liberal Arts. The building, to be LEED certified, will house McMaster's Faculty of Humanities and Faculty of Social Sciences. It will include:

- classrooms
- research spaces and labs
- performing arts facilities, including a 450-seat concert hall
- public gathering and community spaces
- gardens

Located on the site of the current Wentworth House, construction began in June 2013. The building will also include additional underground parking.

The Halton McMaster Family Health Centre project creates a teaching family practice unit in downtown Burlington and is now being constructed on the grounds of Joseph Brant Hospital. The Hospital has provided a 49-year renewable land lease to facilitate the construction of an office building. The teaching family practice clinic

MAJOR BUILDING PROJECTS – as of April 30, 2013

PROJECT	BUDGET	FUNDING SOURCES	EXPECTED COMPLETION
McMaster Health Campus	$84.6 million	Provincial and Municipal Governments, Donors and University	2014
L.R. Wilson Hall	$66 million	Provincial Government, Donors and University	2015
Halton McMaster Family Health Centre	$6.2 million	Provincial and Municipal Governments and University	2013

will be located on the ground floor and leased to an academic family physician group. Classrooms will be located on the second floor with the hospital boardroom and conference facilities sharing unused capacity that will result in 12,055 square feet of additional university space. The anticipated completion date for the project is December 2013.

In addition to these capital building projects, the university spent almost $61 million on equipment, and information systems projects, up from $28.3 million last year. This includes almost $15 million on technology transformation implementing an integrated enterprise-wide resource system, referred to as the Mosaic project. The Mosaic project is a multi-year systems project that will replace the current separate information systems for student, finance, human resources, research administration and business intelligence.

The University's total capital expenditures for 2012/13 reached $127.8 million (2011/12 $62.3 million) and are summarized in the table above.

CAPITAL ASSET ADDITIONS	$ thousands 2012/2013	2011/12
Completed Building Projects and Construction in Process	60,753	28,716
Computers, Software, Furnishings and Other Equipment	60,992	28,312
Library Materials	6,014	5,265
	127,759	**62,293**

Capital Financing

Building projects with long-term funding sources such as user fees, parking levies and future fundraising continued to be financed through internal central bank loans. In 2012/13 all scheduled repayments were made. The internal central bank capital loans declined from $90.3 million as at April 30, 2012 to $80.0 million as of April 30, 2013. The loans have varying repayment terms and interest rates, which reflect the date of issue and the project income stream. In 2012/13 no new external borrowing was undertaken.

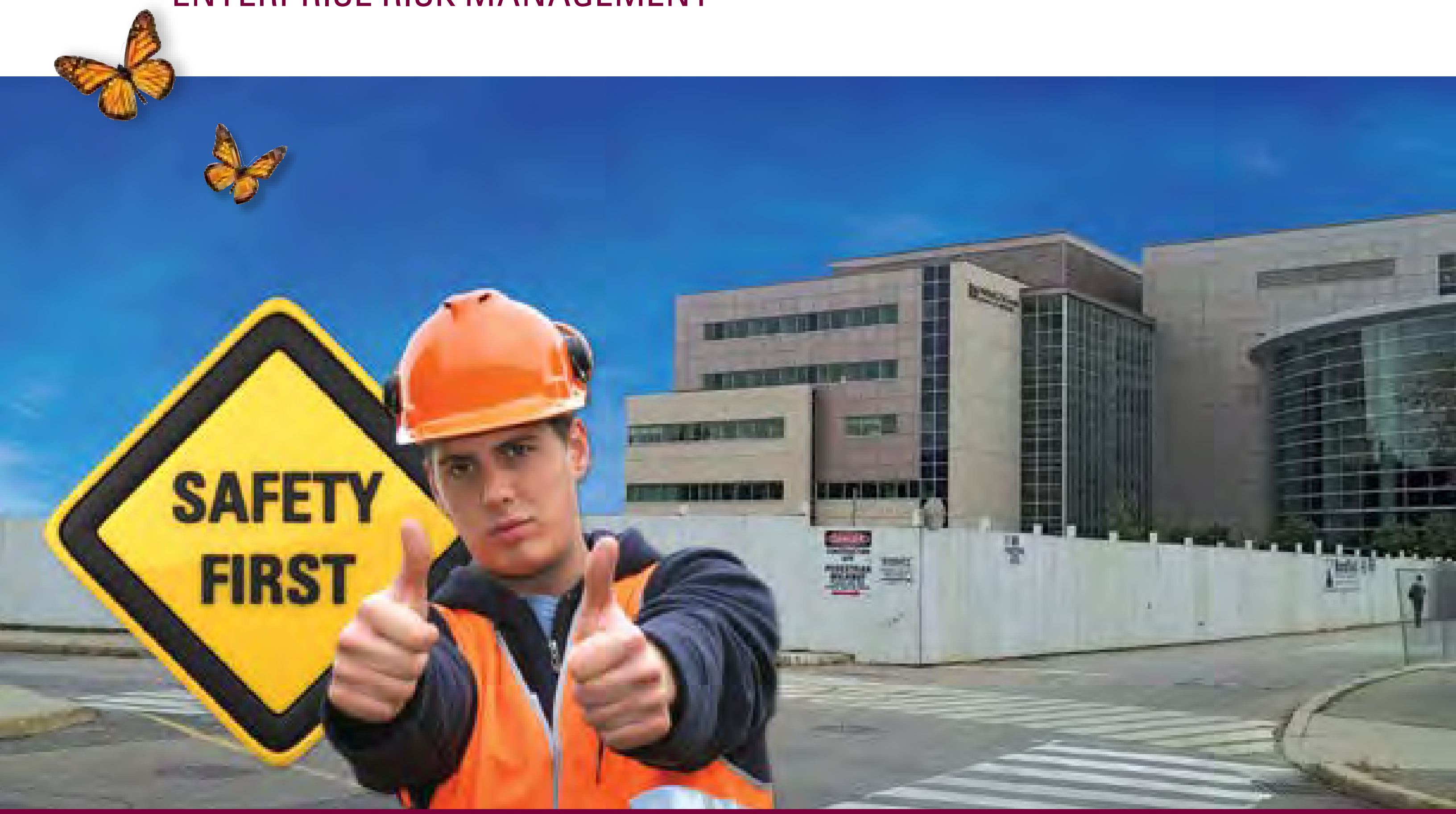
In April 2013, the University undertook a comprehensive modelling of its future capital needs to determine its medium term financing requirements. In fiscal 13/14 the University will conduct a project priorization for approximately $590 million of capital spending over the next five years and explore the potential of $80 to $100 million in new external debt. The University's Debt Policy ratios provide a framework for monitoring the University's ability to undertake additional external or internal debt to carry out strategic investments. Strong financial results in the fiscal year are reflected in the improved policy ratios as outlined in the chart below.

DEBT MANAGEMENT POLICY RATIOS

RATIO	GOAL	GUIDELINE	2010/11	2011/12	2012/13	3-YR AVG.
Expendable resources to debt	Capacity	.6 to 1.0	0.8	0.9	1.2	1.0
Interest coverage ratio	Affordability	2.75 to 3.25	5.9	5.2	11.2	7.4
AER* as % of revenue	Flexibility	Greater than 15%	25%	25%	27%	26%
Cash** to monthly expenditures	Liquidity	Greater than 1	3.4	3.6	3.5	3.5

*Available expedible resources **Includes short term investments

ENTERPRISE RISK MANAGEMENT



The renewed Enterprise Risk Management (ERM) Program at McMaster was initiated approximately two years ago. Great strides have been accomplished in making risks and opportunities more visible in the University community. Last year's annual update discussed accomplishments achieved through the establishment of the Program's foundational framework. Progress continued in 2012/13 focused on further establishment, strengthening and broadening the ERM Program.

Enterprise Risk Management

The renewed Enterprise Risk Management (ERM) Program at McMaster was initiated approximately two years ago. Great strides have been accomplished in making risks and opportunities more visible to the University community. Last year's annual update discussed accomplishments achieved through the establishment of the Program's foundational framework. Progress continued in 2012/13 focused on further establishment, strengthening and broadening the ERM Program.

The risk assessment work has allowed for the collection of information from many perspectives. Organizing this information, in collaboration with risk leaders, provides a more holistic view of the University's risk and opportunity profile. While this assessment-based approach to managing risks and opportunities holds promise, the process of involving key stakeholders in risk assessments is only one component of ERM's success formula. Maintaining a large-scale organizational initiative successfully, such as this program, requires a comprehensive, broad-based approach that is widely understood and used regularly to clearly capture where risks and opportunities exist throughout the University. In 2012/13 the following key initiatives occurred:

- A six-month update session was provided to senior leaders to build ongoing awareness of the program and the University-wide key enterprise risks.
- An annual risk workshop was held resulting in the identification, analysis and validation of the key enterprise risks on the University's Risk Register, identifying emerging trends and using up-to-date risk information provided by risk leaders.

