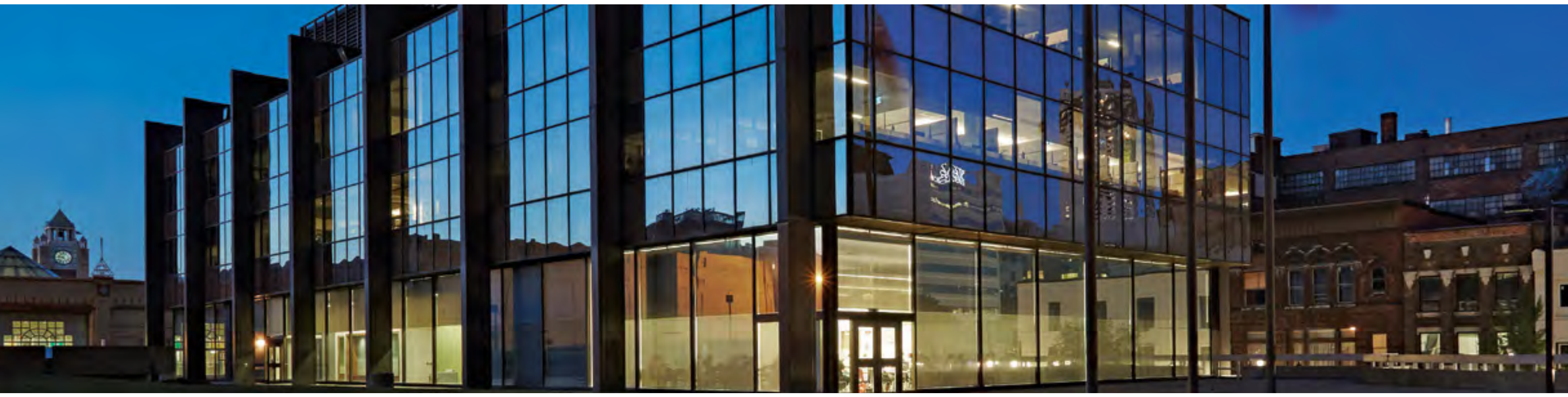
ANNUAL FINANCIAL REPORT 2014/2015



McMaster University

ANNUAL FINANCIAL REPORT 2014/2015

PARTNERING

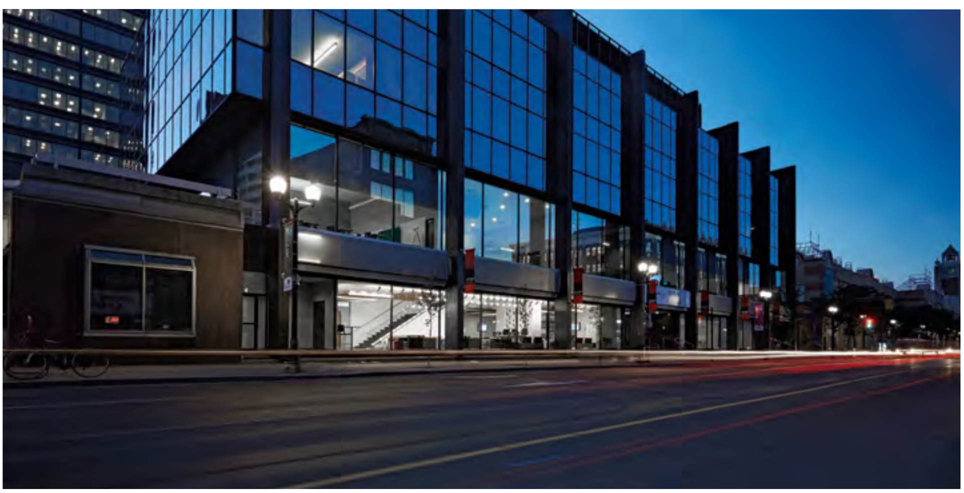
McMaster University's Annual Report theme is Partnering to reflect its ongoing relationship with the residents of the City of Hamilton and the revitalization of its downtown core. During 2014/15, the University celebrated the completion of the David Braley Health Science Centre (DBHSC) located at Main and Bay Streets, and the renovation of the One James North (OJN) location within Jackson Square.

COVER

Top: Exterior photograph of the One James North location from the promenade of Jackson Square. One James North is the new home for the Centre for Continuing Education and the University's administrative support teams. Photo credit: Banko Media.

Middle & Lower: Exterior photograph of the David Braley Health Sciences Centre and celebrations of its opening day in May 2015. Dean of Medicine, John Kelton thanks donor David Braley, for his generous contribution. Photo credits: Mike Lalich and Ron Scheffler

Below: Exterior photograph of the One James North location from the corner of King and James Streets. Photo credit: Banko Media.



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YEAR IN REVIEW

Looking east at One James North from the Jackson Square promenade, at dusk. Photo credit: Banko Media.

McMaster University finished the year with a $78.6 million surplus and an adjusted prior year surplus of $86.6 million (restated from $46.4 million). The most notable change affecting surpluses over both periods were the new pension accounting standards adopted this year requiring a restatement of expenses to the Statement of Changes and Net Assets, and a restatement of previously recorded pension assets. While McMaster's underlying operational activity has not changed substantially, the transition to the new pension accounting policies has made McMaster's financial health appear stronger. In reality, the pension issues are not gone. Pension costs remain one of the greatest financial challenges for the University, particularly as both updated mortality tables and continued low interest rates continue to keep the liability measurement high. While interest impacts may be conceptualized as temporary in nature, the fact that pensioners are living longer is a net additional pension cost that requires additional long term funding.

