ANNUAL FINANCIAL REPORT

2013-2014

McMaster University

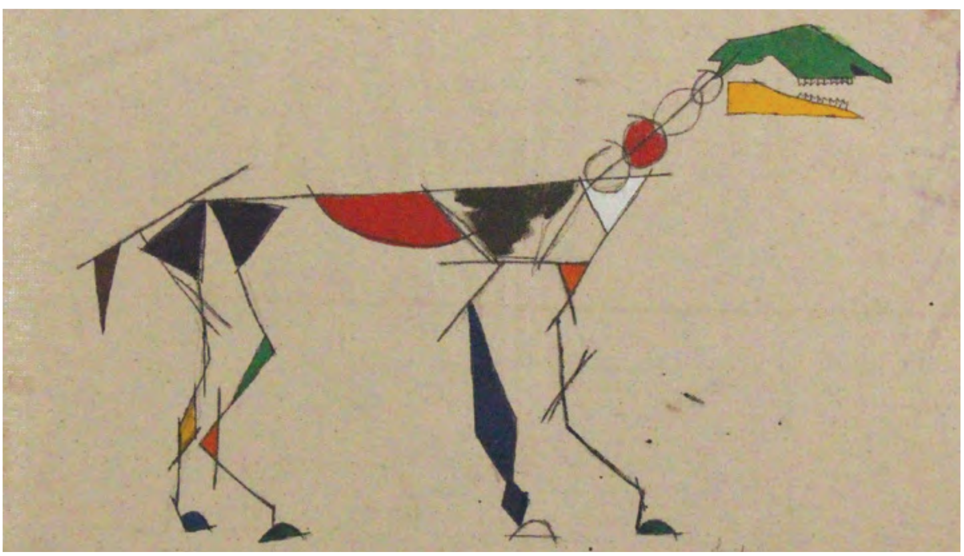
ANNUAL FINANCIAL REPORT 2013/2014

MOSAIC

McMaster University's Annual Report theme is Mosaic to reflect the 2013/14 efforts of the University to bring together several strategic plans and support *The Emerging Landscape and Forward with Integrity.*[1]

Cover: Artist **Monica Brinkman**, Level III Studio Art. Title: Whimsical World (Ink and pencil crayon on paper). This collage was constructed of repetitive line drawings that were cut into pieces and placed back together as one finished collage mimicking the approach of a mosaic.

Below: Artist **Jennifer Tewnion**, Level 1 Studio Art. Title: A New Perspective (permanent marker, acrylic paint). The skeleton is unchanging. It has been drawn for centuries usually focusing on a perfect shading of the bones and joints. I have interpreted the skeleton as interlocking coloured shapes. Similarly, a mosaic is shape and colour assembled to form a picture.



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INSPIRING INNOVATION AND DISCOVERY | mcmaster.ca

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

YEAR IN REVIEW

McMaster University's ***Mosaic*** Enterprise Resource Planning System represents the confluence of historically mixed manual and automated single support systems and processes across all areas into one integrated enterprise-wide support system. Fittingly ***Mosaic*** is the theme for this year's Annual Report, supported by student artwork submissions, marking 2013/14 as the year in which several strategic plans across the University came together.

In 2013/14 McMaster went live with a new financial and research accounting system, implemented the new budget model for 2014/15, and continued to make significant progress aligned with ***Forward with Integrity*** and the ***Emerging Landscape*** principles and goals through funded project initiatives, new program developments and a Ministry accepted ***Strategic Mandate Agreement*** for 2014/15. The year, with its many successes, has not been without its challenges. The significant system change has meant massive training, development of new processes, and effort to evolve a predominantly out-of-the-box system to efficiently support varied user needs. Since the mid-year system transition, significant system adjustments dealing with sub-system interfaces, workflow routing, role access, etc. have been completed. Further, McMaster continues to make progress on remaining live system priorities while preparing for the next system go-lives in 2014/15 involving human resources, student, budget, and facilities modules.

Financially, the 2013/14 consolidated surplus (all funds: operating, research, capital, trusts, and ancillaries) is $46.4 million compared to $60.7 million last year. The consolidated surplus is attributed to strong investment results of 14.7% (last year 10.1%, budget 6.5%) that were dampened by increased benefit expenses anticipated due to the low interest rate environment. The Faculties and support departments are recorded in the operating fund and achieved a $3.3 million surplus compared to a budgeted deficit of $25.6 million. Operating fund results reflect increased revenues from enrolment growth, allowable tuition rate increases, and fees, along with reduced non-salary spending. Spending on equipment and information systems declined to $45 million from $61 million last year reflecting the progression of the ***Mosaic*** project toward completion. Included in non-salary spending is additional deferred maintenance expenditures consistent with a multi-year strategy to increase this base funding by $2 million per year to over $10 million in annual base funding by 2018/19. Contributing to McMaster's deferred maintenance strategy is new Ministry support announced this year to be phased in over four years projected to increase McMaster's currently $1.1 million in Ministry support.

Major capital building projects underway or continuing in 2013/14 representing $50.1 million in spending (2012/13 - $60.8 million) include the McMaster Health Campus, L.R. Wilson Hall for Liberal Arts, and the Halton McMaster Family Health Centre. Other capital projects including the Dr. Robert and Andrée Rhéaume Fitzhenry Studios and Atrium, and McMaster's relocation project for its downtown Centre for Continuing Education and administrative support departments are also underway. In 2013/14's multi-year financial projections and debt strategy report, additional financing is being considered to complete strategic and capital priorities.

Benefit cost challenges continue to demand diligence. Strategies to ease the benefit rate charged within the operating and research fund have been put in place for 2014/15 and subsequently. The long term post-retirement benefit funding strategies put in place in

Artist **Wing Lau (Sally)**, Level 1 Studio Art Title: Paper bag (watercolor and ink pen). This watercolour drawing combines a patchwork of different patterns to create the image of a paper bag. The idea of assembling small pieces to create a whole responds to the theme of Mosaic.

2011/12 (for medical and dental benefits) have been effective in managing and containing this cost.

Regarding pension costs, in 2013/14 the closed Hourly Pension Plan received acceptance for stage two funding solvency relief based on achieving sustainability savings targets resulting in an easing of the payment requirements over the next three years and beyond. Work is also underway toward the 2014/15 Salary Pension Plan valuation that will be submitted for stage two solvency relief. We believe we will be successful in this application, having executed the plans we outlined in order to meet the savings target. In addition to provincial solvency relief programs, the Ontario government proposed single employer plans move toward single or multi-employer jointly sponsored pension plans in its 2014 budget. Ontario universities, some employee associations and unions are exploring the feasibility of jointly sponsored arrangements, including consideration of transitional issues.

While many strategic achievements have come together in 2013/14, work will continue to manage financial pressures, fund strategic and capital priorities, mitigate risk associated with the variability in the economic environment, and inform policy affecting accounting and legislative changes.

The information contained in this Annual Financial Report is intended to provide the reader with financial information for the fiscal year ended April 30, 2014 and was approved by the University's Board of Governors in October 2014. While the focus of this document will be 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 purposes, 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

Reflections on the Landscape

Global and Community Engagement at McMaster

- Task Force Reports
- Consolidated Budget – June 2014
- State of the Academy Address – October 2013
- University Fact Book

BY THE NUMBERS

Artist **Nikkie To**, Level IV Studio Art. Title: Spies on the Beach (oil on canvas). The integration of figures into an enigmatic space through a process of collage is reflective of the mosaic initiative that aims to apply innovative practices and processes in order to encourage student growth and success. These images function as a reflection of very human encounters of confidence, inspiration, vulnerability, and strength through experience; all feelings we encounter along our journey toward higher learning.

$926,500,000
Total expenditures vs. $878,100,000 last year

$291,800,000
Available expendable resources vs. $246,600,000 last year

$3,300,000
Excess of revenues over expenses operating fund only vs. $(10,600,000) last year

$46,400,000
Excess of revenues over expenses vs. $60,700,000 last year

$35,000
Total revenue per FTE student vs. $34,100 last year

$189,400,000
Research revenue receipted vs. $187,800,000 last year

$609,000,000
Endowment funds vs. $553,100,000 last year

$100,600,000
Capital spending vs. $127,800,000 last year

$972,900,000
Total revenue vs. $938,800,000 last year

$931,200,000
Total net assets vs. $843,800,000 last year

27,796
Enrolment (full time equivalent (FTE)) vs. 27,518 last year

$21,908
Endowment per FTE students vs. $20,099 last year

$400,600,000
Employee future benefit unfunded obligation registered pension vs. $471,600,000 last year

$250,800,000
Employee future benefit unfunded obligation non-pension vs. $225,200,000 last year

REVENUES

McMaster University actively manages sources of funding and is focused on new revenue generation to provide investments toward the student experience and academic facilities through both technological and infrastructure transformation.

Artist **Ianitza Vassileva**, Level IV Studio Art. Title: This lung's breath (photography/digital print).
These photos are macro images of an installation that evokes the feeling of being deep underwater, in a muted world between the weightlessness of floating and pressure of water. These hanging sacks are meant to represent different aspects of the respiratory system, such as the alveoli and capillaries of the lungs. Mixed materials create shadows, light, and transparencies that together form a mosaic that evoke the shapes of a human body.