McMaster's ERM Framework, founded on international standards and guidelines, continues to integrate the views of risk that have been historically addressed in a decentralized manner. The ERM process is intended to assist the McMaster community in the definition and understanding of key risks and opportunities at each level and the actions planned to treat, monitor and measure them.

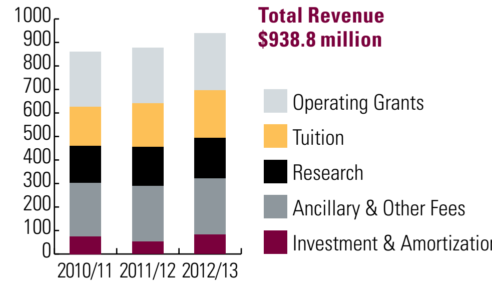
The nature of the ERM program is dynamic and it will continue to evolve to be responsive to the changing needs of McMaster. As a result, the Program governance was modified to better enhance the "made for McMaster" process. The President and Vice-Presidents Group, in their role as the University Enterprise Risk Steering Committee, are now actively responsible for the identification of priority challenges and choices, qualitative assessment of University-wide risks, and approval of the risk plans provided by identified risk leaders.

Governance

FINANCIAL ANALYSIS

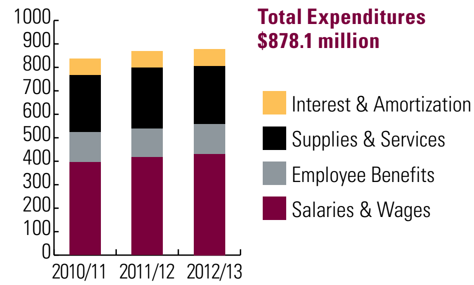
Total Revenue

- Revenues increased from $880.5 million to $938.8 million resulting in an overall increase of 6.6%. The largest increases relate to investment income (156%), and tuition (9.4%) related to enrolment growth and fee increases in accordance with legislation.
- Investment revenue increased from $18.4 million to $47.1 million related to a 10.1% rate of return in the long term investment pool (vs. 0% last year).



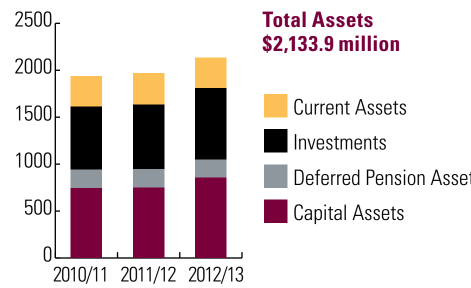
Total Expenditures

- Expenditures grew in the year by 0.8% to $878.1 million.
- Employment related expenses grew by an average of 3.5%, while non-capital related supplies and other expenditures decreased by 5.6% across operating, research and trust funds.



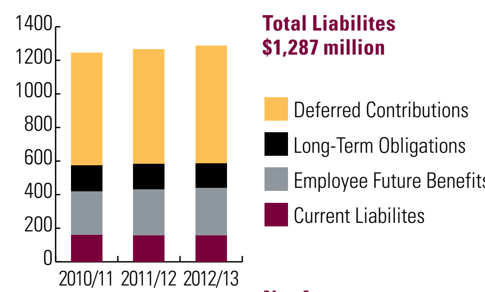
Total Assets

- University assets grew by 5.9% mainly attributed to capital asset growth of 8.2% and investment asset growth of 10.3%.
- Capital assets grew by a net of $64.5 million as a result of $127.8 million in capital expenditures, offset by amortization of $63.3 million.



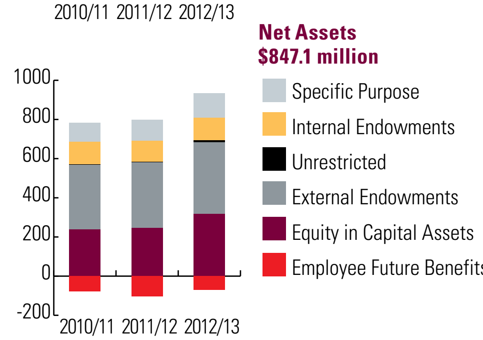
Total Liabilities

- Liabilities grew by 2.3 % with the highest growth experienced in employee future benefits (2.8%) and deferred contributions (3.0%).
- Debt decreased by $0.6 million reflecting the repayment of the unsecured bank loan, offset by the increase in the decommissioning obligation.



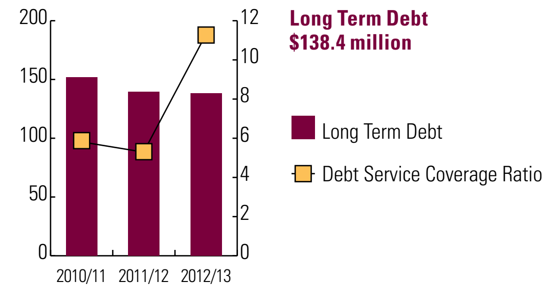
Net Assets

- Net assets grew by 11.9% mainly as a result of external endowment growth (8.7%) and equity in capital assets (10%).
- Equity in capital assets grew primarily as a result of increased internally financed capital spending ($55.5 million vs. $20.8 million in 2011/12).



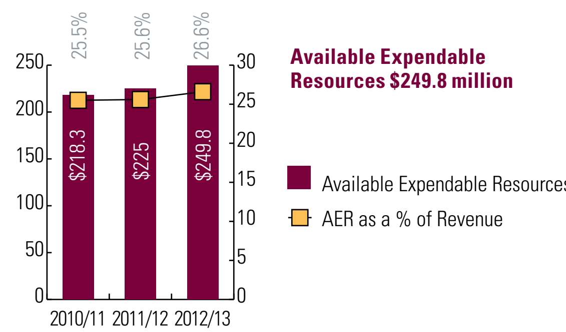
Long Term Debt

- External long term debt decreased by $1.0 million.
- The debt service coverage ratio increased due to the increase in the excess of revenues over expenditures and as a result of the lower debt.
- A reduction of $10 million in internal capital loans reflects net repayments in the year ($80.0 million outstanding compared to $90.3 million at April 30, 2012).



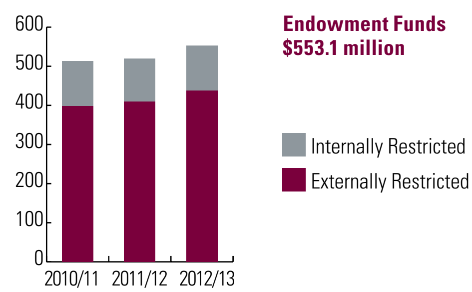
Available Expendable Resources (AER)

- AER represents funds held that are not externally committed, such as unrestricted net assets, specific purpose reserves and appropriations and internally restricted endowments.
- AER increased to $249.8 million from $225 million as a result of increases in specific purpose reserves and the internal endowment.



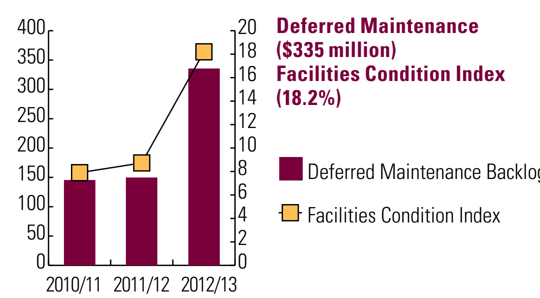
Endowment Funds

- McMaster's internal and external endowments grew by 6.5%.
- The endowment funds per student increased slightly from $20,023 to $20,998 year over year.
- As of December 31, 2012, McMaster had the 7th largest endowment in Canada.



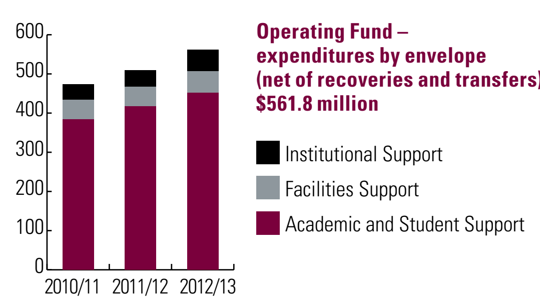
Deferred Maintenance

- McMaster's deferred maintenance backlog increased significantly from $150.0 million to an estimated $335.0 million.
- McMaster's Facilities Condition Index (FCI)[4] is 18.2% based on the full building audit in 2012/13 (versus the 25% audit per year over four-years methodology used historically and by other Ontario universities). The FCI in 2011/12 was 8.7%.



Operating Fund – expenditures by envelope

- Operating fund net expenditures increased by 10.4%.
- Institutional support increased from 8% to 10% related to the implementation of an enterprise-wide resource system (the Mosaic project).



[4] Facilities Condition Index (FCI) is the ratio of the dollar value of deferred maintenance to the current replacement value of the facilities.

SUPPLEMENTAL INFORMATION: OPERATING FUND AND OPERATING BUDGET

The audited financial statements are prepared as required by statute in accordance with Part III, Canadian accounting standards for not-for-profit organizations, using the Deferral Method of accounting (“deferral method”) and consolidation of all activity. For external reporting under the deferral method, all funds are consolidated in a single column on the Statement of Operations.