The new pension accounting policies change previously recorded benefit expenses. In the past, measurements of pension liabilities flowed through the Statement of Operations affecting net surplus results. Under new rules these measurements no longer impact surplus positions and instead the adjustment flows through the Statement of Changes in Net Assets. The result is less volatility in the annual financial results, but also risk that the University's year end surplus appears high. The fact remains that the University deploys a budget approach that smooths benefit costs charged to the Faculty and departments over time, while in parallel it manages the cash outflow schedule for pensions that is highly variable. Cash outflows for pensions can vary from year to year by more than $30 million.

Aside from the significant changes associated with adopting the new pension rules, McMaster University also achieved some significant milestones associated with its strategic plans that are reflected in the financial statements. In 2014/15 the *Mosaic* project was substantially completed with both Human Resources and Student modules going live. While the University continues to adjust to the new system, which has required some remodeling of former processes, additional work continues associated with *Mosaic* to ensure process efficiency.

The guiding strategy for the University was established by *Forward with Integrity,* which prioritizes our focus on strengthening the excellence of our research and our graduate education and training, enhancing connections with the local and global communities we serve, and developing a distinctive and engaging student experience, which integrates research into our academic mission. These key priorities of FWI are reflected in McMaster's Strategic Mandate Agreement and provide the overarching framework within which we think about our strategic planning. A number of key capital developments in support of these priorities took place during 2014/15, including the emergence of L.R. Wilson Hall from the former footprint of Wentworth House. L.R. Wilson Hall will be home to both Social Sciences and Humanities programs, will include a new concert hall, and is slated to be open in the fall of 2016. Further, the Dr. Robert and Andrée Rhéaume Fitzhenry Studios and Atrium were substantially completed and provide improved and increased space for studio arts.

In downtown Hamilton, the space formerly known as the Downtown Courthouse was vacated with most staff relocated

YEAR IN REVIEW

to the newly renovated One James North (at the corner of King and James Streets). This new prominent downtown location hosts McMaster's Centre for Continuing Education, as well as administrative support teams. Finally, the most notable capital achievement in 2014/15 was the completion of the new David Braley Health Sciences Centre. This 192,000 square-foot building, located at the corner of Main and Bay Streets, was made possible through a series of partnership contributions including a gift from David Braley, and contributions from the City of Hamilton, the Province of Ontario, and McMaster University. The David Braley Health Sciences Centre is the new home to Hamilton Public Health Services, a large family health clinic, several academic programs for continuing health sciences education, and the Foundation for Medical Practice Education. With two large capital project openings in downtown Hamilton during 2014/15 the University's commitment to the city and region is further affirmed.

During 2014/15, approval was granted for the proposed new Living Learning Centre (LLC). Closely aligned with McMaster's strategic goal of enhancing the student experience and developing the University's capacity, the LLC will be a 500-bed residence and academic learning environment, which will also become the home of the McMaster Children's Centre (formerly housed in Wentworth House). The LLC will be positioned adjacent to the Ron Joyce Stadium and work will begin in 2016.

To support new capital projects McMaster embarked upon a call for additional financing during the year. McMaster is in the process of securing up to $120 million in new financing to realize its plans for new and renovated capital projects. As a result of increased funding announced by the Ontario Ministry of Training, Colleges and Universities and an enhanced commitment by the University, in addition to the new capital projects referred to above, it is also planned to complete critical deferred maintenance projects by 2018.

McMaster's research reflects current and emerging social and economic issues of relevance to our local and global communities and has impact across a wide-range of disciplines and issues. Our research success in 2014/15 has resulted in additional revenues being recognized and corresponding increases in salaries and wages, supplies and services. Highlights for the 2014/15 year include the announcement of a Fraunhofer Institute, only the 3rd in Canada, in partnership with McMaster researchers in Bio-medical Engineering. Our state-of-the-art LIVELab, which enables cutting-edge analysis of human interaction with music, hearing, vision, movement, and learning was opened, and neutron-scattering research further enabled at the McMaster Nuclear Reactor.

McMaster will continue to monitor its strategic priorities against the back-drop of sustainable financial health. In relation to the University's future financial health, McMaster is actively engaged in discussions associated with the potential for a new jointly sponsored pension plan and proposed changes to the tuition funding formula. Both initiatives are likely to have a significant impact upon the sector.

The information contained in this Annual Financial Report is intended to provide the reader with financial information for the fiscal year ended April 30, 2015. While the focus of this document is the consolidated operations of all funds on an accrual basis, information regarding the Operating Fund, which operates on a cash basis for budgeting and accounting purposes, has been included on page 24.

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

- SMA – Signed Agreement – April, 2014

  SMA – March, 2014
- Forward with Integrity
- Consolidated Budget – June 2015
- State of the Academy Address – October 2014
- University Fact Book

BY THE NUMBERS

$912,200,000
Total expenditures vs. $886,300,000 last year

$326,000,000
Available expendable resources vs. $291,800,000 last year

$(12,200,000)
Excess (deficit) of revenues over expenses operating fund only vs. $3,300,000 last year

$78,600,000
Excess of revenues over expenses vs. $86,600,000 last year

$35,188
Total revenue per FTE student vs. $35,000 last year

$194,100,000
Research revenue receipted vs. $189,400,000 last year

$655,500,000
Endowment funds vs. $609,000,000 last year

$135,900,000
Capital spending vs. $100,600,000 last year

$990,800,000
Total revenue vs. $972,900,000 last year

$892,700,000
Total net assets vs. $683,600,000 last year

28,157
Enrolment (full time equivalent (FTE)) vs. 27,796 last year

$(63,300,000)
Employee future benefit unfunded obligation pension vs. $165,900,000 last year

$23,281
Endowment per FTE students vs. $21,908 last year

$(217,200,000)
Employee future benefit unfunded obligation non-pension vs. $206,800,000 last year

REVENUES

Above and opposite: A variety of seating and gathering space is available for continuing education students in the light-filled lobby at One James North. Photo credit: Banko Media.