REVENUES

$ millions		
RESEARCH REVENUE RECOGNIZED	2014	2013
Total research funds received	189.4	187.8
Less: amount deferred to future	(34.9)	(14.1)
	154.5	**173.7**

In 2013/14, total revenue increased by 3.6% to $972.9 million (2012/13 - $938.8 million) and revenue per FTE[2] enrolment reached $35,000. The revenue increase of $34.1 million relates to increased tuition income of $14 million based on enrolment growth of 1%, allowable legislated tuition rate increases of 3%, and $16.3 investment income growth due to a 14.7% investment pool return (compared to 10.1% last year).

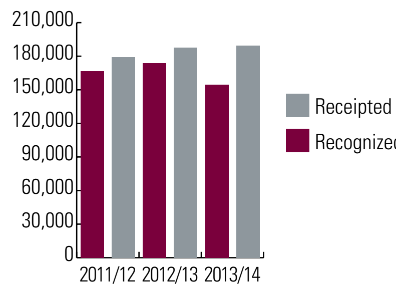
Operating Grants Income

Government operating grants increased by 2.2% to $265.3 million, up $5.8 million over 2012/13. The increase includes an additional $2 million for undergraduate accessibility based on the University's share of year-over-year growth across Ontario. An additional $0.6 million was received for MD and Post Graduate medical education to expand the number of physicians in the province and additional other grant revenues were received from the Ministry of Health for activities within the Faculty of Health Sciences.

Research Grants and Contracts

In 2013/14, research revenue recognized decreased from the previous year. Revenue is recognized as income in the year the related expense occurs. Both unspent research revenue and revenue spent on capital is recorded as Deferred Contributions on the Statement of Financial Position. Research funding received of $189.4 million is consistent with the prior year (2012/13 – $187.8 million) before deferrals. After deferrals, research revenue recognized decreased by 11.1% to $154.5 million (2012/13 – $173.7 million) over the past year.

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 shown in the table above, total research receipts grew from the prior year.

2 FTE enrolment is as reported to MTCU as of November 1 each year.

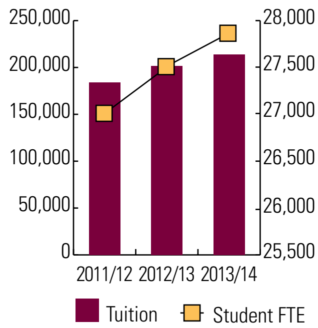
Research Overhead Grants

Research overhead grants, like research funding received, are consistent with the prior year. Overhead grants assist the University in defraying indirect costs associated with research activities. The federal and provincial governments contribute a portion of the total indirect costs related to federal research grants and eligible provincial research programs. In 2013/14, $13 million was received (2012/13 – $12.8 million) to partially offset indirect research expenses.

Tuition Fees

Revenue from tuition fees increased by 7% in 2013/14 resulting from enrolment growth and allowable legislative tuition fee increases of 3%. The tuition fee setting policy permits the University to increase tuition fees for regulated programs by an overall maximum of 3% per year. In 2013/14, the University adjusted fees by the allowable increase for each regulated program and remained within the overall cap of 3%. Contributing to tuition revenue is a higher number of international students (an increase of 8.7%) whose fees are higher than domestic rates. International students now account for approximately 8.3% (2012/13 – 7.7%) of the total student population.

Total Tuition – $ thousands and Number of FTE Students



Ancillary Operations

Ancillary operations provide essential academic support services across the University, enhance the student experience, and contribute funding to student support and the operating budget. Ancillary departments aim to provide exceptional, efficient and affordable services while covering all related operating and capital costs. In order to generate revenue, it is critical that ancillary departments provide relevant services, deliver excellent quality, remain competitively-priced and contain costs wherever possible.

A detailed breakdown of ancillary operations is shown in the following table.

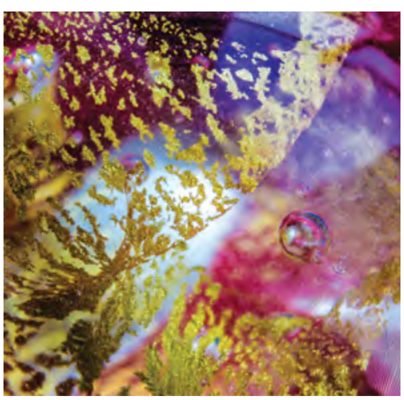
Net ancillary sales revenue decreased by 1.4% to $67.2 million in 2013/14 (2012/13 – $68.1 million). This was primarily attributable to a reduction in sales revenue related to a price reduction on custom courseware within the Campus Store and Media Production Services. Further, Campus Store computer sales declined due to Apple cancelling its hardware sales

$ thousands

SALES BY ANCILLARY OPERATIONS	2013/14	2012/13
Campus Store	18,462	20,226
Hospitality Services	20,522	20,607
Housing and Conference Services	23,286	22,560
Media Production Services	3,762	4,175
Parking	4,872	4,749
Continuing Education	6,413	5,912
Miscellaneous	147	148
	77,465	78,377
Less: internal sales	(10,304)	(10,254)
	67,161	**68,123**

arrangements out of Universities across North America. Campus Store general merchandise grew while the demand for traditional books and course pack materials continues to decline. 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 continue to move toward competitively-priced electronic materials, in addition to new service offerings, in an effort to maintain sales and contributions to the University's operations.

Housing and Conference Services and Continuing Education had growth in sales of 3.2% and 8.5%, respectively. The residence rate increase approved in the budget contributed to the growth in Housing and Conference Services income. The increase for Continuing Education resulted from increased demand for existing programs, the introduction of new programs and growth in business community partnerships.



		$ thousands
INVESTMENT INCOME	2013/14	2012/13
Recognized in income	63,353	47,103
Net posted directly to external endowments	35,816	17,690
	99,169	**64,793**

Investment Income

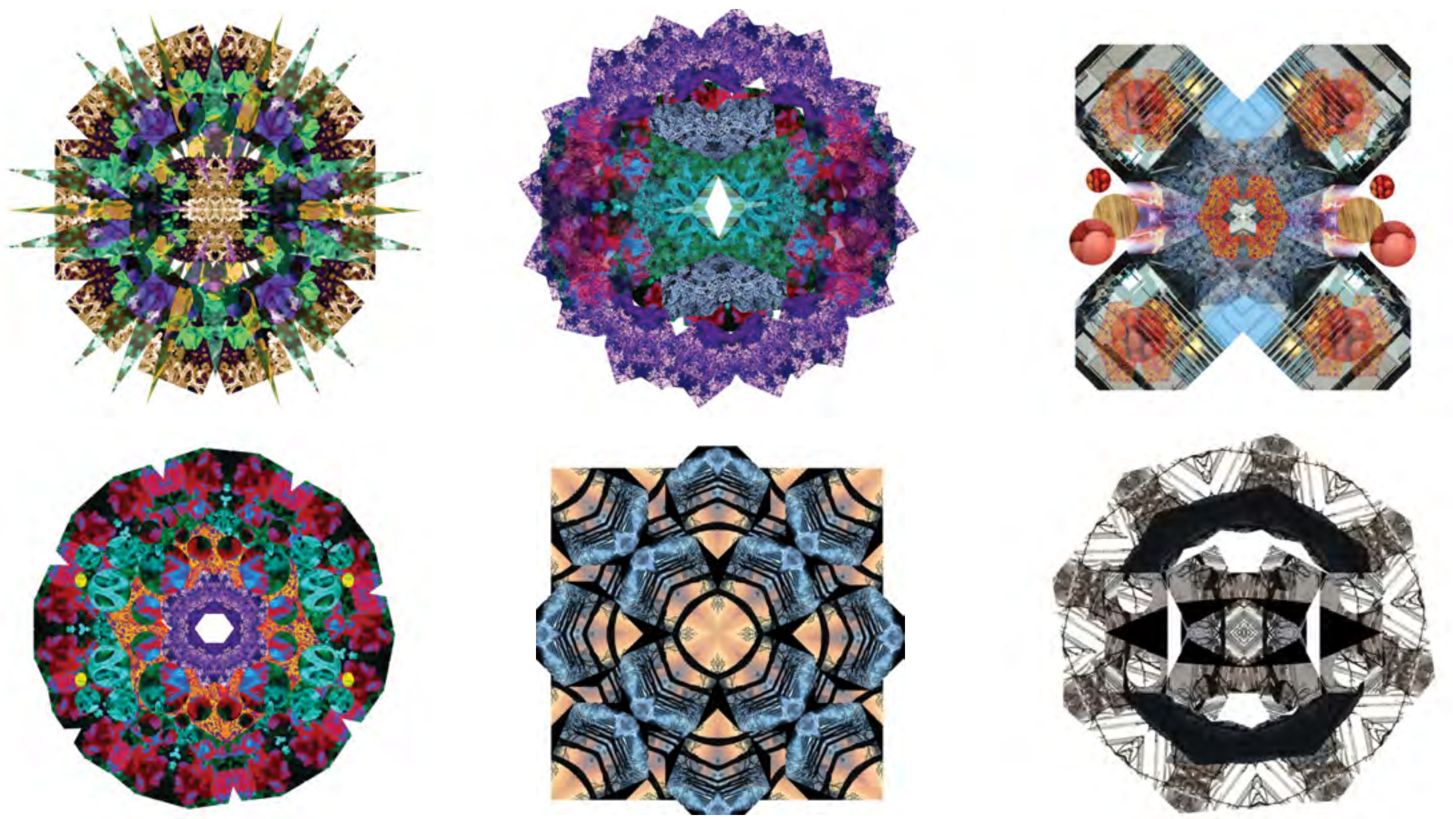
Global markets continued to trend positively in 2013/14 with slightly less volatility than the year prior. While market volatility is still a key management concern the diversification within the long term investment pool helps protect capital in down markets. The long-term investment pool rate of return (after expenses) for 2013/14 was 14.7%, compared to 10.1% in 2012/13. Management conservatively budgets investment income each year (at 6.5%) and provides multi-year financial projections that include investment income sensitivity analysis to highlight the potential variance in investment income that can occur. Anticipating investment income greater than 6.5% within the operating budget could result in over spending, hence the conservative approach.