In contrast, the University’s internal reports and budgets are prepared on a cash basis and pursuant to the concepts of fund accounting. Under this method, separate budgets and funds are set up for fund activities, with each fund comprised of its own revenues and expenses.

Fund accounting enhances accountability and budgetary control of resources by ensuring that restricted grants and contributions are spent only for the purposes intended. To maintain control, the following segregated funds have been developed: General Operating, Research, Capital, Externally Restricted Trusts and Endowments, Internally Restricted Endowments and Ancillary Operations. The Operating Fund includes all revenue and expenses related to annual activities for academic program delivery and accounts for 64% of all spending. The 2012/13 Operating Fund Statement of Operations includes the full cost of related pension plan contributions, deficit payments and the cost of funding accrued costs of post retirement benefits.

Considerable attention and effort is focused on the allocation and use of resources to build a structurally balanced operating budget. The original budget reflected a net deficit of $27 million attributed to $34.7 million in one-time planned expenditures. The University finished the year with a $13.6 million (2.5%) deficit as shown in the chart below.

Total operating fund revenues were $548.2 million as compared to the projected funding of $540.4 million. The favourable variance of $7.8 million (1.4%) is primarily due to increased application and enrolment volume, with higher revenue from grants, growth related higher tuition income, application fees and interest on student accounts, in addition to educational grants from the Ministry of Health.

2012/13 OPERATING FUND ($ millions)

				Variance	
	Budget	Projection	Actual	Budget vs. Actual	Projection vs. Actual
Sources of revenue	$ 523.7	$ 540.4	$ 548.2	$ 24.5	$ 7.8
Less: net expenditures	550.2	558.4	561.3	(11.1)	(2.9)
Excess (deficiency) of revenue over net expenditures	**(26.5)**	**(18.0)**	**(13.1)**	**13.4**	**4.9**
Add amount transferred to unrestricted net assets	(0.5)	(0.5)	(0.5)	–	–
Net surplus (deficit)	**(27.0)**	**(18.5)**	**(13.6)**	**13.4**	**4.9**
Fund balance, beginning of year*	93.9	93.9	93.9	–	–
Fund balance, end of year	**$ 66.9**	**$ 75.4**	**$ 80.3**	**$ 13.4**	**$ 4.9**

*adjusted to actual

The favourable revenue variance of $24.5 million (4.7%) compared to original budget primarily relates to:

- increased provincial funding ($4.8 million) including an increase to the basic operating grant, which rolled in 2010/11 Accessibility funding ($2.0 million), additional Accessibility funding for increased enrolment in 2012/13 ($2.9 million), increased Quality and Performance funding ($0.8 million), and medical grants ($0.4 million), net of lower than expected graduate expansion funding ($1.2 million);
- greater than budgeted tuition revenue due to higher enrolment ($5.3 million);
- research overhead income ($1.0 million); and
- other income, primarily due to specific program grants from the Ministry of Health.

Operating fund expenditures net of transfers and recoveries were $561.8 million as compared to projected net expenditures of $558.9 million. The unfavourable variance of $2.9 million (0.5%) is the result of increased spending in specifically funded accounts due to new or higher than forecasted funding, increased project support costs, and benefit costs.

The remaining deficit of $13.6 million results in closing appropriations of $80.3 million, down from $93.9 million at April 30, 2012. Appropriations are available to provide funds to offset one-time spending and investments in deficit-reducing strategies.

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5 Opening appropriations have been restated to reflect the transfer of $1.8 million from Ancillary appropriations.

FINANCIAL STATEMENTS, APRIL 30, 2013

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McMaster University

INSPIRING INNOVATION AND DISCOVERY | mcmaster.ca

Statement of Management Responsibility

Management of the University is responsible for the preparation of the financial statements, the notes thereto and all other financial information contained in this Annual Financial Report.

Management has prepared the financial statements in accordance with Canadian accounting standards for not-for-profit organizations. Management believes the financial statements present fairly the University's financial position as at April 30, 2013, April 30, 2012 and May 1, 2011 and the results of its operations, changes in net assets and its cash flows for the years ended April 30, 2013 and April 30, 2012. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgements were employed. Additionally, management has ensured that financial information presented elsewhere in this Annual Financial Report has been prepared in a manner consistent with that in the financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has developed and maintains a system of internal controls 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.

Mercer (Canada) Limited has been retained by the University in order to provide an estimate of the University's current year position for pension and other employee future benefits. Management has provided the valuation actuary with the information necessary for the completion of the University's report and retains ultimate responsibility for the determination and estimation of the pension and other employee future benefits liabilities reported.

The Board of Governors carries out its responsibility for review of the financial statements and this Annual Financial Report principally through the Finance Committee and its Audit Committee. No members of the Audit Committee are officers or employees of the University. The Audit Committee meets regularly with management, as well as the internal auditors and the external auditors, to discuss the results of the audit examinations and financial reporting matters, and to satisfy itself that each party is properly discharging its responsibilities. The auditors have full access to the Audit Committee with and without the presence of management.

The financial statements for the years ended April 30, 2013 and April 30, 2012 have been reported on by KPMG LLP, Chartered Accountants, the auditors appointed by the Board of Governors. The Auditors' Report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

Vice-President, Administration
October 24, 2013

President

AVP (Administration) & CFO

KPMG

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of McMaster University

We have audited the accompanying financial statements of McMaster University (the "University"), which comprise the statements of financial position as at April 30, 2013, April 30, 2012 and May 1, 2011 and the statements of operations, changes in net assets, and cash flows for the years ended April 30, 2013 and April 30, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of McMaster University as at April 30, 2013, April 30, 2012 and May 1, 2011, and the results of its operations and its cash flows for the years ended April 30, 2013 and April 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada
October 24, 2013

McMASTER UNIVERSITY
Statements of Financial Position
April 30, 2013, April 30, 2012 and May 1, 2011
(thousands of dollars)

	April 30, 2013	April 30, 2012	May 1, 2011
Assets			
Current assets:			
Cash and equivalents	$ 156,914	$ 184,153	$ 167,916
Government grants and other accounts receivable (note 2)	63,422	56,054	64,925
Research grants receivable	91,183	84,834	79,531
Inventories	6,305	6,613	4,956
Prepaid expenses	5,107	5,834	5,041
	322,931	337,488	322,369
Investments (note 3)	740,359	673,311	658,020
Other investments (note 4)	14,888	14,687	13,436
Loan receivable (note 4)	3,948	-	-
Capital assets (note 5)	854,422	789,980	788,686
Deferred pension asset (note 6)	197,356	200,230	198,995
	$ 2,133,904	$ 2,015,696	$ 1,981,506
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities (note 7)	$ 127,221	$ 123,547	$ 117,784
Deferred revenue	29,754	32,818	28,648
Current portion of long-term obligations (note 8)	580	1,028	12,744
	157,555	157,393	159,176
Accrued employee future benefits (note 6)	280,894	273,156	261,142
Long-term obligations (note 8)	146,946	147,092	147,706
Deferred contributions (note 9):			
Deferred for future expenses	302,353	318,307	316,737
Deferred capital contributions	399,105	362,589	354,979
	701,458	680,896	671,716
Net assets:			
Unrestricted	8,125	8,298	7,366
Internally restricted (note 10):			
Employee future benefits	(86,748)	(93,738)	(89,640)
Specific purpose	125,941	106,925	96,056
Equity in capital assets (note 11)	319,261	290,306	283,879
Endowments (note 12):			
Internal	115,733	109,806	114,833
External	364,739	335,562	329,272
	847,051	757,159	741,766
Commitments and contingencies (note 13)			
	$ 2,133,904	$ 2,015,696	$ 1,981,506

On behalf of the Board of Governors:

Chair, Board of Governors

Chair, Audit Committee

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statements of Operations
Years ended April 30, 2013 and 2012
(thousands of dollars)

	2013	2012
Revenues:		
Operating grants	$ 242,374	$ 237,248
Research grants and contracts	173,723	166,743
Tuition fees	201,542	184,275
Other (note 14)	112,583	113,667
Ancillary sales and services	68,123	68,006
Investment income, net	47,103	18,428
Donations and other grants	44,789	44,903
Research overhead grants	12,813	13,422
Amortization of deferred capital contributions	35,779	33,840
	938,829	880,532
Expenses:		
Salaries and wages	430,626	416,458
Employee benefits	127,794	122,859
Supplies and services	247,757	262,419
Interest on long-term obligations	8,620	8,694
Amortization of capital assets	63,317	60,999
	878,114	871,429
Excess of revenues over expenses	$ 60,715	$ 9,103

McMASTER UNIVERSITY
Statements of Changes in Net Assets
Years ended April 30, 2013 and 2012
(thousands of dollars)