REVENUES

McMaster University continues to focus on new revenue generation opportunities while actively managing existing revenue streams to optimize funding invested in the student experience, academic and research mission. Investments include both technological and infrastructure transformation.

In 2014/15, total revenue increased by 1.8% to $990.8 million (2013/14 – $972.9 million) and revenue per FTE[1] enrolment exceeded $35,150. The revenue increase of $17.9 million relates primarily to increases of $16.3 million in tuition (related to enrolment growth of 1% and approved tuition increases within the Ontario Ministry of Training, Colleges and Universities framework) and $16.1 million additional research grants and contracts revenue, offset by decreased revenue of $8.8 million in donations and other grants, and $7.0 million in investment income.

Operating Grants Income

Government operating grants decreased by 1.0% to $265.2 million, down $2.7 million over 2013/14. The basic operating grant decrease primarily relates to the final $2.2 million policy lever funding reduction implementation. In addition, declining eligible graduate enrolment reduced the graduate expansion grant by $0.9 million. Offsetting the revenue decreases is an additional $1.4 million for undergraduate accessibility based on the University's share of year-over-year growth across Ontario, as well as an additional $0.7 million for MD and Post Graduate medical education.

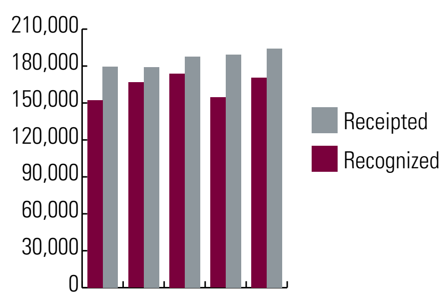
Research Grants and Contracts

In 2014/15, research revenue recognized increased 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 increased to $194.1 million (2013/14 – $189.4 million) before deferrals. After deferrals, research revenue recognized increased by 10.4% to $170.6 million (2013/14 – $154.5 million) over the past year.

$ millions

RESEARCH REVENUE RECOGNIZED	2015	2014
Total research funds received	194.1	189.4
Less: amount deferred to future	(23.5)	(34.9)
	170.6	**154.5**

Research Revenue: Receipted vs Recognized in Income – $ thousands



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

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 on the previous page, both total research receipts and research revenue recognized grew from the prior year.

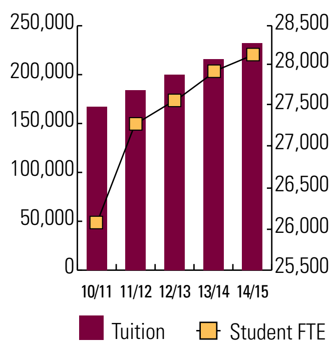
Research Overhead Grants

Research overhead grants increased over the prior year. Overhead grants assist the University in partially defraying indirect costs associated with hosting research activities. The federal and provincial governments contribute indirect costs based upon a portion of the total direct federal research grants and eligible provincial research programs. In 2014/15, $13.2 million was received (2013/14 – $12.9 million) related to increased eligible awarded grants.

Tuition Fees

Revenue from tuition fees increased by 7.6% in 2014/15 resulting from overall enrolment growth of 1%, increased international student volume, and allowable legislative program specific tuition fee increases between 3% and 5%. In 2014/15, 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 approximately 150) whose fees are higher than domestic rates. International students now account for approximately 8.8% (2013/14 – 8.3%) of the total student population.

Total Tuition – $ thousands and Number of FTE Students



Ancillary Operations

Ancillary operations provide essential academic and student support services across the University. Ancillary units aim to enhance the student experience and contribute funding to both student support and the operating budget. Ancillaries provide 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 value-added services, deliver excellent quality, remain competitively-priced and contain costs wherever possible. To deliver on these objectives ongoing student feedback is sought through surveys and advisory committees.

A detailed breakdown of ancillary sales is shown in the table above.

SALES BY ANCILLARY OPERATIONS ($ thousands)	2014/15	2013/14
Campus Store	15,622	18,462
Hospitality Services	21,753	20,522
Housing and Conference Services	24,051	23,286
Media Production Services	3,896	3,762
Parking	5,314	4,872
Continuing Education	6,708	6,413
Miscellaneous	139	147
	77,483	77,465
Less: internal sales	(8,848)	(10,304)
	68,635	**67,161**

Net ancillary sales revenue increased by 2.2% to $68.6 million in 2014/15 (2013/14 – $67.2 million). Hospitality Services was the largest contributor to this growth, increasing sales by 6%. The approved food retail rate and meal plan rate increases contributed to the growth in Hospitality income. Housing and Conference Services and Parking Services also provided growth, with sales increases of 3.3% and 9.1%, respectively. The increase for Housing and Conference Services resulted from the residence rate increase approved in the 2014/15 budget aligned to market and sector analysis. Parking revenue grew primarily related to an increase in permits sold.

Ancillary sales increases were partially offset by a decline in Campus Store sales of approximately 15.4%. Major factors contributing to the reduction include the removal of Apple products (affecting all Canadian campus stores), which have traditionally accounted for approximately 46% or $2.2M of technology products sold in the Campus Store, continuing declines in trade and text book sales, and the final phase of a major renovation that restricted access within the store, causing a negative impact on sales.