The investment pool asset mix benchmark is 60% equities and 40% fixed income and real estate. As at April 30, 2014 this portfolio's annual rate of return was 15.1% which was above the benchmark return of 13.4%.

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% determined using a five-year average market value. In 2013/14 approximately $16.5 million (2012/13 – $16.5 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 provides competitively benchmarked compensation and benefits to enhance the quality of life for faculty and staff during their career and retirement. McMaster manages both current and future costs associated with total compensation plans to ensure a sustainable financial environment.

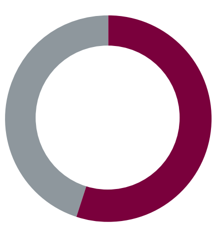
Artist **Emma Hale**, Level IV Studio Art. Title: Flower Stellation (digital print).
Hale centers her work around expressions of a "universal truth", using the motifs of sacred geometry and photography. A mosaic creates an image with a combination of materials and usually holds some type of divine or sacred reference. Through this series of digital prints, Hale combines various representations of life into a new form, a new representation of "truth".

COMPENSATION AND BENEFITS

Salary and wage expenses are shown together in the Statement of Operations with related employee benefit costs identified separately. The employee benefit expenses include statutory benefit costs, other current benefit costs, and accruals for pension and other non-pension benefits (primarily medical benefits and dental care) that are earned in relation to current year service. In accordance with accounting standards for not-for-profit organizations, only a portion of the total pension and non-pension liabilities are recognized on the Statement of Financial Position. The difference between the recorded liability and the total pension and non-pension liabilities is referred to as the unfunded deficit and is reflected in the Notes to the Financial Statements. Next year the generally accepted accounting principles will transition to new rules resulting in the unfunded deficit being reflected fully on the balance sheet. For 2013/14 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 2013 – 7,501

- Academic *(includes Faculty, Post Doctoral Fellows, Librarians, Teaching Assistants)* (4,161) 55%
- Support (3,340) 45%



Expense

Total compensation related expenses account for over 64% of total expenditures and represent a total of 7,501 permanent faculty and staff members as of October 2013 (October 2012 – 7,449)

The total number of faculty and staff members increased by 0.7% (as compared to 2.3% growth in 2013). Salary and wage expenses increased by 1.5% (compared to 3.4% growth last year). Employment expenses represent $598.2 million this year compared to $558.4 million (7,449 employees) and $539.3 million (7,284 employees) in 2012/13 and 2011/12 respectively.

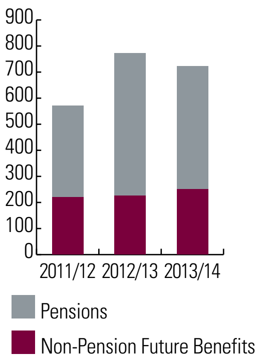
Employee Future Benefit Obligations (Pension and Other)

Included in total compensation expenses are defined benefit pension, group RRSP and non-pension benefit costs. The non-pension benefit costs include extended health, dental and life insurance for most employees of the University. The annual earned benefit costs are expensed in addition to a portion of the unrecorded deficit balance using an accounting method supported by accounting standards for not-for-profit organizations. 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. Several cost balancing measures have been implemented including plan design changes and increased employee contributions. The financial challenges could be further eased in future years by interest rate improvements. The pension and non-pension obligations continue to receive ongoing management monitoring and long-term strategic financial planning.

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. The group RRSP now includes approximately 6.5% of the University's full time employees. 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.

Pension and non-pension future benefits unfunded obligations



Increased funding requirements related to the gap between assets and liabilities are driven primarily by the current low interest rates used in the long term cost estimation methodology of the actuaries.

The provincial focus continues on publicly funded organizations' pension plan assets with specific interest toward shifting employer pension risk to a shared risk within single or multi-employer jointly sponsored pension plans. Work is underway by universities and employee groups to investigate the future feasibility of shared plans, including a review of transitional issues. However, 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.

During the year, the pension expense increased by 55% from \$60.8 million to \$94.4 million as a result of a reduction in the discount rate from 5% to 4.1% (April 30, 2013). The discount rate used at each year end determines the pension expense requirements for the following year.

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 decreased the deficit by \$190.3 million for the year ended April 30, 2014. The interest rate (referred to as the discount rate) used to measure the plan increased to 4.5% from 4.1% making a significant positive impact on the funded position. The discount rate is set by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Offsetting this gain from the discount rate was a change in mortality assumptions, which resulted in a negative impact of \$128.1 million.

CHANGE IN FUNDED STATUS OF PENSION BENEFIT PLANS

	APRIL 30, 2014 \$ millions	APRIL 30, 2013 \$ millions
Funded status, opening balance	(545.6)	(351.1)
Costs in the period:		
Current service cost	(48.8)	(38.7)
Interest on liabilities	(79.5)	(78.7)
Actual gain on plan assets	190.3	147.1
	62.0	29.7
Actuarial gain (loss) related to changes in discount rate	132.8	(230.3)
Change in cost of living assumption	(55.8)	(126.6)
Change in mortality assumptions	(128.1)	-
Plan amendments	-	6.6
Actuarial gain (loss) related to other assumptions	(2.0)	67.5
Plus: University contributions	60.0	58.6
Funded status, closing balance	**(476.8)**	**(545.6)**

An updated funding valuation for the Salary Plan, which accounts for over 96% of the assets, is not required until July 1, 2014 (with a filing timeline of December 31, 2014). The funding valuation will measure whether solvency plan savings targets have been achieved and will be used to determine if McMaster University is approved for stage two solvency relief. 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 (stage one). 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 qualified for stage one solvency relief. In 2013/14 the Hourly Pension Plan valuation was filed and was accepted for stage two solvency relief. 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 $43 million.

CHANGE IN FUNDED STATUS OF NON-PENSION BENEFIT PLANS

	APRIL 30, 2014 $ millions	APRIL 30, 2013 $ millions
Funded status, opening balance	(225.2)	(219.5)
Costs in the period:		
Current service cost	(6.8)	(7.8)
Interest on liabilities	(9.0)	(10.7)
	(15.8)	(18.5)
Actuarial gain (loss) related to change in assumptions for discount rate	15.1	(31.5)
Plan amendments	-	3.0
Change in mortality assumptions	(29.3)	-
Gain due to change in trend assumption for health costs	-	11.5
Change due to updated utilization data	-	17.9
Other	(2.0)	6.1
University contributions	6.3	5.8
Funded status, closing balance	**(250.9)**	**(225.2)**