April 30, 2013	Unrestricted	Internally restricted: Employee future benefits	Internally restricted: Specific purposes	Equity in capital assets	Endowments: Internal	Endowments: External	Total
Net assets, beginning of year:	$ 8,298	$ (93,738)	$ 106,925	$ 290,306	$ 109,806	$ 335,562	$ 757,159
Excess (deficiency) of revenues over expenses	88,253	-	-	(27,538)	-	-	60,715
External endowment contributions:							
Contributions	-	-	-	-	-	11,487	11,487
Protection of capital	-	-	-	-	-	17,690	17,690
Transfers and adjustments:							
Transfers for specific purposes	(26,006)	6,990	19,016	-	-	-	-
Capital transactions from operating (note 11)	(56,493)	-	-	56,493	-	-	-
Transfer to internal endowments	(5,927)	-	-	-	5,927	-	-
	(173)	6,990	19,016	28,955	5,927	29,177	89,892
Net assets, end of year	$ 8,125	$ (86,748)	$ 125,941	$ 319,261	$ 115,733	$ 364,739	$ 847,051

April 30, 2012	Unrestricted	Internally restricted: Employee future benefits	Internally restricted: Specific purposes	Equity in capital assets	Endowments: Internal	Endowments: External	Total
Net assets, beginning of year (note 21):	$ 7,366	$ (89,640)	$ 96,056	$ 283,879	$ 114,833	$ 329,272	$ 741,766
Excess (deficiency) of revenues over expenses	36,262	-	-	(27,159)	-	-	9,103
External endowment contributions:							
Contributions	-	-	-	-	-	21,387	21,387
Protection of capital	-	-	-	-	-	(15,097)	(15,097)
Transfers and adjustments:							
Transfers for specific purposes	(6,771)	(4,098)	10,869	-	-	-	-
Capital transactions from operating (note 11)	(33,586)	-	-	33,586	-	-	-
Transfer from internal endowments	5,027	-	-	-	(5,027)	-	-
	932	(4,098)	10,869	6,427	(5,027)	6,290	15,393
Net assets, end of year	$ 8,298	$ (93,738)	$ 106,925	$ 290,306	$ 109,806	$ 335,562	$ 757,159

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statements of Cash Flows
Years ended April 30, 2013 and 2012
(thousands of dollars)

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	$ 60,715	$ 9,103
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(35,779)	(33,840)
Amortization of capital assets	63,317	60,999
Increase in accrued employee future benefits	7,738	12,014
Equity earnings of other investments	(201)	(1,251)
Increase in decommissioning obligation	435	413
Decrease (increase) in deferred pension asset	2,874	(1,235)
	99,099	46,203
Net change in contributions deferred for future expenses	(15,954)	1,570
Net change in other non-cash working capital	(12,072)	11,051
	71,073	58,824
Financing and investing activities:		
Purchase of capital assets	(127,759)	(62,293)
Net change in investments	(67,048)	(15,291)
Loan receivable	(3,948)	-
Net change in external endowments	29,177	6,290
Deferred capital contributions	72,295	41,450
Principal repayments on long-term obligations	(1,029)	(12,743)
	(98,312)	(42,587)
Net (decrease) increase in cash and equivalents	(27,239)	16,237
Cash and equivalents, beginning of year	184,153	167,916
Cash and equivalents, end of year	$ 156,914	$ 184,153

See accompanying notes to financial statements

McMaster University (the "University"), which operates by authority of The McMaster University Act, 1976, is governed by a Board of Governors (the "Board") 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 exempt from income taxes.

On May 1, 2012, the University adopted Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with the not-for-profit standards.

In accordance with the transitional provisions in the not-for-profit standards, the University has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is May 1, 2011 and all comparative information provided has been presented by applying the not-for-profit standards.

A summary of transitional adjustments recorded to net assets is provided in note 21. There are no adjustments to excess of revenues over expenses for the year ended April 30, 2012 as a result of the transition.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook.

(a) Basis of presentation:

These financial statements include the accounts, transactions and operations for which the University has jurisdiction. They do not include the accounts, transactions and operations of the following entities which are independently governed and managed, and certain other related entities which carry out fundraising and other activities and are not material to these financial statements:

Independent entities:

- McMaster Divinity College
- McMaster Students Union, Inc.
- McMaster University Centre Incorporated
- McMaster Children's Centre, Inc.
- McMaster Association of Part-Time Students (MAPS)
- Graduate Students Association (GSA)

Other entities:

- The McMaster University Trust
- The McMaster University Foundation
- The McMaster University Hong Kong Foundation
- Friends of McMaster Incorporated

McMaster Innovation Park:

The investment in the related entity, McMaster Innovation Park ("Park") is accounted for by the equity method (note 4). Since the Trusts which form the Park have fiscal year ends of December 31st, the University records its share of the operating results effective on that date.

Downtown Land Holdings Inc.:

The investment in the related entity, Downtown Land Holdings Inc. ("DTLC") is accounted for by the equity method (note 4). DTLC has a fiscal year end of April 30th and the University records its share of the operating results on that date.

1. Significant accounting policies (continued):

(a) Basis of presentation (continued):

The following joint ventures are accounted for by using the equity method of accounting:

- Adiga Life Sciences Inc. ("ALSC"):

  These financial statements include the University's 50% interest in ALSC (note 4). ALSC is a joint venture with an unrelated pharmaceutical research company to commercialize intellectual property. ALSC has a fiscal year end of August 31st and the University records its share of the operating results on that date.

- The Director's College:

  These financial statements include the University's 50% interest in The Director's College (note 4). This joint venture is a project with The Conference Board of Canada to form the first university accredited corporate director development program. The Director's College has a fiscal year end of May 31st and the University records its share of the operating results on that date.

(b) Revenue recognition:

The University follows the deferral method of accounting for contributions which include donations and government grants. The principles under this method are summarized as follows:

- Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- Contributions externally restricted for purposes other than endowment and capital assets are deferred and recognized as revenue in the year in which the related expenses are recognized.
- Contributions externally restricted for capital asset purchases are deferred and amortized to operations on the same basis as the related capital asset.
- External endowment contributions and income preserved under the endowment capital protection policy (note 1(m) are recognized as a direct increase in endowment net assets. Income earned from the investment thereof, to the extent it is allocated, is recorded as deferred contributions and recorded as revenue in the periods in which the related expenses are incurred.

Tuition fees which relate to academic terms or parts thereof occurring after April 30th are recorded as deferred revenue. Gifts-in-kind are recorded at their fair market value on receipt, or at nominal value when fair market value cannot be reasonably determined. Pledges from fundraising and other donations are recorded in the period in which they are collected. Ancillary sales and services revenue is recognized at point of sale or when the service has been provided.

1. Significant accounting policies (continued):

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The University has elected to carry investments in equity instruments, fixed income and other securities at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the University determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the University expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

(d) Derivative financial instruments:

The University is party to certain interest rate swap agreements which are used to manage the exposure to fluctuations in interest rates. The University uses the accrual basis of accounting for hedges. Gains or losses realized on the settlement of the hedging item are deferred until the settlement of the hedged item.

At the inception of the hedging relationship, the University designates that hedge accounting will be applied. The University formally documents the hedging relationship between the hedging instruments and hedged item. At the inception of the hedge and throughout its term, the terms of the hedging item and hedged item are the same.

Hedge accounting is used only when the notional amount of the swap matches the principal amount of the hedged item, the fair value of the swap at the inception is nil, the fixed rate is the same throughout the swap and the variable rate is based on the same index and includes the same or no adjustment and the debt instrument cannot be settled before maturity and the swap matures within two weeks of the maturity date of the debt.

(e) Investments:

Investments with a term to maturity of 90 days or less on acquisition are included with cash and equivalents and are recorded at cost plus accrued income.

Long-term investments are carried at fair values. Changes in fair values are included in investment income.

Externally restricted investment income to the extent it is allocated 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 from internal endowments is recorded as unrestricted revenue and transferred to internal endowments.

1. Significant accounting policies (continued):

(f) Inventories:

Bookstore and nuclear reactor inventories are recorded at the lower of cost and net realizable value. Other inventories are recorded at cost which is a reasonable estimate of net realizable value.

(g) Capital assets:

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

Buildings	2.5% to 10%
Decommissioning retirement costs	4%
Site improvements	5%
Library materials	10%
Computing systems	10%
Equipment, furnishings and vehicles	20%
Computing equipment	33.3%
Leasehold improvements	term of lease

(h) Collections and works of art:

The McMaster Museum of Art has significant collections of works of art and coins. Donations of works of art amounted to $345,000 (2012 - $890,000) and are charged to operations in the year of acquisition.

(i) 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.

(j) Ancillary enterprises:

Ancillary enterprises are self-sustaining operations which fund their own replacements and renovations of equipment and facilities. Substantially all of the net operating results are transferred annually from unrestricted net assets to specific purposes net assets.

1. Significant accounting policies (continued):

(k) Employee future benefits:

The University maintains separate defined benefit registered plans providing pension benefits for most of its salaried and hourly full-time employees. Additional pension benefits are provided through non-registered defined benefit plans. Other defined benefit plans provide non-pension, retirement and post-employment benefits for substantially all full-time employees.