		$ thousands
INVESTMENT INCOME	2014/15	2013/14
Recognized in income	56,332	63,353
Net posted directly to external endowments	24,400	35,816
	80,732	**99,169**

Investment Income

Global markets continued to trend positively in 2014/15 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 2014/15 was 10.1%, compared to 14.7% in 2013/14. 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 in the market. Anticipating investment income greater than 6.5% within the operating budget could result in over spending, hence the conservative approach.

The endowment fund asset mix benchmark is 60% equities and 40% fixed income, real estate, and infrastructure. As at April 30, 2015 this portfolio's annual rate of return was 10.5% which was slightly below the benchmark return of 10.9%.

Total investment income, summarized in the table above, includes both short-term and long-term investment earnings that are allocated between income in the Statement of Operations and as direct increases to endowment balances as preservation of capital adjustments 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 2014/15 approximately $17.4 million (2013/14 – $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

The staff lunch room on the 3rd floor at One James North provides a view of the promenade above Jackson Square.
Photo credit: Banko Media.

COMPENSATION AND BENEFITS

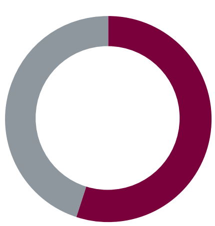
McMaster University provides competitively benchmarked compensation and benefits to enhance the quality of life for faculty and staff during their career and retirement. McMaster manages both current and future costs associated with total compensation plans to ensure a sustainable financial environment.

McMaster University provides competitively benchmarked compensation and benefit plans for faculty and staff for both career and retirement phases of life. McMaster manages both current and future costs associated with total compensation plans to ensure a long term sustainable financial environment.

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. 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 2014 – 7,562

- Academic *(includes Faculty, Post Doctoral Fellows, Librarians, Teaching Assistants)* (4,188) 55%
- Support (3,374) 45%



Expense

Total compensation-related expenses account for over 61% of total expenditures and represent a total of 7,562 permanent faculty and staff members as of October 2014 (October 2013 – 7,501).

The total number of faculty and staff members increased by 0.8% (as compared to 0.7% growth in 2014). Salary and wage expenses increased by 3.0% (compared to 1.5% growth last year). Employment expenses represent $561.3 million this year compared to $558.0 million (7,501 employees) and $558.4 million (7,449 employees) in 2013/14 and 2012/13 respectively.

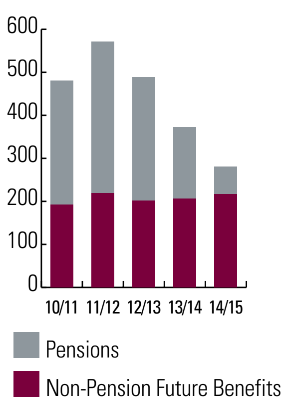
Employee Future Benefit Obligations (Pension and Other)

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. In fiscal 2014/15, the university adopted the new pension accounting policies (Section 3463, Reporting employee future benefits by not-for-profit organizations). Under the new policies, annual re-measurements and other items specifically related to employee future benefits are recorded directly in the Statement of Changes in Net Assets, rather than the Statement of Operations. Only current year benefit costs are expensed in the Statement of Operations and all changes in unamortized gains and losses are reflected in the Statement of Changes in Net Assets. The adoption of the new accounting policies required a reduction to the 2013/14 employee benefit expenses of $40.2 million resulting in a surplus of $86.6 million compared to $46.4 million previously reported.

In addition to the new accounting policies affecting benefit expenses, now the full pension liability, net of assets, is recorded on the Statement of Financial Position. This means that the prior year pension asset has been written off and only the net liability remains on the statement of Financial Position. The impact of the change in methodology is explained in detail in the notes to the Financial Statements. The adoption of Section 3463 required that the accounting changes be reflected as adjustments to the opening balances of fiscal 2013/14. The net pension liability adjustment results in a decrease in net assets of $311.4 million at the beginning of fiscal 2013/14.

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 taken including plan design changes and increased employee contributions. The financial challenges could be further eased in future years by interest rate improvements. However, changing mortality tables used to measure the liability, resulting from individuals living longer, are a permanent increase in obligations. The pension and non-pension obligations continue to receive ongoing management monitoring and long-term strategic financial planning. McMaster continues to deploy a cost smoothing approach to charging benefit expenses to Faculties and Departments charging an average benefit rate of 29% in 2014/15 when annual benefit cash outflows can vary year-over-year by more than $30 million.

Pension and non-pension future benefits unfunded obligations



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.

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. In 2014/15, the Province issued several documents to assist public institutions in transitioning to a jointly sponsored pension plan. However, further work is needed to address transitional measurement and funding issues.

During the year, the pension expense decreased by 12.9% from $49.0 million to $42.7 million. In 2013/14, McMaster adopted updated mortality tables, also used in the July 1, 2014 pension valuation. Further updated mortality tables are expected to be released in the fall of 2015, which will negatively affect future pension expenses.

The funded status of the defined benefit pension plans (restated for the new policies for each of the last two years) is summarized in the chart on the top of the following page.

Investment returns increased plan assets by $190.6 million for the year ended April 30, 2015. Partially offsetting the gain on plan assets are interest costs on liabilities. The net deficit decreased by $102.6 million.