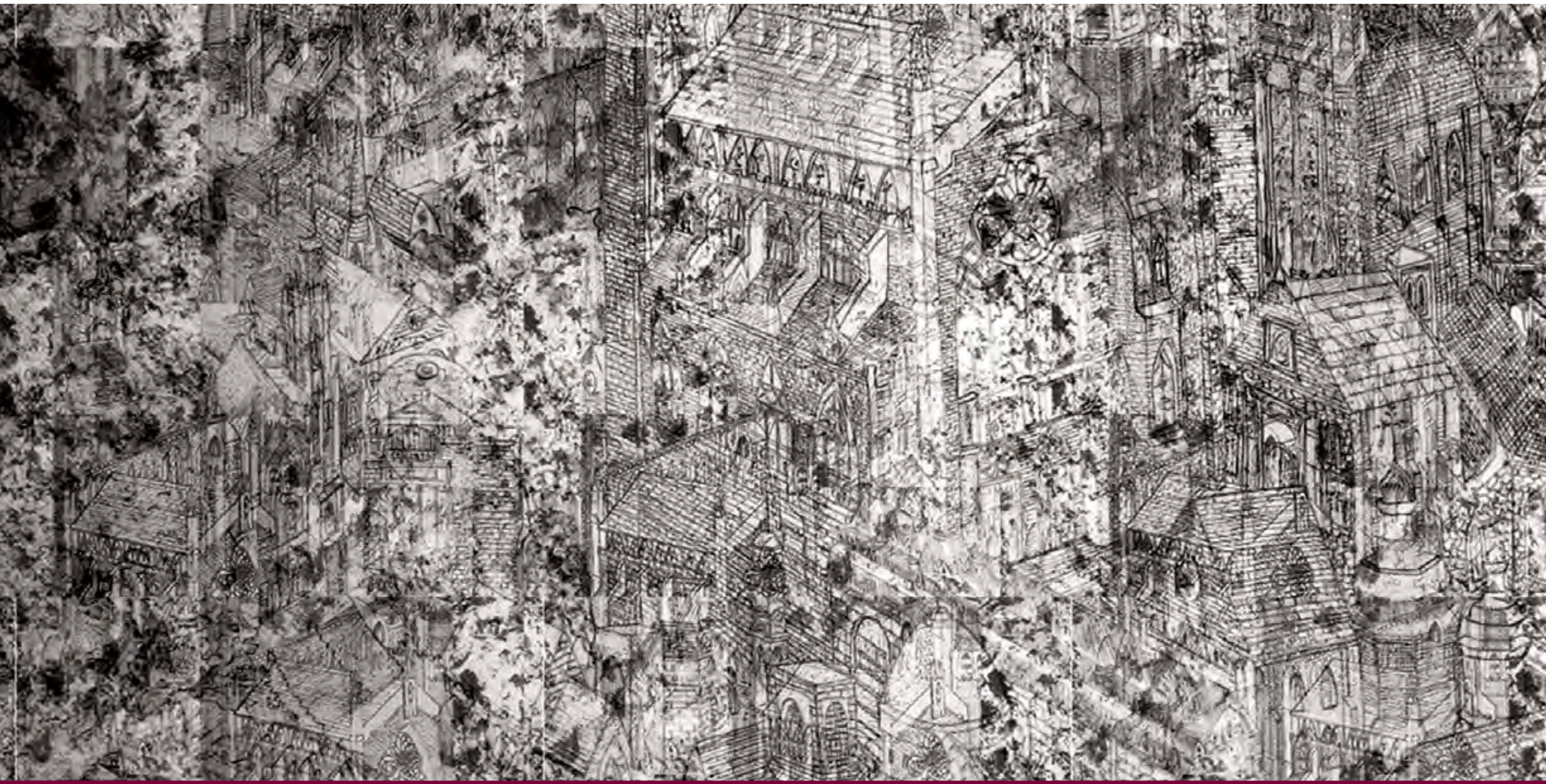
Other Post-Retirement and Post-Employment Benefit Plans

In 2013/14, non-pension employee benefit expenses represented $14.1 million, a $0.8 million decrease from 2012/13 primarily due to reduced interest and current service costs.

The deficit status of all non-pension post-retirement benefit plan as at April 30, 2014 totalled $250.9 million, an increase of $25.7 million from April 30, 2013. The significant changes in each of the last two years are outlined in the above chart.

The increase in the obligation in 2013/14 is primarily the updated mortality data. The long term funding strategy put into place in 2011/12 for this benefit cost is monitored annually and continues to be an effective strategy toward managing and containing this cost.

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.

Artist **Shreya Yugendranag,** Level III Studio Art. Title: Hamilton (ink on Masonite, with digital rendering).
This work, like others in its series, is also a literal mosaic at first glance. It layers churches and their stained glass windows to create a pun on the word mosaic. It also uses local Hamiltonian structures as its inspiration.

CAPITAL PROJECTS AND FINANCING

Capital Projects

The McMaster Health Campus at the corner of Bay Street and Main Street in downtown Hamilton is nearing completion. The new building will include clinical spaces, learning spaces and examination rooms. Community services, such as the City of Hamilton's Public Health Services, the McMaster Maternity Centre, and the Shelter Health Network, will reside in the 217,000 square foot building. The LEED-certified building will serve up to 15,000 Hamilton residents and accommodate over 54,000 patient visits each year. Additionally, the Department of Family Medicine, Continuing Health Sciences Education and the Michael G. DeGroote School of Medicine will be located at the campus, with more than 4,000 students. It is estimated that 450 employees will be based in the new building and another 650 jobs have been created during the design and construction.

L.R. Wilson Hall is taking shape in the former Wentworth House location and will be McMaster's new campus home for the Liberal Arts, which will accommodate the Faculties of Humanities and Social Sciences. The building, to be LEED-certified, will include teaching and learning spaces, gardens, and public gathering spaces. The building will also house liberal arts research centres, such as the Wilson Institute for Canadian History and the Gilbrea Centre for Health and Aging, as well as McMaster's Indigenous Studies program and indigenous student support offices.

Construction of the new Halton McMaster Family Health Centre, located on the Joseph Brant Memorial Hospital site, has continued throughout fiscal 2013/14. The 40,000 square foot building will house family medicine physicians and health professionals for training, as well as four clinician faculty members and 10 family medicine residents. The building, also hosting hospital administration, is expected to care for 10,000 regular patients a year and expects 26,000 visits each year. Occupancy of the clinic occurred in September 2014 as planned.

Other capital projects underway in 2013/14 include the Dr. Robert and Andrée Rhéaume Fitzhenry Studios and Atrium, and McMaster's relocation project for its downtown Centre for Continuing Education and administrative support departments to a building at the corner of King Street and James Street.

In addition to these capital building projects, the university spent over $45 million on equipment, and information systems projects, decreasing from $61 million spent last year. The decrease comes after spending almost $15 million last year 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 systems project went live in 2013/14 with finance and research modules. Remaining go-lives for student, human resources, budgeting and research pre-award will occur in 2014/15 followed by business intelligence, asset management and e-procurement.

The University's total capital expenditures for 2013/14 exceeded $100 million (2012/13 $127.8 million) and are summarized in the table below.

	$ thousands	
CAPITAL ASSET ADDITIONS	2013/2014	2012/13
Completed Building Projects and Construction in Process	50,144	60,753
Computers, Software, Furnishings and Other Equipment	45,204	60,992
Library Materials	5,226	6,014
	100,574	**127,759**

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 2013/14 all scheduled repayments were made. The internal central bank capital loans declined from $80.0 million as at April 30, 2013 to $71.4 million as of April 30, 2014. The loans have varying repayment terms and interest rates which reflect the date of issue and the project income stream. In 2013/14 no new external borrowing was undertaken.

In April 2014 the University updated its comprehensive multi-year financial projections and prioritized future capital needs to determine medium term financing requirements. In fiscal 2014/15 the University will explore the potential of up to $120 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	2011/12	2012/13	2013/14	3-YR AVG.
Expendable resources to debt	Capacity	.6 to 1.0	0.9	1.2	1.4	1.1
Interest coverage ratio	Affordability	2.75 to 3.25	5.2	11.2	9.8	8.7
AER* as % of revenue	Flexibility	Greater than 15%	25%	26%	30%	27%
Cash** to monthly expenditures	Liquidity	Greater than 1	3.6	3.5	2.5	3.2

*Available expendable resources **Includes short term investments

ENTERPRISE RISK MANAGEMENT

McMaster's Enterprise Risk Management (ERM) program supports the University strategic and operational objectives while informing Internal Audit and the Audit Committee of the Board of Governors about risks and opportunities across the University.

Artist **Monica Brinkman**, Level III Studio Art. Title: Direction and Movement (pressed hardwood assembled into an arrow form). This installation uses wooden arrows that are strategically placed on the ground to create a unique design activating both positive and negative space. The piece appears to look solid from far away but on closer inspection the individual, overlapping pieces can be seen. The idea of a solid made from fragments relates to the theme of mosaic. Taking many different directions individually, the pieces assemble together to create a forward motion.

Enterprise Risk Management

McMaster's Enterprise Risk Management (ERM) program supports the University strategic and operational objectives while informing Internal Audit and the Audit Committee of the Board of Governors about risks and opportunities across the University.

In 2013/14 the ERM Program continued to evolve aligning to the University's core mission and culture. The evolution included: (i) conducting research on additional ways of considering risks and opportunities including best practices being embraced by other higher education institutions reflecting the unique characteristics of this sector; (ii) reorganization of the ERM Program; (iii) a risk discussion at the September 2013 Board of Governors Retreat; and (iv) incorporation of stakeholder feedback on the process used to date.

The Enterprise Risk Steering Committee conducted a facilitated session that introduced an opportunity assessment to compliment consideration of the University's key risks. This approach better represents the University's culture, supports its strategic priorities and provides balance. An Opportunity Register was drafted for review and discussion by the Steering Committee. Opportunities from the Register were selected and assessed based on value (minor to transformative) to the University and likelihood of occurrence (remote to certain). The outcome identified important areas of focus for further stakeholder discussion and planning. The session included a review and update of the University's existing Risk Register of top key risks. A risk assessment conducted on the identified key risks was modified to focus on residual risk rather than inherent risk in order to provide a more meaningful measure of material net risk. The identified and assessed key risks are:

In the year a Risk Expert Group was created with the purpose of collaboratively engaging individuals involved in managing risk from across the University community. The Group identified common areas of interest; topics and issues that would be of benefit to discuss; shared approaches and tools such as a common approach to risk identification, evaluation and management; and generated value through a synergistic approach.

ERM Program is currently working with risk leaders across the University to refresh and update risk information, mitigation and monitoring strategies for the top key risks in preparation for the annual risk and opportunity review and assessment performed by the Enterprise Risk Steering Committee.

Key Risks

Attract and Retain Students	Organizational Alignment
Environment, Health and Safety	Physical Infrastructure
Financial	Reputation and Brand
Government Policy	Research
Human Capital	Research Infrastructure
Information Security	Student Experience
Mental Wellness	Technology

FINANCIAL ANALYSIS

Total Revenue

- Revenues increased from $938.8 million to $972.9 million resulting in an overall increase of 3.6%. The largest increases relate to investment income (34.5%) and tuition income (7%). The tuition increase is related to enrolment growth (1%) and fee increases.
- Investment income is $63.4 million compared to $47.1 million last year. The increase is related to a 14.7% rate of return in the investment pool (vs. 10.1% last year).