- For purposes of calculating expected returns on plan assets, registered pension plan assets are valued at a market related value (smoothed for the difference between actual and expected investment income over five years). The other pension and other post retirement and post-employment benefit plans are unfunded.
- The costs of pension and other post retirement and post-employment benefits (primarily medical benefits and dental care) related to current service are charged to operations. The current service cost and the accrued benefit obligation are actuarially determined for each plan using the projected benefit method prorated on service, and management's estimates of investment yields, salary escalation, health care trend rates and other factors.
- The corridor method is used to amortize actuarial gains or losses over the average remaining service life of active employees. Under this method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the beginning of year accrued benefit obligation and the actuarial value of the plan assets. Any past service costs arising from plan amendments are amortized on a straight-line basis over the expected average remaining service life of active employees.
- 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.

The University also makes regular contributions to its Group Registered Retirement Savings Plan ("RRSP"), administered by a third party, on behalf of each eligible employee. Group RRSP contributions are charged to operations in the year made.

(l) Net assets:

Net assets are classified as follows:

Unrestricted: operating funds available without specific restrictions.

Internally restricted:

- Employee future benefits: unfunded portion of pension and other non-pension retirement and post-employment benefits, net of funds set aside to meet estimated future obligations.
- Specific purposes: as approved by the Board, unexpended departmental budgets carried forward for subsequent expenditures and other portions of net assets reserved for specific purposes.

Equity in capital assets: funds invested in capital assets, exclusive of capital assets financed through long-term obligations or deferred capital contributions.

Internal endowments: unrestricted contributions including unspent investment income which have been restricted by action of the Board.

External endowments: external contributions, the principal of which is non-expendable pursuant to the restrictions by the donor, and income retained under the endowment capital protection policy.

1. Significant accounting policies (continued):

(m) Endowment capital protection policy:

In order to protect the capital value of endowment investments, an endowment capital protection policy limits the amount of investment income allocated for spending to 4% and requires the reinvestment of excess income earned (interest, dividends, realized and unrealized capital gains, net of expenses).

Should endowment spending commitments exceed allocated income, amounts will be drawn from accumulated net investment income balances to fund deficiencies.

For endowments without sufficient accumulated investment income, temporary encroachment on capital is permitted. The encroached amounts will be recovered from future investment returns.

(n) Decommissioning obligation:

The fair value of a future asset retirement obligation is recognized when a legal obligation for the retirement of tangible long-lived assets is incurred and a reasonable estimate thereof can be determined. Concurrently, the associated decommissioning costs are capitalized as a part of the carrying amount of the asset and amortized over its remaining useful life. The liability and the related asset may be adjusted periodically due to changes in estimates until settlement of the obligation.

(o) Foreign currency translation:

The University accounts for transactions in foreign currencies at the exchange rates in effect at the time of the transactions. At year end, monetary assets and liabilities in foreign currencies are translated at year end exchange rates. Foreign exchange gains and losses on investments have been included in investment income.

(p) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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.

Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, assets and obligations related to employee future benefits, provision for settlement of legal claims and the decommissioning obligation. Actual results could differ from those estimates.

2. Government grants and other accounts receivable:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Government grants	$ 5,612	$ 5,277	$ 6,179
Other	61,945	54,581	62,021
	67,557	59,858	68,200
Less allowance for doubtful accounts	4,135	3,804	3,275
Balance, end of year	$ 63,422	$ 56,054	$ 64,925

3. Investments:

Details of investments are as follows:

April 30, 2013 (thousands of dollars)	Fair value	Cost
Equities:		
Canadian	$ 131,298	$ 120,290
United States	150,372	113,072
Non-North American	117,756	122,752
	399,426	356,114
Fixed income	330,401	323,712
Other	10,532	9,501
	$ 740,359	$ 689,327

April 30, 2012 (thousands of dollars)	Fair value	Cost
Equities:		
Canadian	$ 121,175	$ 120,949
United States	134,085	114,673
Non-North American	99,717	120,034
	354,977	355,656
Fixed income	307,458	301,477
Other	10,876	10,263
	$ 673,311	$ 667,396

May 1, 2011 (thousands of dollars)	Fair value	Cost
Equities:		
Canadian	$ 135,547	$ 116,692
United States	122,865	115,309
Non-North American	108,635	118,432
	367,047	350,433
Fixed income	284,612	282,276
Other	6,361	8,549
	$ 658,020	$ 641,258

Investments are exposed to foreign currency risk, interest rate risk, and market volatility. The University manages these risks through policies and procedures in place governing asset mix, equity and fixed income allocations, and diversification among and within categories.

4. Other investments:

Details of other investments are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
McMaster Innovation Park (a)	$ 14,903	$ 14,234	$ 13,436
Downtown Land Holdings Inc.(b)	-	-	-
Adiga Life Sciences Inc.(c)	459	619	-
The Director's College (d)	(474)	(166)	-
	$ 14,888	$ 14,687	$ 13,436

(a) McMaster Innovation Park:

The First Longwood Innovation Trust and The Gore District Land Trust ("Park") were created by the University in 2006 to develop an entity for research, education, training, innovation and commercialization.

Details of the investment are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Balance, beginning of year	$ 14,234	$ 13,436	$ 13,318
Equity earnings	669	798	118
Balance, end of year	$ 14,903	$ 14,234	$ 13,436

The University is party to a Debt Service Deficiency Agreement as disclosed in Note 13(c). As part of the agreement, the University receives a fee of 0.5% on the monthly outstanding balance. For the year ended April 30, 2013, $110,436 (2012 - $108,934) in income was recorded by the University.

Included in rent expense for the University at April 30, 2013 is $765,410 (2012 - $636,165). Included in accounts receivable at April 30, 2013 is $1,391,398 (April 30, 2012 - $933,295; May 1, 2011 - $216,809) receivable from the Park. Included in accounts payable is $765,410 (April 30, 2012 - $1,124,631; May 1, 2011 - $776,000) owing to the Park. Included in Note 13(f) are $3,256,484 (2012 - $2,710,185) in lease commitments with the Park.

During the year the University provided payroll services at a fee (1% of total salaries paid) which amounted to $13,200 (2012 - $13,200).

4. Other investments (continued):

(a) McMaster Innovation Park (continued):

Pertinent information from the Park's combined financial statements are as follows:

(thousands of dollars)	December 31 2012	December 31 2011
Total assets	$ 112,511	$ 110,188
Total liabilities	$ 88,399	$ 85,737
Total deferred operating and capital grants	9,209	10,217
Total trusts' equity	14,903	14,234
	$ 112,511	$ 110,188
Results of operations:		
Total revenue	$ 10,464	$ 10,495
Total expenses	9,795	9,697
Net earnings	$ 669	$ 798
Cash flows:		
From operating activities	$ (430)	$ (7,747)
From financing and investing activities	1,969	9,080
Increase in cash	$ 1,539	$ 1,333

During the year, the Park substantially completed construction of approximately 88,000 square feet of space for the McMaster Automotive Resource Centre. Construction costs incurred to April 30, 2013 amounted to $20,389,735 (2012 - $5,701,632) and are included in the University's capital assets.

(b) Downtown Land Holdings Inc.:

Financial information from Downtown Land Holding Inc.'s financial statements is as follows:

(thousands of dollars)	April 30, 2013
Total assets	$ 4,152
Total liabilities	$ 4,152
Total equity	-
	$ 4,152
Results of operations:	
Total revenue	$ -
Total expenses	-
Net earnings	$ -

The University has a loan receivable from Downtown Land Holdings Inc. in the amount of $3,947,629 at April 30, 2013.

4. Other investments (continued):

(c) Adiga Life Sciences Inc.:

Financial information from Adiga Life Sciences Inc.'s financial statements are as follows:

(thousands of dollars)	August 31, 2012	August 31, 2011
Total assets	$ 2,067	$ 3,150
Total liabilities	$ 1,148	$ 1,912
Total equity	919	1,238
	$ 2,067	$ 3,150
Results of operations:		
Total revenue	$ 10,055	$ 9,336
Total expenses	10,374	8,700
Net earnings	$ (319)	$ 636

(d) The Director's College:

The University's share of cash distributions from The Director's College during the year ended April 30, 2013 amounted to $nil (2012 - $300,000). Cumulative distributions since inception amount to $900,000.