The basis of this deficit is a roll forward of the July 1, 2014 funding valuation for the Salary Plan, which accounts for over 97% of the assets. This tri-annual valuation was based on successful qualification for Stage 2 of the provincial government's solvency relief program. The solvency relief program for universities allows for these solvency 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. 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 will increase from $20.8 million to $30.3 million for each of the next two years (before further updated mortality tables are taken into consideration).

Other Post-Retirement and Post-Employment Benefit Plans

The deficit status of the non-pension post-retirement benefit plan as at April 30, 2015 totalled $217.2 million, an increase of $10.4 million from April 30, 2014. The significant changes in each of the last two years are outlined in the adjacent chart.

In 2014/15, non-pension employee benefit expenses totalled $19.0 million, a $0.5 million increase from 2013/14 primarily due to the interest cost on the liabilities. 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.

CHANGE IN FUNDED STATUS OF PENSION BENEFIT PLANS

	APRIL 30, 2015 $ millions	APRIL 30, 2014 $ millions
Funded status, opening balance	(165.9)	(217.4)
Costs in the period:		
Current service cost	(32.7)	(31.5)
Interest on liabilities	(103.5)	(98.8)
Actual gain on plan assets	190.6	190.3
	54.4	60.0
Other	(1.1)	2.5
Change in mortality assumptions	0.0	(71.0)
University contributions	49.3	60.0
Funded status, closing balance	**(63.3)**	**(165.9)**

CHANGE IN FUNDED STATUS OF NON-PENSION BENEFIT PLANS

	APRIL 30, 2015 $ millions	APRIL 30, 2014 $ millions
Funded status, opening balance	(206.8)	(177.9)
Costs in the period:		
Current service cost	(6.7)	(6.5)
Interest on liabilities	(12.3)	(12.0)
	(19.0)	(18.5)
Plan amendments	-	5.9
Change in mortality assumptions	-	(23.5)
Other	1.9	0.9
University contributions	6.7	6.3
Funded status, closing balance	**(217.2)**	**(206.8)**

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.

The McMaster Campus Plan and annual Capital Plan provide a comprehensive framework guiding campus capital development. The University's capital objectives are to preserve and enhance a high quality campus while meeting McMaster's changing needs, which in fiscal 2014/15 included opening the David Braley Health Science Centre in downtown Hamilton (pictured above). Photo credit: Chantall Van Raay. Grand Opening ribbon-cutting on page 19, photo credit: Ron Scheffler

CAPITAL PROJECTS AND FINANCING

Capital Projects

The David Braley Health Sciences Centre opened on May 15, 2015 at the corner of Bay Street and Main Street in downtown Hamilton. The six-storey, 192,000-square-foot building includes clinical spaces, learning spaces and examination rooms. The building also houses community services, such as the City of Hamilton's Public Health Services, the Maternity Centre of Hamilton, and the Shelter Health Network. 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 are located at the campus, with more than 4,000 students. The University spent a final $30.6 million in 2014/15 of the total $84.6 million budget.

In early March, approximately 200 McMaster staff and 4,000 students relocated to One James North, two blocks from the University's new Health Sciences Centre. The move keeps students and staff together in downtown Hamilton, utilizing over 50,000-square-feet of space at the corner of James and King. The services and units include: the Centre for Continuing Education, Financial Affairs, Institutional Research and Analysis, University Advancement, and Internal Audit. The new building is accessible by public transit, offers ample nearby parking and is in close proximity to a wide array of services and amenities.

L.R. Wilson Hall is taking shape in the former Wentworth House location on the main campus and will be McMaster's new 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 Studies in Aging, as well as McMaster's Indigenous Studies program and indigenous student support offices.

Other capital projects underway in 2014/15 included the Dr. Robert and Andrée Rhéaume Fitzhenry Studios and Atrium, the Fraunhofer-IZI Centre for Biomedical Engineering & Advanced Manufacturing and the Centre for Advanced Nuclear Systems.

In addition to these capital building projects, the university spent approximately $57 million on software, equipment and furnishings, increasing from $45 million spent last year. The increase is a result of increased spending on the university's integrated enterprise-wide resource system, referred to as the Mosaic project. The Mosaic project is a multi-year systems project replacing the legacy information systems for student, finance, human resources, research administration and business intelligence. Go-lives for student, human resources, budgeting and research pre-award occurred 2014/15.

The University's total capital expenditures for 2014/15 totalled $135.9 million (2013/14 - $100.6 million) and are summarized in the table below.

CAPITAL ASSET ADDITIONS ($ thousands)	2014/2015	2013/14
Completed building projects and construction in process	73,698	50,144
Computers, software, furnishings and other equipment	56,696	45,204
Library materials	5,482	5,226
	135,876	**100,574**

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 2014/15, all scheduled repayments were made. The internal central bank capital loans declined from $71.4 million as at April 30, 2014 to $63.8 million as of April 30, 2015. The loans have varying repayment terms and interest rates which reflect the date of issue and the project income stream. In 2014/15 no new external borrowing was undertaken.

In April 2015, the University updated its comprehensive multi-year financial projections and prioritized future capital needs to determine medium-term financing requirements. In fiscal 2015/16, the University will explore the potential of up to $120 million in new external debt. The University's Debt Policy ratios, updated in fiscal 2014/15 to reflect the impact of the new employee future benefit accounting policies, 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	2012/13	2013/14	2014/15	3-YR AVG.
AER* to debt	Capacity	.6 to 1.0	1.5	1.8	2.0	1.8
Interest coverage ratio	Affordability	2.75 to 3.25	11.2	14.5	13.8	13.2
AER* as % of revenue	Flexibility	Greater than 15%	26%	30%	33%	30%
Cash** to monthly expenditures	Liquidity	Greater than 1	3.5	3.7	3.4	3.6

*Available expendable resources **Includes short-term investments

ENTERPRISE RISK MANAGEMENT

The David Braley Health Science Centre includes various study and teaching spaces, and features this state-of-the-art 240 seat lecture theatre which overlooks Hamilton's City Hall. Photo credit: Mike Lalich

Enterprise Risk Management

During 2014/15 McMaster University's Enterprise Risk Management (ERM) Program continued to progress and evolve. Key activities achieved this year enhanced the ERM process and increased awareness of the importance of this Program across the University.