Total Expenditures

- Expenditures grew in the year by 5.5% to $926.5 million.
- Employment related expenses grew by an average of 7.1%, while non-capital related supplies and other expenditures increased by 2.1% across operating, research and trust funds.

Total Assets

- University assets grew by 5.4% attributed to current asset growth of 3.5% and net investment asset growth of 13.9%.
- Capital assets grew by a net of $33.9 million as a result of $100.6 million in capital expenditures, offset by amortization of $66.7 million.

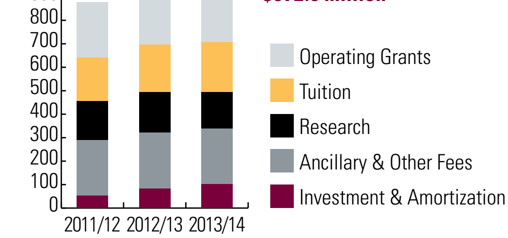
Total Liabilities

- Liabilities grew by 2.2% with the highest growth experienced in deferred contributions (4.3%) followed by employee future benefits (2.3%).
- Debt decreased by $0.2 million reflecting the repayment of the unsecured bank loan, offset by the increase in the decommissioning obligation.

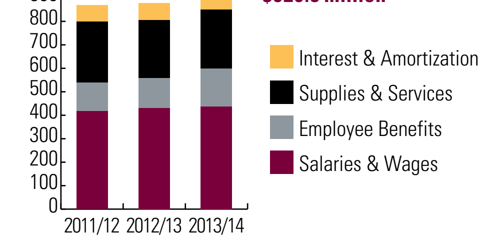
Net Assets

- Net assets grew by 10.3% related to specific purpose assets (27%) and external endowment growth (11.2%).
- External endowments grew primarily as a result of increased income retained in accordance with the capital preservation policy ($35.8 million vs. $17.7 million in 2012/13).

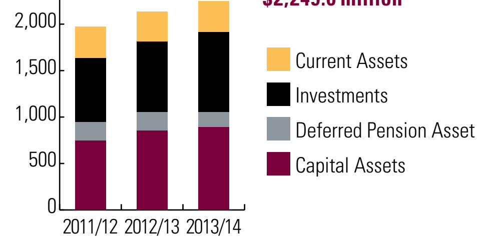
Total Revenue
$972.9 million



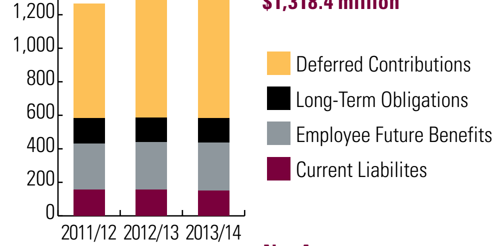
Total Expenditures
$926.5 million



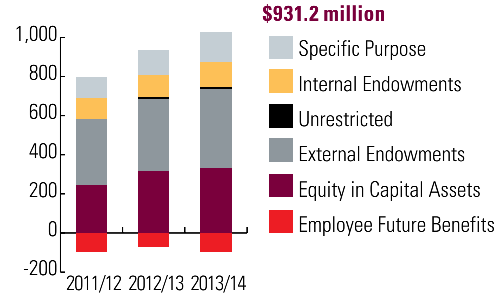
Total Assets
$2,249.6 million



Total Liabilites
$1,318.4 million

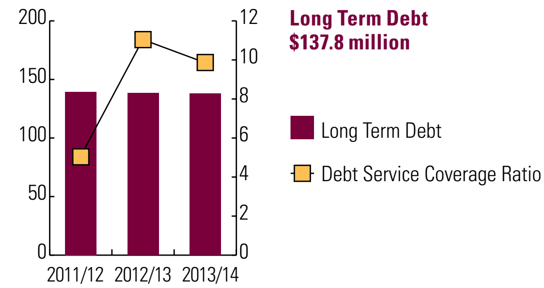


Net Assets
$931.2 million



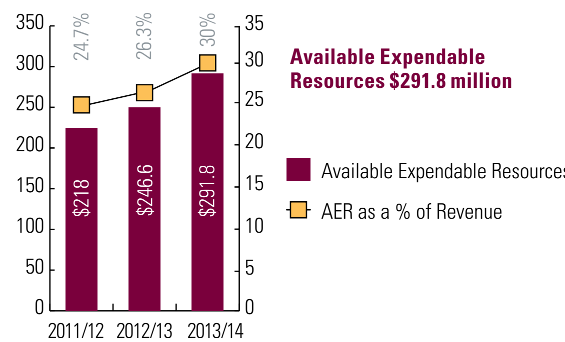
Long Term Debt

- External long term debt decreased by $0.6 million.
- The debt service coverage ratio decreased due to the decrease in excess revenues over expenditures.



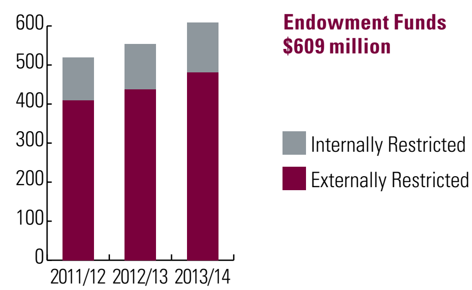
Available Expendable Resources (AER)

- 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 $291.8 million from $246.6 million as a result of increases in specific purpose reserves and the internal endowment.



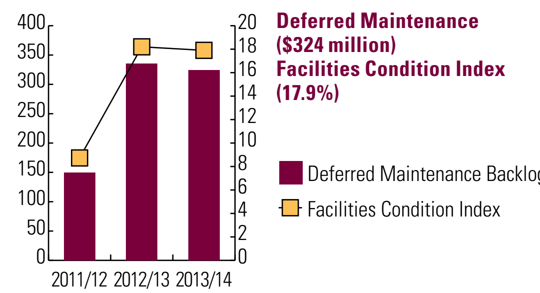
Endowment Funds

- McMaster's internal and external endowments grew by 10.1%.
- The endowment funds per student increased from $20,099 to $21,908 year over year.



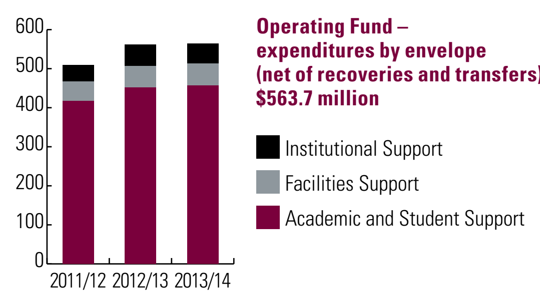
Deferred Maintenance

- McMaster's deferred maintenance backlog decreased from $335.0 million to an estimated $324.0 million.
- McMaster's Facilities Condition Index (FCI)[3] is 17.9%, a slight improvement from 2012/13 when it was 18.2%.
- The decrease in deferred maintenance backlog and the campus FCI is attributed to the increased spending on deferred maintenance projects.



Operating Fund – expenditures by envelope

- Operating fund net expenditures increased by 0.4%.
- Academic and student support increased by 1.3% from the prior year.
- Facilities support grew by 2.2%, while institutional support decreased by 8.6% from the previous year due to reduced hardware and software costs relative to large one time purchases for Mosaic in 12/13.



[3] 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 accounting standards for not-for-profit organizations as prescribed by Chartered Professional Accountants of Canada 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, Specifically Funded 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 almost 60% of all spending. The 2013/14 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 $25.6 million attributed to $39.8 million in one-time planned expenditures. The University finished the year with a $3.3 million surplus as shown in the chart below.

Total operating fund revenues were $567.1 million as compared to the projected funding of $562.9 million. The favourable variance of $4.2 million (0.8%) is primarily due to increased application and enrolment volume, with higher revenue from application fees and interest on student accounts.

2013/14 OPERATING FUND ($ millions)

				Variance	
	Budget	Projection	Actual	Budget vs. Actual	Projection vs. Actual
Sources of revenue	$ 547.2	$ 562.9	$ 567.1	$ 19.9	$ 4.2
Less: net expenditures	572.3	574.7	563.3	9.1	11.5
Excess (deficiency) of revenue over net expenditures	**(25.1)**	**(11.8)**	**3.8**	**28.9**	**15.6**
Add amount funded by (transferred to) unrestricted net assets	(0.5)	(0.5)	(0.5)	–	–
Net surplus (deficit)	**(25.6)**	**(12.3)**	**3.3**	**28.9**	**15.6**
Fund balance, beginning of year*	77.1	77.1	77.1	–	–
Fund balance, end of year	**$ 51.4**	**$ 64.8**	**$ 80.4**	**$ 28.9**	**$ 15.6**

*adjusted to actual and restated to reflect reclassifications between funds

The favourable revenue variance of $19.9 million (3.7%) compared to the original budget primarily relates to:

- greater than budgeted tuition revenue due to higher enrolment ($3.4 million);
- greater than budgeted interest on student accounts ($1.2 million);
- greater than budgeted application fees ($1.1 million);
- $1.4 million more external recoveries than budgeted;
- research overhead income ($1.4 million); and
- other income ($11.4 million), primarily due to specific program grants from the Ministry of Health as well as other income for the Faculty of Health Sciences ($7.3 million).