Financial information from The Director's College financial statements are as follows:

(thousands of dollars)	May 31, 2012	May 31, 2011
Total assets	$ 1,353	$ 1,526
Total liabilities	$ 502	$ 358
Total equity	851	1,168
	$ 1,353	$ 1,526
Results of operations:		
Total revenue	$ 1,943	$ 2,023
Total expenses	1,660	1,601
Net earnings	$ 283	$ 422

5. Capital assets:

April 30, 2013 (thousands of dollars)	Cost	Accumulated amortization	Net
Land	$ 54,675	$ -	$ 54,675
Buildings	925,232	320,360	604,872
Decommissioning retirement costs	1,826	257	1,569
Site improvements	21,172	7,947	13,225
Leasehold improvements	8,142	1,165	6,977
Library materials	139,972	112,088	27,884
Equipment, furnishings and vehicles	410,973	336,664	74,309
Computing systems and computing equipment	117,986	88,931	29,055
Construction in progress	41,856	-	41,856
	$ 1,721,834	$ 867,412	$ 854,422

April 30, 2012 (thousands of dollars)	Cost	Accumulated amortization	Net
Land	$ 47,891	$ -	$ 47,891
Buildings	886,162	297,997	588,165
Decommissioning retirement costs	1,826	185	1,641
Site improvements	18,063	7,199	10,864
Leasehold improvements	642	330	312
Library materials	135,363	107,491	27,872
Equipment, furnishings and vehicles	378,325	318,482	59,843
Computing systems and computing equipment	105,144	89,319	15,825
Construction in progress	37,567	-	37,567
	$ 1,610,983	$ 821,003	$ 789,980

May 1, 2011 (thousands of dollars)	Cost	Accumulated amortization	Net
Land	$ 47,891	$ -	$ 47,891
Buildings	842,014	276,638	565,376
Decommissioning retirement costs	1,826	114	1,712
Site improvements	18,063	6,522	11,541
Leasehold improvements	540	153	387
Library materials	130,558	101,826	28,732
Equipment, furnishings and vehicles	360,056	298,566	61,490
Computing systems and computing equipment	110,406	91,950	18,456
Construction in progress	53,101	-	53,101
	$ 1,564,455	$ 775,769	$ 788,686

6. Employee future benefits:

The accrued benefit obligations as determined by independent actuaries and the fair values of the plans' assets are recorded as at April 30th.

(a) Information on the aggregate defined benefit plans position is as follows:

April 30, 2013
(thousands of dollars)

	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,834,133	$ 74,042	$ 225,155	$ 2,133,330
Fair value of plan assets	1,362,551	-	-	1,362,551
Funded status - deficiency	(471,582)	(74,042)	(225,155)	(770,779)
Reconciliation to deferred benefits (accrued future benefits):				
Unamortized past service cost	(8,747)	5,227	(15,329)	(18,849)
Unamortized actuarial loss	677,685	5,273	23,132	706,090
Deferred pension asset	$ 197,356	$ -	$ -	$ 197,356
Accrued employee future benefits	-	(63,542)	(217,352)	(280,894)
	$ 197,356	$ (63,542)	$ (217,352)	$ (83,538)

April 30, 2012
(thousands of dollars)

	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,482,727	$ 69,578	$ 219,532	$ 1,771,837
Fair value of plan assets	1,201,181	-	-	1,201,181
Funded status - deficiency	(281,546)	(69,578)	(219,532)	(570,656)
Reconciliation to deferred benefits (accrued future benefits):				
Unamortized past service cost	(2,434)	5,581	(13,827)	(10,680)
Unamortized actuarial loss (gain)	484,210	(958)	25,158	508,410
Deferred pension asset	$ 200,230	$ -	$ -	$ 200,230
Accrued employee future benefits	-	(64,955)	(208,201)	(273,156)
	$ 200,230	$ (64,955)	$ (208,201)	$ (72,926)

6. Employee future benefits (continued):

(a) Information on the aggregate defined benefit plans position is as follows (continued):

May 1, 2011
(thousands of dollars)

	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,358,987	$ 77,531	$ 192,403	$ 1,628,921
Fair value of plan assets	1,147,957	-	-	1,147,957
Funded status - deficiency	(211,030)	(77,531)	(192,403)	(480,964)
Reconciliation to deferred benefits (accrued future benefits):				
Unamortized past service cost	(2,693)	5,935	(15,363)	(12,121)
Unamortized actuarial loss	412,718	6,116	12,104	430,938
Deferred pension asset	$ 198,995	$ -	$ -	$ 198,995
Accrued employee future benefits	-	(65,480)	(195,662)	(261,142)
	$ 198,995	$ (65,480)	$ (195,662)	$ (62,147)

Each of the plans included above has accrued benefit obligations in excess of the fair value of plan assets at April 30th.

(b) Information on the net benefit expense is as follows:

(thousands of dollars)	2013		2012	
	Pension	Other	Pension	Other
Net benefit expense	$ 60,806	$ 14,917	$ 51,773	$ 18,049

(c) Information on the pension plan assets includes the following:

	Percentage of fair value of total plan	Target allocation percentage	Expected long-term rate of return
Equity securities	65.1%	65%	8.3%
Debt securities	34.0%	35%	4.6%
Other	0.9%	0%	3.0%

(d) The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	Pension	Other
Discount rate	4.10%	4.10%
Expected long-term rate of return on plan assets	5.75%	-
Rate of compensation increase	3.97%	4.00%

6. Employee future benefits (continued):

(e) The significant actuarial assumptions adopted in measuring the net benefit expense are as follows:

	Pension	Other
Discount rate	5.00%	5.00%
Expected long-term rate of return on plan assets	6.50%	-
Rate of compensation increase	4.75%	4.00%

(f) Details of annual contributions and benefits paid are as follows:

(thousands of dollars)	2013		2012	
	Pension	Other	Pension	Other
Employer contributions	$ 58,781	$ 5,766	$ 53,260	$ 5,509
Employee contributions	20,521	-	17,753	-
Benefits paid	65,404	5,766	64,762	5,509

(g) For measurement purposes, a 5.10% annual rate of increase in per capita medical cost was assumed for 2013, grading down to 4.0% per annum in and after 2030. For per capita dental costs, an annual rate of increase of 4.0% per annum was assumed.

(h) Details of actuarial valuation completion for funding purposes and filing dates of the respective plans are as follows:

- hourly rated employee pensions: completed as at July, 2010, the next required filing date is July, 2013.
- salaried employees pensions (Plan 2000): completed as at July, 2011, the next required filing date is July, 2014.
- other benefit: completed as at April 30, 2013; the next required filing date is April 30, 2016.

The results of valuations not completed as of April 2013, have been extrapolated to April 30, 2013, which is the measurement date used to determine the accrued benefit obligation for all employee future benefit plans.

(i) In 2008 the University created a group RRSP for certain types of new employees. University and employees' contributions in 2013 amounted to $565,000 each (2012 - $381,000).

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable, which includes amounts payable for HST and payroll related taxes of $4,335,000 (April 30, 2012 - $4,322,000; May 1, 2011 - $7,443,000).

8. Long-term obligations:

Details of long-term obligations are as follows:

April 30, 2013 (thousands of dollars)	Maturity	Interest rate	Current portion	Non-current portion	Total outstanding
Long term debt:					
Mortgage	Oct 2016	5.38%	$ 126	$ 344	$ 470
Bank term loan (c)	May 2033	floating	454	17,447	17,901
Debentures (d)	Oct 2052	6.15%	-	120,000	120,000
			580	137,791	138,371
Decommissioning obligation (e)			-	9,155	9,155
			$ 580	$ 146,946	$ 147,526

April 30, 2012 (thousands of dollars)	Maturity	Interest rate	Current portion	Non-current portion	Total outstanding
Long term debt:					
Bank loan (b)	Dec 2012	floating	$ 483	$ -	$ 483
Mortgage	Oct 2016	5.38%	119	471	590
Bank term loan (c)	May 2033	floating	426	17,901	18,327
Debentures (d)	Oct 2052	6.15%	-	120,000	120,000
			1,028	138,372	139,400
Decommissioning obligation (e)			-	8,720	8,720
			$ 1,028	$ 147,092	$ 148,120

May 1, 2011 (thousands of dollars)	Maturity	Interest rate	Current portion	Non-current portion	Total outstanding
Long term debt:					
Residence mortgage (a)	May 2011	9.81%	$ 11,544	$ -	$ 11,544
Bank loan (b)	Dec 2012	floating	687	483	1,170
Mortgage	Oct 2016	5.38%	113	589	702
Bank term loan (c)	May 2033	floating	400	18,327	18,727
Debentures (d)	Oct 2052	6.15%	-	120,000	120,000
			12,744	139,399	152,143
Decommissioning obligation (e)			-	8,307	8,307
			$ 12,744	$ 147,706	$ 160,450

Principal payments due in each of the following five years are as follows (in thousands of dollars):

2014	$ 580
2015	616
2016	655
2017	622
2018	586

8. Long-term obligations (continued):

(a) The mortgage was repaid in full on May 1, 2011. A voluntary sinking fund was established to fund a portion of the principal repayment of the residence mortgage upon maturity. Increases to the fund were charged to residence ancillary operations. The value of the fund at April 30, 2013 was $nil (April 30, 2012 - $nil; May 1, 2011- $6,306,000).

(b) The unsecured bank loan matured during the year. The outstanding amount was subject to a 10-year interest rate swap agreement on an original notional principal of $5,500,000 with the banker where the University received a floating interest rate while paying a fixed rate of 6.25%.