The annual Key Opportunity, Risk Review, and Assessment session with the Enterprise Risk Steering Committee, composed of the President and Vice Presidents (PVP) group, updates or validates previously assessed risks.In advance of the session, Risk Leaders across the University update risk information migration strategies and current status, to inform the annual review. The 2014/15 session resulted in the identification and assessment of fifteen key opportunities from the Opportunity Register and thirteen key risks from the University's Risk Register.

President Deane updated McMaster's Board of Governors in March 2015 on the Enterprise Risk Program. This report provided an overview of the program's history; framework utilized and alignment with McMaster University's culture; an overview of key areas of focus for McMaster from both an opportunity and risk perspective; and comparison to the broader higher education landscape.

A detailed risk review process was initiated in 2014/15 for two of McMaster's key risks: Attract Undergraduate Students, and Mental Wellness. During detailed risk reviews, the assigned Risk Leader provides an overview of current risk mitigation strategies followed by discussion.

Key Risks

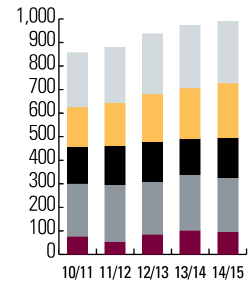
- Attract Undergraduate Students
- Attract Graduate Students
- Financial
- Government Policy
- Human Capital
- Information Security
- Mental Wellness
- Physical Infrastructure
- Reputation and Brand
- Research
- Research Infrastructure
- Student Experience, Satisfaction & Retention
- Technology

FINANCIAL ANALYSIS

Total Revenue

- Revenues increased 1.8% to $990.8 million from $972.9 million. Research grants and contracts revenue recognized increased 10.4% and tuition income increased 7.6%. The tuition increase represents both enrolment growth and fee increases.
- Investment income declined to $56.3 million (2013/14: $63.4 million) related to a 10.1% rate of return in the investment pool versus 14.7% last year.

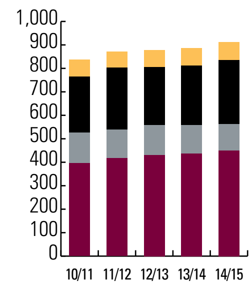
Total Revenue
$990.8 million



Total Expenses[2]

- Expenses increased 2.9% to $912.2 million from $886.3 million last year.
- Salary and wages increased $12.9 million or 2.9%, whereas benefits declined $9.7 million or 8%, primarily related to the adoption of new accounting policies.
- Supplies and services increased by 8.1% across operating, research and trust funds.

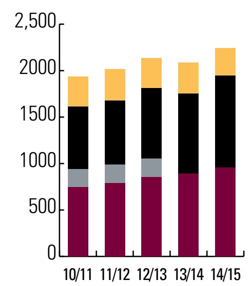
Total Expenses
$912.2 million



Total Assets[2]

- Assets grew by 7.4% related to investment holdings growth of 14.5%, capital assets growth of 7.5% and a decline in current assets of 11.4%.
- Capital assets grew by a net of $67.0 million, resulting from $135.9 million in capital additions and $68.8 million in amortization.
- Pension accounting changes resulted in deferred pension assets being written off through the Statement of Changes in Net Assets.

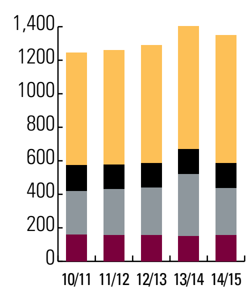
Total Assets
$2,242.1 million



Total Liabilities[2]

- Liabilities decreased 3.9%, the largest change related to a reduction in accrued employee future benefits (24.7%), resulting from a decline in the pension obligation.
- Long-term obligations increased by $0.9 million reflecting an increase in decommissioning obligations.
- Deferred contributions increased by 4.0%, primarily due to increased donations and grants for capital over amortization.

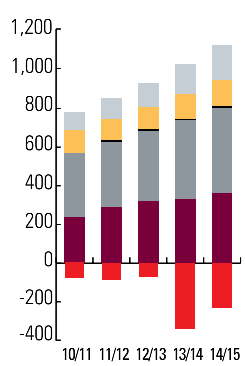
Total Liabilites
$1,349.4 million



Net Assets[2]

- Net assets grew by 30.6%; pension accounting adjustments account for 47% of this change.
- Other increases include specific purpose assets, which grew by 16.1%, growth in equity in capital assets of 9.3% and external endowment growth of 8.1%.

Net Assets
$892.7 million



2 McMaster University adopted the new accounting policy for Employee Future Benefits requiring adjustments to the Statement of Financial Position and restatements of pension expenses for the financial statement reporting year 2013/14. Total expenses, assets, liabilities and net assets prior to May 1, 2013 have not been restated.

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 $326.0 million from $291.8 million as a result of increases in specific purpose reserves and the internal endowment.

Endowment Funds

- McMaster's internal and external endowments grew by 7.6%.
- The endowment funds per student increased from $21,908 to $23,281 year over year.