Operating fund expenditures net of transfers and recoveries were $563.2 million as compared to projected net expenditures of $574.7 million. The favourable variance of $11.5 million (2%) was due primarily to a reduction in non-salary spending.

The remaining surplus of $3.3 million results in closing appropriations of $80.4 million, up from $77.1 million at April 30, 2013. Appropriations are available to provide funds to offset one-time spending and investments in deficit-reducing strategies.

Below: Artist **Wing Lau (Sally)**, Level 1 Studio Art Title: Midsummer Night's Dream project (linoleum relief print). In this work, the overlapping of the two different linocut images creates a chaos of small fragments like small pieces in mosaic.

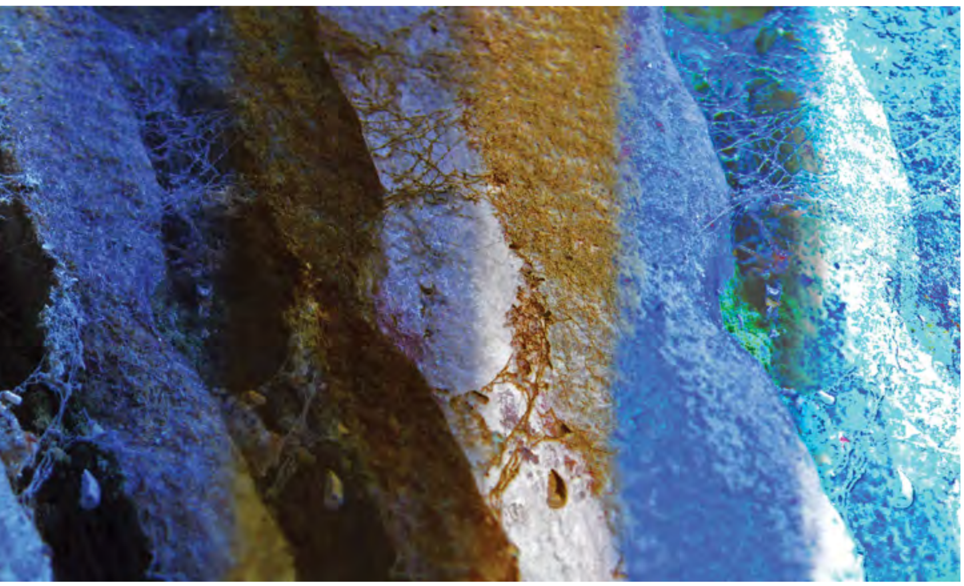
FINANCIAL STATEMENTS, APRIL 30, 2014

MOSAIC

McMaster University's Annual Report theme is Mosaic to reflect the 2013/14 efforts of the University to bring together several strategic plans and support *The Emerging Landscape and Forward with Integrity.*

Left: Artist **Donna Blake**, Level II Studio Art.
Title: Beside Bendamere (photography) This photograph depicts granite blocks encircling a spruce tree. The spaces between allow water to reach its roots creating a mosaic pattern.

Below: Artist **Natalie Richard**, Level III Studio Art.
Title: Critimage 2 (digital collage). These photographs of forgotten landscapes were deconstructed and reconstructed to create the fragmented memory of a dream.



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McMaster University

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McMaster University

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, 2014 and the results of its operations, changes in net assets and its cash flows for the years ended April 30, 2014. 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 year ended April 30, 2014 have been reported on by KPMG LLP, Chartered Professional Accountants, the auditors appointed by the Board of Governors. The Independent 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	President	AVP (Administration) & CFO

October 23, 2014

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, 2014, the statements of operations, changes in net assets, and cash flows for the year then ended, 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 audit. We conducted our audit 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 financia 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 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, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
October 23, 2014

McMASTER UNIVERSITY
Statement of Financial Position
April 30, 2014, with comparative figures for 2013
(thousands of dollars)

	2014	2013
Assets		
Current assets:		
Cash and equivalents	$ 172,294	$ 156,914
Government grants and other accounts receivable (note 2)	52,476	63,422
Research grants receivable	97,891	91,183
Inventories	5,510	6,305
Prepaid expenses	6,087	5,107
	334,258	322,931
Investments (note 3)	844,242	740,359
Other investments (note 4)	15,738	14,888
Loans receivable (note 4)	4,838	3,948
Capital assets (note 5)	888,337	854,422
Deferred pension asset (note 6)	162,201	197,356
	$ 2,249,614	$ 2,133,904
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 121,731	$ 127,221
Deferred revenue	27,365	29,754
Current portion of long-term obligations (note 8)	616	580
	149,712	157,555
Accrued employee future benefits (note 6)	287,299	280,894
Long-term obligations (note 8)	146,786	146,946
Deferred contributions (note 9):		
Deferred for future expenses	314,350	305,568
Deferred capital contributions	420,293	399,105
	734,643	704,673
Net assets:		
Unrestricted	8,188	8,125
Internally restricted (note 10):		
Employee future benefits	(98,856)	(86,748)
Specific purpose	155,861	122,726
Equity in capital assets (note 11)	332,569	319,261
Endowments (note 12):		
Internal	127,746	115,733
External	405,666	364,739
	931,174	843,836
Commitments and contingencies (note 13)		
	$ 2,249,614	$ 2,133,904

On behalf of the Board of Governors:

Jane Pagarato. Chair, Board of Governors

Chair, Audit Committee

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Operations

Year ended April 30, 2014, with comparative figures for 2013

(thousands of dollars)

	2014	2013
Revenues:		
Operating grants	$ 265,284	$ 259,485
Research grants and contracts	154,497	173,723
Tuition fees	214,118	200,140
Other (note 14)	99,933	96,874
Ancillary sales and services	67,161	68,123
Investment income, net	63,353	47,103
Donations and other grants	58,000	44,789
Research overhead grants	12,953	12,813
Amortization of deferred capital contributions	37,604	35,779
	972,903	938,829
Expenses:		
Salaries and wages	437,085	430,626
Employee benefits	161,123	127,794
Supplies and services	253,050	247,757
Interest on long-term obligations	8,575	8,620
Amortization of capital assets	66,659	63,317
	926,492	878,114
Excess of revenues over expenses	$ 46,411	$ 60,715

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Changes in Net Assets

Year ended April 30, 2014, with comparative figures for 2013

(thousands of dollars)

		Internally restricted						
		Employee		Equity in				
		future	Specific	capital	Endowments		2014	2013
	Unrestricted	benefits	purposes	assets	Internal	External	Total	Total
Net assets, beginning of year (note 20):	$ 8,125	$ (86,748)	$ 122,726	$ 319,261	$ 115,733	$ 364,739	$ 843,836	$ 753,944
Excess (deficiency) of revenues over expenses	75,466	-	-	(29,055)	-	-	46,411	60,715
External endowment contributions:								
Contributions	-	-	-	-	-	5,111	5,111	11,487
Protection of capital	-	-	-	-	-	35,816	35,816	17,690
Transfers and adjustments:								
Transfers for specific purposes	(21,027)	(12,108)	33,135	-	-	-	-	-
Capital transactions from operating (note 11)	(42,363)	-	-	42,363	-	-	-	-
Transfer to internal endowments	(12,013)	-	-	-	12,013	-	-	-
	63	(12,108)	33,135	13,308	12,013	40,927	87,338	89,892
Net assets, end of year	$ 8,188	$ (98,856)	$ 155,861	$ 332,569	$ 127,746	$ 405,666	$ 931,174	$ 843,836

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Cash Flows

Year ended April 30, 2014, with comparative figures for 2013

(thousands of dollars)

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	$ 46,411	$ 60,715
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(37,604)	(35,779)
Amortization of capital assets	66,659	63,317
Increase in accrued employee future benefits	6,405	7,738
Equity earnings of other investments	(850)	(201)
Increase in decommissioning obligation	455	435
Decrease in deferred pension asset	35,155	2,874
	116,631	99,099
Net change in contributions deferred for future expenses	8,782	(15,954)
Net change in other non-cash working capital	(3,826)	(12,072)
	121,587	71,073
Financing and investing activities:		
Purchase of capital assets	(100,574)	(127,759)
Net change in investments	(103,883)	(67,048)
Loan receivable	(890)	(3,948)
Net change in external endowments	40,927	29,177
Deferred capital contributions	58,792	72,295
Principal repayments on long-term obligations	(579)	(1,029)
	(106,207)	(98,312)
Net increase (decrease) in cash and equivalents	15,380	(27,239)
Cash and equivalents, beginning of year	156,914	184,153
Cash and equivalents, end of year	$ 172,294	$ 156,914

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. The University is a comprehensive research institution offering a broad range of undergraduate, graduate and continuing education programs and degrees. The University is exempt from income taxes.

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 CPA Canada 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. ("DTL") is accounted for by the equity method (note 4). DTL has a fiscal year end of April 30th and the University records its share of the operating results on that date.

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

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

  These financial statements include the University's 50% interest in ALS (note 4). ALS is a joint venture with an unrelated pharmaceutical research company to commercialize intellectual property. ALS 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.