(c) The bank term loan is unsecured and is being amortized over 30 years. The outstanding loan amount is subject to a 30 year interest rate swap agreement on an original notional principal of $20,954,441 with the banker whereby the University receives a floating interest rate while paying a fixed (10 year) rate of 6.384%.

(d) The debentures, which are unsecured, bear interest at 6.15% payable semi-annually in April and October. The proceeds of the issue are being used to finance various capital projects.

A voluntary sinking fund has been established to provide funds to repay the debenture principal upon maturity. Increases to the sinking fund are charged to operations. The value of the fund at April 30, 2013 amounted to $11,876,000 (April 30, 2012 - $10,769,000; May 1, 2011 - $10,753,000).

(e) It is expected that the nuclear reactor will be decommissioned at some undeterminable future date. Under an agreement with the Canadian Nuclear Safety Commission (CNSC), a trust fund has been established which requires annual funding contributions to provide for the decommissioning costs.

As at April 30, 2013, the fair value of the trust funds amounted to $8,501,000 (April 30, 2012 - $7,732,000; May 1, 2011 - $7,208,000). The net present value of the estimated cost for decommissioning, at April 30, 2013 is $9,155,000 (April 30, 2012 - $8,720,000; May 1, 2011 - $8,307,000) using risk free rates ranging between 5.1% and 4.5%.

8. Long-term obligations (continued):

(f) The University has in place an interest rate swap agreement for 30 years which expires in 2033. Under the terms of the agreement, the University agrees to receive a floating interest rate on the loan (note 8(c)) while paying a fixed rate of 6.384%. The use of the agreement effectively enables the University to convert the floating rate interest obligation of the loan into a fixed rate obligation and thus manage its exposure to interest rate risk. The University had a second agreement for 10 years that expired during the year. Under the terms of the second agreement, the University agreed with the counterparty to exchange, at specified intervals and for a specified period, its floating interest on the loan (note 8(b)) for a fixed rate of 6.25%.

The notional and fair values of the interest rate swap agreements are as follows:

April 30, 2013 (thousands of dollars)	Notional value	Fair value
30-year interest rate swap	$ 17,901	$ (7,520)

April 30, 2012 (thousands of dollars)	Notional value	Fair value
10-year interest rate swap	$ 483	$ (9)
30-year interest rate swap	18,327	(7,107)
	$ 18,810	$ (7,116)

May 1, 2011 (thousands of dollars)	Notional value	Fair value
10-year interest rate swap	$ 1,170	$ (47)
30-year interest rate swap	18,727	(5,051)
	$ 19,897	$ (5,098)

The change in fair value of the swap for the year ended April 30, 2013 is as follows:

- 30-year: ($413,000) (April 30, 2012 - ($2,056,000); May 1, 2011 - ($466,000))

9. Deferred contributions:

(a) Deferred for future expenses:

Deferred contributions represent external contributions restricted for research and trust expenses to be incurred in subsequent fiscal years. Details of the change in deferred contributions are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Balance, beginning of year	$ 318,307	$ 316,737	$ 303,423
Deferred and capital contributions received	287,855	271,716	273,137
	606,162	588,453	576,560
Less:			
Amounts recognized as revenue	(231,514)	(228,696)	(202,824)
Deferred capital contributions transfer	(72,295)	(41,450)	(56,999)
Balance, end of year	$ 302,353	$ 318,307	$ 316,737

Deferred contributions consist of the following:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Research grants and contracts	$ 169,781	$ 178,293	$ 183,723
Donations, other grants and investment income	72,617	73,815	68,990
Capital grants and donations	52,149	58,375	57,429
Other restricted funds	7,806	7,824	6,595
	$ 302,353	$ 318,307	$ 316,737

(b) Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. Unspent deferred capital contributions are included in deferred contributions for future expenses until such time as capital expenditures are incurred. Details of the change in the unamortized deferred capital contributions are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Balance, beginning of year	$ 362,589	$ 354,979	$ 332,668
Add: contribution transfers	72,295	41,450	56,999
Less: amount amortized to revenue	(35,779)	(33,840)	(34,688)
Balance, end of year	$ 399,105	$ 362,589	$ 354,979

10. Internally restricted net assets:

(a) Employee future benefits:

Details of employee future benefits internally restricted net assets are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Pensions	$ 102,805	$ 96,886	$ 93,938
Other retirement and post employment benefit plans	(189,553)	(190,624)	(183,578)
	$ (86,748)	$ (93,738)	$ (89,640)

(b) Specific purposes:

Details of specific purpose internally restricted net assets are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Unexpended departmental carryforwards	$ 80,283	$ 93,845	$ 83,496
Research	20,319	17,212	16,719
Ancillaries	5,163	5,119	5,157
Other	55,873	41,758	45,758
	161,638	157,934	151,130
Sinking funds	11,876	10,769	17,058
Capital projects	(47,573)	(61,778)	(72,132)
	$ 125,941	$ 106,925	$ 96,056

Included in unexpended departmental carryforwards is a $3,000,000 (April 30, 2012 - $3,500,000; May 1, 2011 - $4,000,000) advance to the Faculty of Science from unrestricted net assets for which arrangements for recovery are in place.

Details of the internally financed capital projects which have various recovery terms and periods are as follows:

(thousands of dollars) Project	Funding source	April 30, 2013 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (22,770)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(15,377)
Les Prince Residence	Ancillary operations	(17,299)
David Braley Athletic Centre	Student levies, pledges, fundraising	(11,249)
McMaster Automotive Resource Centre (MARC)	Various	(11,607)
Michael DeGroote Centre for Learning, 2nd Floor	Graduate funding, pledges, fundraising	(1,343)
Internal equipment loans	Various	(374)
		(80,019)
Other projects (net)	Various	32,446
		$ (47,573)

10. Internally restricted net assets (continued):

(b) Specific purposes (continued):

(thousands of dollars) Project	Funding source	April 30, 2012 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (24,520)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(18,250)
Les Prince Residence	Ancillary operations	(17,837)
David Braley Athletic Centre	Student levies, pledges, fundraising	(12,286)
Hedden Residence	Various	(5,205)
Engineering Building	Graduate funding, pledges, fundraising	(4,531)
McMaster Automotive Resource Centre (MARC)	Various	(4,017)
Michael DeGroote Centre for Learning, 2nd Floor	Graduate funding, pledges, fundraising	(3,192)
Internal equipment loans	Various	(480)
		(90,318)
Other projects (net)	Various	28,540
		$ (61,778)

(thousands of dollars) Project	Funding source	May 1, 2011 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (26,181)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(19,941)
Les Prince Residence	Ancillary operations	(18,345)
David Braley Athletic Centre	Student levies, pledges, fundraising	(13,351)
Engineering Building	Graduate funding, pledges, fundraising	(8,768)
Michael DeGroote Centre for Learning, 2nd Floor	Graduate funding, pledges, fundraising	(6,255)
Internal equipment loans	Various	(361)
		(93,202)
Other projects (net)	Various	21,070
		$ (72,132)

11. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Capital assets	$ 854,422	$ 789,980	$ 788,686
Less amounts financed by:			
Net long-term debt	(136,056)	(137,085)	(149,828)
Unamortized deferred capital contributions	(399,105)	(362,589)	(354,979)
	$ 319,261	$ 290,306	$ 283,879

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Repayment of long-term debt	$ 1,029	$ 12,743	$ 1,127
Capital asset purchases from operating	55,464	20,843	31,579
	$ 56,493	$ 33,586	$ 32,706

12. Endowments:

(a) Internal:

Details of the change in internally restricted endowments are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Balance, beginning of year	$ 109,806	$ 114,833	$ 107,817
Donations	199	143	-
Investment income	10,952	75	12,245
Net transfers and expenses	(5,224)	(5,245)	(5,229)
Balance, end of year	$ 115,733	$ 109,806	$ 114,833

Included in internal endowments is an amount of $55,322,000 (April 30, 2012 - $52,635,000; May 1, 2011 - $55,179,000) reflecting the legacy of Dr. H. L. Hooker. The income generated from this capital is used to fund programs that enrich the academic achievements of the University as approved annually by the Board.

(b) External:

Details of the change in externally restricted endowments are as follows:

(thousands of dollars)	April 30, 2013	April 30, 2012	May 1, 2011
Balance, beginning of year	$ 335,562	$ 329,272	$ 287,854
External contributions:			
OTSS	824	2,936	3,437
Other	10,663	18,451	14,945
Income retained - capital protection policy	17,690	(15,097)	23,036
Balance, end of year	$ 364,739	$ 335,562	$ 329,272

Investment income (loss) on external endowments amounted to $30,546,000 (2012 - ($2,030,000)). In accordance with the endowment capital protection policy, this income less the amount made available for spending of $13,040,000 (2012 - $12,750,000) and net transfers of $184,000 (2012 - ($317,000)) were added to endowment net assets. The amount made available for spending is recorded as investment income in the statement of operations.

13. Commitments and contingencies:

(a) Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange "CURIE", a self-insurance cooperative comprised of approximately sixty 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) Legal claims:

The University is involved in certain legal matters and litigation in the normal course of operations, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the periods in which the matters are determined. Management is of the opinion that these matters are mitigated by adequate insurance coverage.