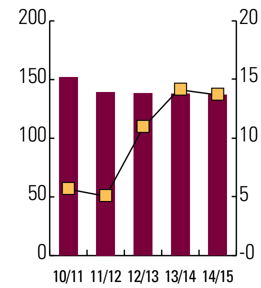
Deferred Maintenance[3]

- McMaster's deferred maintenance backlog decreased from $324.0 million to an estimated $322.0 million.
- McMaster's Facilities Condition Index (FCI)[3] is 16.52%, a slight improvement from 2013/14 when it was 17.9%.
- The decrease in deferred maintenance backlog and the University FCI is attributed to the increased spending on deferred maintenance projects and the addition of new buildings.

Operating Fund – expenditures by envelope

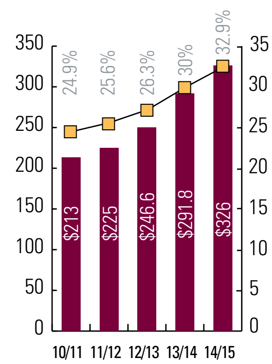
- Operating fund net expenditures increased by 5.7%.
- Academic and student support increased by 6.3% from the prior year.
- Facilities support fell by 0.2%, while institutional support increased by 6.7% from the previous year, due to large one-time expenditures for Mosaic in 2014/15.

3 The FCI increase in 2012/13 resulted from an updated facilities condition audit of all assets. Previously the audit covered 25% of the assets per year on a rolling four-year cycle.



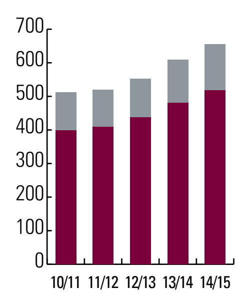
Long-term Debt $137.8 million

Long-term Debt
Debt Service Coverage Ratio



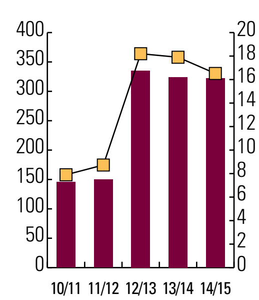
Available Expendable Resources $326 million

Available Expendable Resources
AER as a % of Revenue



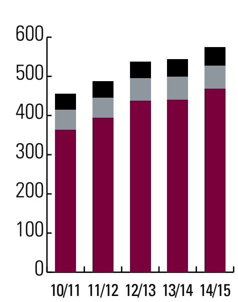
Endowment Funds $655.5 million

Internally Restricted
Externally Restricted



Deferred Maintenance ($322 million) Facilities Condition Index (16.52%)

Deferred Maintenance Backlog
Facilities Condition Index



Operating Fund – expenditures by envelope (net of recoveries and transfers) $574.9 million

Institutional Support
Facilities Support
Academic and Student Support

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 the 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 2014/15 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 $32.8 million attributed to $36.5 million in one-time planned expenditures. The University finished the year with a $12.2 million deficit as shown in the chart below.

2014/15 OPERATING FUND ($ millions)

				Variance	
	Budget	Projection	Actual	Budget vs. Actual	Projection vs. Actual
Sources of revenue	$ 550.3	$ 557.8	$ 563.2	$ 12.9	$ 5.4
Less: net expenditures	582.6	585.9	574.9	7.7	11
Excess (deficiency) of revenue over net expenditures	**(32.3)**	**(28.1)**	**(11.7)**	**20.6**	**16.4**
Add amount funded by (transferred to) unrestricted net assets	**(0.5)**	**(0.5)**	**(0.5)**	–	–
Net surplus (deficit)	**(32.8)**	**(28.6)**	**(12.2)**	**20.5**	**16.4**
Fund balance, beginning of year*	80.4	80.4	80.4	–	–
Fund balance, end of year	**$ 47.7**	**$ 51.8**	**$ 68.2**	**$ 20.5**	**$ 16.4**

*adjusted to actual and restated to reflect reclassifications between funds

Total operating fund revenues were $563.2 million as compared to the projected funding of $557.8 million. The favourable variance of $5.4 million (1.0%) is primarily due to increased application and enrolment volume, with higher revenue from application fees and interest on student accounts, as well as increased revenue from research contract overhead.

The favourable revenue variance of $12.9 million (2.3%) compared to the original budget primarily relates to:

- greater than budgeted tuition revenue due to higher enrolment ($7.0 million);
- greater than budgeted application fees and interest on student accounts ($2.8 million); and
- research overhead income ($2.4 million).

Operating fund expenditures, net of transfers and recoveries, were $574.9 million as compared to projected net expenditures of $585.9 million. The favourable variance of $11 million (1.9%) was due primarily to a reduction in non-salary spending.

The remaining deficit of $12.2 million results in closing appropriations of $68.2 million, down from $80.4 million at April 30, 2014. Appropriations are available to provide funds to offset one-time spending and investments in deficit-reducing strategies.