1. Significant accounting policies (continued):

(a) Basis of presentation (continued):

OSCAR EMR:

OSCAR EMR ("OSCAR") is a not-for-profit technology/software company incorporated under the Ontario Corporations Act, controlled by McMaster University. OSCAR has a fiscal year end of December 31st. Financial information is disclosed in note 4. OSCAR has not been consolidated in the University's financial statements.

(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.

(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.

1. Significant accounting policies (continued):

(d) Derivative financial instruments:

The University is party to an interest rate swap agreement which is 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.

(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

Construction in progress is carried at cost, with no amortization recorded until such time as the assets are available for their intended use.

1. Significant accounting policies (continued):

(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 $172,000 (2013 - $345,000) and are recorded in 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 purpose net assets.

(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.

1. Significant accounting policies (continued):

(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 purpose: 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.

(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.

1. Significant accounting policies (continued):

(p) Future change in accounting policy:

In December 2013, the Accounting Standards Board ("AcSB") released CPA Canada Handbook – Accounting Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations, which incorporates the existing Section 3462, Employee Future Benefits, and is effective for fiscal years beginning on or after January 1, 2014.

Under the new standard, actuarial gains and losses and past service costs are no longer deferred and amortized over future periods. The full actuarial liability net of any related assets is recorded in the statement of financial position, the annual benefit cost is recorded in the statement of operations and the change in unamortized gains and losses is recognized in the statement of changes in net assets. In addition, interest cost and expected rate of return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate used to calculate the net benefit obligation.

The University intends to adopt the new standard, with retrospective application, for the annual period beginning on May 1, 2014. The extent of the impact on adoption of the standard has not yet been determined.

2. Government grants and other accounts receivable:

(thousands of dollars)	2014	2013
Government grants	$ 11,830	$ 5,612
Other	45,380	61,945
	57,210	67,557
Less allowance for doubtful accounts	4,734	4,135
Balance, end of year	$ 52,476	$ 63,422

3. Investments:

Details of investments are as follows:

(thousands of dollars)	2014		2013	
	Fair value	Cost	Fair value	Cost
Equities:				
Canadian	$ 165,142	$ 129,877	$ 131,298	$ 120,290
United States	168,549	99,613	150,372	113,072
Non-North American	146,747	143,808	117,756	122,752
	480,438	373,298	399,426	356,114
Fixed income	333,742	332,295	330,401	323,712
Other	30,062	25,684	10,532	9,501
	$ 844,242	$ 731,277	$ 740,359	$ 689,327

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)	2014	2013
McMaster Innovation Park (a)	$ 15,863	$ 14,903
Downtown Land Holdings Inc. (b)	-	-
Adiga Life Sciences Inc. (c)	816	459
The Director's College (d)	(941)	(474)
	$ 15,738	$ 14,888

Details of loans receivable are as follows:

(thousands of dollars)	2014	2013
Downtown Land Holdings Inc. (b)	$ 3,948	$ 3,948
Graduate Students Association (e)	890	-
	$ 4,838	$ 3,948

(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)	2014	2013
Balance, beginning of year	$ 14,903	$ 14,234
Equity earnings	960	669
Balance, end of year	$ 15,863	$ 14,903

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, 2014, $107,683 (2013 - $110,436) in income was recorded by the University.

Included in rent expense for the University for the year ended April 30, 2014 is $569,410 (2013 - $765,410). Included in accounts receivable at April 30, 2014 is $1,428,681 (2013 - $1,391,398) receivable from the Park. Included in accounts payable is $nil (2013 - $765,410) owing to the Park. Included in Note 13(f) are $2,615,441 (2013 - $3,256,484) in operating lease commitments with the Park.

During the year the University provided payroll services at a fee which amounted to $13,200 (2013 - $13,200).

4. Other investments (continued):

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

(thousands of dollars)	December 31, 2013	December 31, 2012
Total assets	$ 108,350	$ 112,511
Total liabilities	$ 84,399	$ 88,399
Total deferred capital grants	8,088	9,209
Total trusts' equity	15,863	14,903
	$ 108,350	$ 112,511
Results of operations:		
Total revenues	$ 11,646	$ 10,464
Total expenses	10,686	9,795
Net earnings	$ 960	$ 669
Cash flows:		
From operating activities	$ (4,725)	$ (430)
From financing and investing activities	1,513	1,969
(Decrease) increase in cash	$ (3,212)	$ 1,539

In 2013, the Park substantially completed construction of approximately 88,000 square feet of space for the McMaster Automotive Resource Centre (MARC). Construction costs incurred to April 30, 2014 amounted to $21,768,183 (2013 - $20,389,735) and are included in the University's capital assets. Included in Note 10(b) are $10,268,000 in internally financed capital projects for MARC.

(b) Downtown Land Holdings Inc.:

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

(thousands of dollars)	April 30, 2014	April 30, 2013
Total assets	$ 4,442	$ 4,152
Total liabilities	$ 4,442	$ 4,152
Total equity	-	-
	$ 4,442	$ 4,152

The University has a loan receivable from Downtown Land Holdings Inc. in the amount of $3,948,000 at April 30, 2014 (2013 - $3,948,000). The loan bears interest at an annual rate of 6.75%.

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, 2013	August 31, 2012
Total assets	$ 2,638	$ 2,067
Total liabilities	$ 1,006	$ 1,148
Total equity	1,632	919
	$ 2,638	$ 2,067
Results of operations:		
Total revenue	$ 7,117	$ 10,055
Total expenses	6,404	10,374
Net earnings	$ 713	$ (319)

(d) The Director's College:

The University's share of cash distributions from The Director's College during the year ended April 30, 2014 amounted to $300,000 (2013 - $nil). Cumulative distributions since inception amount to $1,200,000 and are included in cash and equivalents in the statement of financial position.

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

(thousands of dollars)	May 31, 2013	May 31, 2012
Total assets	$ 832	$ 1,353
Total liabilities	$ 314	$ 502
Total equity	518	851
	$ 832	$ 1,353
Results of operations:		
Total revenue	$ 2,066	$ 1,943
Total expenses	1,799	1,660
Net earnings	$ 267	$ 283

(e) Graduate Students Association:

The University has a loan receivable from Graduate Students Association in the amount of $889,890 at April 30, 2014 (2013 - $nil). The loan bears interest at a fixed rate of 6.75%, repaid lump sum payments due and payable within sixty days of the closing of each of the trimestrial graduate registration periods.

4. Other investments (continued):

(f) OSCAR EMR:

Financial information from OSCAR EMR's financial statements are as follows:

(thousands of dollars)		December 31, 2013
Total assets	$	157
Total liabilities	$	770
Total equity		(613)
	$	157
Results of operations:		
Total revenue	$	175
Total expenses		788
Net earnings	$	(613)

5. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	2014 Net
Land	$ 54,675	$ -	$ 54,675
Buildings	935,408	342,060	593,348
Decommissioning retirement costs	1,826	328	1,498
Site improvements	26,019	8,884	17,135
Leasehold improvements	8,041	1,934	6,107
Library materials	144,738	117,488	27,250
Equipment, furnishings and vehicles	428,412	357,308	71,104
Computing systems and computing equipment	131,642	91,500	40,142
Construction in progress	77,078	-	77,078
	$ 1,807,839	$ 919,502	$ 888,337

(thousands of dollars)	Cost	Accumulated amortization	2013 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

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:

(thousands of dollars)	2014			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,964,044	$ 76,234	$ 250,845	$ 2,291,123
Fair value of plan assets	1,563,395	-	-	1,563,395
Funded status - deficiency	(400,649)	(76,234)	(250,845)	(727,728)
Reconciliation to deferred benefits (accrued future benefits):				
Unamortized past service cost	(8,018)	4,875	(12,661)	(15,804)
Unamortized actuarial loss	570,868	9,189	38,377	618,434
Deferred pension asset	$ 162,201	$ -	$ -	$ 162,201
Accrued employee future benefits	-	(62,170)	(225,129)	(287,299)
	$ 162,201	$ (62,170)	$ (225,129)	$ (125,098)

(thousands of dollars)	2013			
	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 (gain)	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)

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)	2014		2013	
	Pension	Other	Pension	Other
Net benefit expense	$ 94,369	$ 14,098	$ 60,806	$ 14,917

6. Employee future benefits (continued):

(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	69.4%	65.0%	8.3%
Debt securities	30.1%	35.0%	4.6%
Other	0.5%	0%	3.0%

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

	Pension	Other
Discount rate	4.50%	4.50%
Expected long-term rate of return on plan assets	5.75%	-
Rate of compensation increase	3.97%	4.00%

(e) The significant actuarial assumptions adopted in measuring the net benefit expense 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%

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

(thousands of dollars)	2014		2013	
	Pension	Other	Pension	Other
Employer contributions	$ 60,169	$ 6,320	$ 58,781	$ 5,766
Employee contributions	23,124	-	20,521	-
Benefits paid	73,084	6,320	65,404	5,766

(g) For measurement purposes, a 5.72% annual rate of increase in per capita medical cost was assumed for 2014, 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, 2013, the next required filing date is July, 2016.
- 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 2014, have been extrapolated to April 30, 2014, 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 2014 amounted to $817,903 each (2013 - $565,000).

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 $5,558,000 (2013 - $4,335,000).