13. Commitments and contingencies (continued):

(b) Legal claims (continued):

On October 12, 2007, the University was served with a Class Action Claim (“Claim”) on behalf of certain retired and active Clinical Faculty members who were, or are, members of the Pension Plan for Salaried Employees (“Plan”) during the period from 1973 to-date. The basis of the Claim, which amounts to approximately $31 million, relates to allegations of certain breaches of trust and fiduciary responsibilities in the administration of the Plan. A settlement provision is recorded in the financial statements based on continued negotiations.

(c) Debt Service Deficiency Agreement:

The University has guaranteed the scheduled principal and interest payments, up to $23 million of long-term debt extended to The First Longwood Innovation Trust, in the event of default. The total amount of debt outstanding and subject to the Debt Service Deficiency Agreement at April 30, 2013 was $21.9 million (April 30, 2012 - $21.9 million; May 1, 2011 - $22 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2013, no obligation exists under the agreement and as a result, no amount has been recognized as a liability on the statement of financial position.

(d) Capital commitments:

The estimated cost to complete approved major capital projects amounted to $208,187,000 at April 30, 2013 (April 30, 2012 - $208,240,000; May 1, 2011 - $102,965,000). The major building commitments are as follows: McMaster Health Campus ($67 million) and L.R. Wilson Hall ($63 million).

(e) Energy Retrofit Agreement:

In 2007, the University signed a multi-year agreement with Hamilton Health Sciences Corporation ("HHSC") when HHSC undertook a significant energy retrofit project at the McMaster University Medical Centre. Under the terms of the agreement, the University is required to pay approximately 40% of the related costs of the retrofit project. At April 30, 2013, the University's remaining share of the costs are estimated to be $27.8 million (April 30, 2012 - $29.2 million; May 1, 2011 - $30.5 million). Payments to HHSC will take place up to 2029. The expected net present value of the future net savings for the University up to 2029 is $7,954,000.

(f) Leases:

The University has entered into operating lease agreements for office equipment and buildings. The total annual minimum lease payments in each of the next five years are approximately as follows:

(thousands of dollars)	
2014	$ 2,630
2015	1,242
2016	764
2017	764
2018	764

(g) McMaster Health Campus:

In fiscal 2012, the University entered into an agreement with the Hamilton Wentworth District School Board (the "Board") to purchase the Board's offices at 100 Main Street West in downtown Hamilton. The University is developing on this site. The University also entered into a Conditional Financial Contribution Agreement with the City of Hamilton which requires the University to meet certain construction milestones in order to receive grant installments totaling $20 million between now and 2020, of which $5 million has been received.

14. Other income:

Details of other income are as follows:

(thousands of dollars)	Major sources	2013	2012
Faculty of Health Sciences	Government specifically funded programs	$ 38,959	$ 41,883
Faculty of Health Sciences	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees	30,560	27,106
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees	11,488	9,810
Academic Services	Nuclear reactor sales, contracts and patent royalties, registrar administration fees	9,992	11,369
Student Services	Athletics and Recreation memberships and user fees	17,575	15,666
Miscellaneous	Application fees, late payment fees	4,477	7,380
Other Investment Income	The Director's College, Adiga Life Sciences Inc.	(468)	453
		$ 112,583	$ 113,667

15. Related party transactions:

In addition to transactions and balances disclosed in note 4, the University had the following transactions with:

- Fundraising entities: funds received during the year amounted to $129,000 (2012 - $143,000).

16. Financial risks and concentration of credit risk:

(a) Liquidity risk:

Liquidity risk is the risk that the University will be unable to fulfill its obligations on a timely basis or at a reasonable cost. In managing liquidity risk, the University focuses on liquid resources available for operations. The University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of its annual and capital budgets and by monitoring and forecasting of cash flows. The University maintains a line of credit of $15 million which can be used in the event of a short-term deficiency in cash flow. The line of credit was not used in 2013. In addition, the University could issue unsecured debentures or enter into other long-term debt to assist in the financing of capital projects. There has been no change to the risk exposure from 2012.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The University is exposed to credit risk with respect to accounts receivable. The University assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts (note 2).

(c) Interest rate risk:

The University is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate investments are included in note 3 and the long-term obligations are included in note 8.

(d) Currency risk:

Investments that trade in foreign markets are exposed to currency risk as the price in local terms on the foreign stock exchange is converted to Canadian dollars to determine fair value. The University's overall currency positions are monitored on a daily basis by the portfolio manager. There has been no change to the risk exposure from 2012.

17. Ontario student opportunity trust fund:

External endowments include grants for funding student aid provided by the Government of Ontario's Student Opportunity Trust Fund matching program. Under the program, the Province has matched qualifying external endowment donations received with equal contributions.

(a) Ontario Student Opportunity Trust Fund - Phase I

The following schedule represents the changes for the years ended April 30, 2013 and 2012 in the first phase of the Ontario Student Opportunity Trust Fund (OSOTF I) balance:

(thousands of dollars)	2013	2012
Endowment balance, beginning of year	$ 31,648	$ 32,467
Investment income (used from) retained for protection of capital	(190)	(539)
Investment income transferred (to) expendable income	(137)	(280)
Endowment balance, end of year	31,321	31,648
Funds available for awards, beginning of year	-	-
Investment income	608	993
Bursaries awarded (2013 - 782 awards; 2012 - 1,086 awards)	(745)	(1,273)
Investment income transferred from endowment balance	137	280
Funds available for awards, end of year	-	-
Total funds at book value	$ 31,321	$ 31,648

The market value of the endowment as at April 30, 2013 was $31,866,000 (2012 - $29,746,000).

(b) Ontario Student Opportunity Trust Fund - Phase II

The Ontario government requires separate reporting of balances as at April 30, 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 (OSOTF II) of McMaster University including Divinity College.

The following is the schedule of changes for the years ended April 30th:

(thousands of dollars)	2013	2012
Endowment balance, beginning of year	$ 5,737	$ 5,891
Investment income (used from) retained for protection of capital	(67)	(154)
Endowment balance, end of year	5,670	5,737
Funds available for awards, beginning of year	20	26
Investment income for expenditures	146	178
Bursaries awarded (2013 - 216 awards; 2012 -216 awards)	(139)	(184)
Funds available for awards, end of year	27	20
Total funds at book value	$ 5,697	$ 5,757

The market value of the endowment as at April 30, 2013 was $5,669,000 (2012 - $5,561,000).

18. Ontario trust for student support:

External endowments include grants for funding student aid provided by the Government of Ontario's Ontario Trust for Student Support (OTSS) matching program. Under the program, the Province provided an equivalent matching contribution for external endowment contributions made to a specified ceiling.

The following is the schedule of changes in the endowment and expendable balances for the years ended April 30th:

(thousands of dollars)	2013	2012
Endowment balance, beginning of year	$ 34,553	$ 30,500
Cash donations received	824	1,660
Funds received/receivable from MTCU	-	1,347
Investment income retained for protection of capital	555	1,046
Endowment balance, end of year	35,932	34,553
Funds available for awards, beginning of year	1,011	798
Investment income for expenditures	865	896
Bursaries awarded (2013 - 201 awards; 2012 - 209 awards)	(681)	(683)
Funds available for awards, end of year	1,195	1,011
Total funds at book value	$ 37,127	$ 35,564

The market value of the endowment as at April 30, 2013 was $39,841,000 (2012 - $35,988,000).

19. Ontario Regional Blood Coordinating Network (ORBCoN):

For the period from April 1, 2012 to March 31, 2013, the University incurred expenditures totaling $551,219 for purposes of carrying out the ORBCoN project in Southwestern Ontario. The University's financial statements include expenditures of $500,268 incurred from May 1, 2012 to April 30, 2013. The network was designed to facilitate a comprehensive and integrated approach to blood utilization management in the Province of Ontario.

20. Pledges receivable:

Outstanding but unrecorded pledges for donations and other fund raising amounted to $69,236,000 (2012 - $80,829,000).

21. Transitional adjustments:

Net assets:

The following table summarizes the impact of the transition to Canadian accounting standards for not-for-profit organizations on the University's net assets as of May 1, 2011:

Net assets:		
As previously reported under Canadian generally accepted accounting principles on April 30, 2011	$	692,217
Transition election to record capital assets at fair value (i)		44,451
Remeasurement of long-term obligations (ii)		5,098
Restated, May 1, 2011	$	741,766

In accordance with transitional provisions of not-for-profit standards, the University has elected to use the following exemptions:

(i) Fair value:

The University has elected to measure land at May 1, 2011 using the fair value election.

(ii) Long-term obligations:

The University has elected to apply hedge accounting and has eliminated all deferred unrealized losses on interest rate swap agreements in opening net assets and long-term obligations.

22. Comparative figures:

Certain comparative figures for 2012 have been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Services
1280 Main Street West
Hamilton, ON L8N 1E9

McMaster University

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