8. Long-term obligations:

Details of long-term obligations are as follows:

(thousands of dollars)					2014	2013
	Maturity	Interest rate	Current portion	Non-current portion	Total outstanding	Total outstanding
Long term debt:						
Mortgage	Oct 2016	5.38%	133	212	345	470
Bank term loan (a)	May 2033	floating	483	16,964	17,447	17,901
Debentures (b)	Oct 2052	6.15%	-	120,000	120,000	120,000
			616	137,176	137,792	138,371
Decommissioning obligation (c)			-	9,610	9,610	9,155
			$ 616	$ 146,786	$ 147,402	$ 147,526

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

2015	$ 616
2016	655
2017	622
2018	586
2019	625

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(a) 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%.

(b) 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, 2014 amounted to $13,650,000 (2013 - $11,876,000).

(c) 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, 2014, the fair value of the trust funds amounted to $9,708,000 (2013 - $8,501,000). The net present value of the estimated cost for decommissioning, at April 30, 2014 is $9,610,000 (2013 - $9,155,000) using risk free rates ranging between 4.5% and 5.1%.

8. Long-term obligations (continued):

(d) 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(a)) 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 notional and fair values of the interest rate swap agreement is as follows:

(thousands of dollars)	2014		2013	
	Notional value	Fair value	Notional value	Fair value
30-year interest rate swap	$ 17,447	$ (5,829)	$ 17,901	$ (7,520)

The change in fair value of the swap for the year ended April 30, 2014 is $1,691,000 (2013: ($413,000)).

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)	2014	2013
Balance, beginning of year (note 20)	$ 305,568	$ 321,522
Deferred and capital contributions received	329,588	287,855
	635,156	609,377
Less:		
Amounts recognized as revenue	(262,014)	(231,514)
Deferred capital contributions transfer	(58,792)	(72,295)
Balance, end of year	$ 314,350	$ 305,568

Deferred contributions consist of the following:

(thousands of dollars)	2014	2013
Research grants and contracts	$ 176,690	$ 166,368
Donations, other grants and investment income	75,559	72,617
Capital grants and donations	47,866	52,149
Other restricted funds	14,235	14,434
	$ 314,350	$ 305,568

9. Deferred contributions (continued):

(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)	2014	2013
Balance, beginning of year	$ 399,105	$ 362,589
Add: contribution transfers	58,792	72,295
Less: amount amortized to revenue	(37,604)	(35,779)
Balance, end of year	$ 420,293	$ 399,105

10. Internally restricted net assets:

(a) Employee future benefits:

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

(thousands of dollars)	2014	2013
Pensions	$ 88,236	$ 102,805
Other retirement and post employment benefit plans	(187,092)	(189,553)
	$ (98,856)	$ (86,748)

(b) Specific purpose:

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

(thousands of dollars)	2014	2013
Unexpended departmental carryforwards	$ 80,296	$ 77,068
Research	18,481	20,319
Ancillaries	3,655	5,163
Other	72,243	55,873
	174,675	158,423
Sinking funds	13,650	11,876
Capital projects	(32,464)	(47,573)
	$ 155,861	$ 122,726

Included in unexpended departmental carryforwards is a $2,500,000 (2013 - $3,000,000) advance to the Faculty of Science from unrestricted net assets for which arrangements for recovery are in place.

10. Internally restricted net assets (continued):

(b) Specific purposes (continued):

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, 2014 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (20,710)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(12,995)
Les Prince Residence	Ancillary operations	(16,733)
David Braley Athletic Centre	Student levies, pledges, fundraising	(10,371)
McMaster Automotive Resource Centre (MARC)	Various	(10,268)
Internal equipment loans	Various	(346)
		(71,424)
Other projects (net)	Various	38,960
		$ (32,464)

(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)

11. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	2014	2013
Capital assets	$ 888,337	$ 854,422
Less amounts financed by:		
Net long-term debt	(135,475)	(136,056)
Unamortized deferred capital contributions	(420,293)	(399,105)
	$ 332,569	$ 319,261

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	2014	2013
Repayment of long-term debt	$ 579	$ 1,029
Capital asset purchases from operating	41,784	55,464
	$ 42,363	$ 56,493

12. Endowments:

(a) Internal:

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

(thousands of dollars)	2014	2013
Balance, beginning of year	$ 115,733	$ 109,806
Donations	99	199
Investment income	16,927	10,952
Net transfers and expenses	(5,013)	(5,224)
Balance, end of year	$ 127,746	$ 115,733

Included in internal endowments is an amount of $60,873,000 (2013 - $55,322,000) 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)	2014	2013
Balance, beginning of year	$ 364,739	$ 335,562
External contributions:		
OTSS	-	824
Other	5,111	10,663
Income retained - capital protection policy	35,816	17,690
Balance, end of year	$ 405,666	$ 364,739

Investment income on external endowments amounted to $49,140,000 (2013 - $30,546,000). In accordance with the endowment capital protection policy, this income less the amount made available for spending of $13,870,000 (2013 - $13,040,000) and net transfers of $546,000 (2013 - $184,000) 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 provision consistent with a settlement proposal that has been agreed upon by the parties and voted on by affected individuals, but which is still subject to court approval, is recorded in the financial statements.

(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, 2014 was $21.3 million (2013 - $21.9 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2014, 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 and system projects amounted to $240.7 million at April 30, 2014 (2013 - $208.2 million). The major commitments are as follows: McMaster Health Campus ($44 million), L.R. Wilson Hall ($56 million) and system projects ($33 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, 2014, the University's remaining share of the costs are estimated to be $27.3 million (2013 - $27.8 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 $7,501,000.

(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)	
2015	$ 2,174
2016	1,557
2017	1,368
2018	1,232
2019	1,028

(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 $12.5 million has been received.

14. Other income:

Details of other income are as follows:

(thousands of dollars)	Major Sources		2014		2013
Faculty of Health Sciences	Non-degree educational fees, specifically funded programs, international postgraduates stipends, space/equipment rentals, other student fees	$	52,022	$	51,452
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees		7,306		7,673
Academic Services	Nuclear reactor sales, contracts and patent royalties, registrar adminstration fees		9,942		9,981
Student Services	Athletics and Recreation memberships and user fees		18,050		18,127
Miscellaneous	Application fees, late payment fees, sales of utilities and other departmental sales		12,723		10,109
Other Investment Income	The Director's College, Adiga Life Sciences Inc.		(110)		(468)
		$	99,933	$	96,874

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 $152,000 (2013 - $129,000).

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 2014. 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 2013.

(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 2013.

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, 2014 and 2013 in the first phase of the Ontario Student Opportunity Trust Fund (OSOTF I) balance:

(thousands of dollars)	2014	2013
Endowment balance, beginning of year	$ 31,321	$ 31,648
Investment income (used from) retained for protection of capital	(254)	(190)
Investment income transferred (to) expendable income	(259)	(137)
Endowment balance, end of year	30,808	31,321
Funds available for awards, beginning of year	-	-
Investment income	1,188	608
Bursaries awarded (2014 - 1,316 awards; 2013 - 782 awards)	(1,447)	(745)
Investment income transferred from endowment balance	259	137
Funds available for awards, end of year	-	-
Total funds at book value	$ 30,808	$ 31,321

The market value of the endowment as at April 30, 2014 was $33,589,000 (2013 - $31,866,000).

(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)	2014	2013
Endowment balance, beginning of year	$ 5,670	$ 5,737
Investment income (used from) retained for protection of capital	101	(67)
Endowment balance, end of year	5,771	5,670
Funds available for awards, beginning of year	27	20
Investment income for expenditures	211	146
Bursaries awarded (2014 - 241 awards; 2013 - 216 awards)	(201)	(139)
Funds available for awards, end of year	37	27
Total funds at book value	$ 5,808	$ 5,697

The market value of the endowment as at April 30, 2014 was $6,679,000 (2013 - $5,669,000).

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 will provide 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)	2014	2013
Endowment balance, beginning of year	$ 35,932	$ 34,553
Cash donations received	-	824
Investment income retained for protection of capital	978	555
Endowment balance, end of year	36,910	35,932
Funds available for awards, beginning of year	1,195	1,011
Investment income for expenditures	1,214	865
Bursaries awarded (2014 - 349 awards; 2013 - 201 awards)	(1,113)	(681)
Funds available for awards, end of year	1,296	1,195
Total funds at book value	$ 38,206	$ 37,127

The market value of the endowment as at April 30, 2014 was $44,156,000 (2013 - $39,841,000).

19. Pledges receivable:

Outstanding but unrecorded pledges for donations and other fund raising amounted to $67,834,000 (2013 - $69,236,000).

20. Comparative figures:

In conjunction with the system conversion during the fiscal year, the University conducted a review of operating accounts for external restrictions. The following table summarizes the impact of reclassifying identified accounts from internally restricted net assets to deferred contributions :

Internally restricted net assets:	
As previously reported on April 30, 2013	$ 125,941
Reclassification to deferred contributions	(3,215)
Reclassified, April 30, 2013	$ 122,726

Deferred contributions:	
As previously reported on April 30, 2013	$ 302,353
Reclassification from internally restricted net assets	3,215
Reclassified, April 30, 2013	$ 305,568

Certain comparative figures for 2013 have been reclassified to conform with the financial statement presentation adopted in the current year.

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McMaster University

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