FINANCIAL STATEMENTS, APRIL 30, 2015

PARTNERING

McMaster University's Annual Report theme is Partnering to reflect its ongoing relationship with the residents of the City of Hamilton and the revitalization of its downtown core. During 2014/15, the University celebrated the completion of the David Braley Health Science Centre (DBHSC) located at Main and Bay Streets, and the renovation of the One James North (OJN) location within Jackson Square. Photo credit: Chantall Van Raay

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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, 2015 and the results of its operations, changes in net assets and its cash flows for the year ended April 30, 2015. 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, 2015 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
October 22, 2015

President

AVP (Administration) & CFO

KPMG

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of McMaster University

We have audited the accompanying financial statements of McMaster University (the "University"), which comprise the statements of financial position as at April 30, 2015, 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, 2015 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 22, 2015

McMASTER UNIVERSITY
Statement of Financial Position
April 30, 2015, with comparative figures for 2014
(thousands of dollars)

	2015	2014 (restated - note 2)
Assets		
Current assets:		
Cash and equivalents	$ 162,624	$ 172,294
Government grants and other accounts receivable (note 3)	36,670	52,476
Research grants receivable	86,201	97,891
Inventories	4,674	5,510
Prepaid expenses	5,907	6,087
	296,076	334,258
Investments (note 4)	967,009	844,242
Other investments (note 5)	18,787	15,738
Loans receivable (note 5)	4,838	4,838
Capital assets (note 6)	955,369	888,337
	$ 2,242,079	$ 2,087,413
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	$ 126,861	$ 121,731
Deferred revenue	28,940	27,365
Current portion of long-term obligations (note 9)	655	616
	156,456	149,712
Accrued employee future benefits (note 7)	280,492	372,702
Long-term obligations (note 9)	147,726	146,786
Deferred contributions (note 10):		
Deferred for future expenses	308,958	314,350
Deferred capital contributions	455,778	420,293
	764,736	734,643
Net assets:		
Unrestricted	8,459	8,188
Internally restricted (note 11):		
Employee future benefits	(235,414)	(346,460)
Specific purpose	180,970	155,861
Equity in capital assets (note 12)	363,621	332,569
Endowments (note 13):		
Internal	136,609	127,746
External	438,424	405,666
	892,669	683,570
Commitments and contingencies (note 14)		
	$ 2,242,079	$ 2,087,413

On behalf of the Board of Governors:

____________________ Chair, Board of Governors

____________________ Chair, Audit Committee

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statement of Operations
Year ended April 30, 2015, with comparative figures for 2014
(thousands of dollars)

		2015		2014
				(restated - note 2)
Revenues:				
Operating grants	$	265,214	$	267,881
Research grants and contracts		170,576		154,497
Tuition fees		232,025		215,691
Other (note 15)		97,734		95,763
Ancillary sales and services		68,635		67,161
Investment income, net		56,332		63,353
Donations and other grants		49,171		58,000
Research overhead grants		13,247		12,953
Amortization of deferred capital contributions		37,897		37,604
		990,831		972,903
Expenses:				
Salaries and wages		450,040		437,085
Employee benefits		111,304		120,963
Supplies and services		273,517		253,050
Interest on long-term obligations		8,537		8,575
Amortization of capital assets		68,844		66,659
		912,242		886,332
Excess of revenues over expenses	$	78,589	$	86,571

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Changes in Net Assets

Year ended April 30, 2015, with comparative figures for 2014

(thousands of dollars)

		Internally restricted			Endowments			
	Unrestricted	Employee future benefits	Specific purposes	Equity in capital assets	Internal	External	2015 Total	2014 Total
								(restated - note 2)
Net assets, beginning of year, as previously reported	$ 8,188	$ (98,856)	$ 155,861	$ 332,569	$ 127,746	$ 405,666	$ 931,174	$ 843,836
Change in accounting policy (note 2)	-	(247,604)	-	-	-	-	(247,604)	(311,352)
Net assets, as restated	$ 8,188	$(346,460)	$ 155,861	$ 332,569	$ 127,746	$ 405,666	$ 683,570	$ 532,484
Excess (deficiency) of revenues over expenses	109,536	-	-	(30,947)	-	-	78,589	86,571
External endowment contributions:								
Contributions	-	-	-	-	-	8,358	8,358	5,111
Protection of capital	-	-	-	-	-	24,400	24,400	35,816
Transfers and adjustments:								
Transfers for specific purposes	(38,403)	13,294	25,109	-	-	-	-	-
Capital transactions from operating (note 12)	(61,999)	-	-	61,999	-	-	-	-
Transfer to internal endowments	(8,863)	-	-	-	8,863	-	-	-
Remeasurements and other items (note 7)	-	97,752	-	-	-	-	97,752	23,588
	271	111,046	25,109	31,052	8,863	32,758	209,099	151,086
Net assets, end of year	$ 8,459	$ (235,414)	$ 180,970	$ 363,621	$ 136,609	$ 438,424	$ 892,669	$ 683,570

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statement of Cash Flows
Year ended April 30, 2015, with comparative figures for 2014
(thousands of dollars)

	2015	2014 (restated - note 2)
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	$ 78,589	$ 86,571
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(37,897)	(37,604)
Amortization of capital assets	68,844	66,659
Employee future benefits	5,542	1,400
Equity earnings of other investments	(360)	(850)
Increase in decommissioning obligation	1,596	455
	116,314	116,631
Net change in contributions deferred for future expenses	(5,392)	8,782
Net change in other non-cash working capital	35,217	(3,826)
	146,139	121,587
Financing and investing activities:		
Purchase of capital assets	(135,876)	(100,574)
Net change in investments	(122,767)	(103,883)
Net change in other investments	(2,689)	-
Net change in loan receivable	-	(890)
Net change in external endowments	32,758	40,927
Deferred capital contributions	73,382	58,792
Principal repayments on long-term obligations	(617)	(579)
	(155,809)	(106,207)
Net (decrease) increase in cash and equivalents	(9,670)	15,380
Cash and equivalents, beginning of year	172,294	156,914
Cash and equivalents, end of year	$ 162,624	$ 172,294

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 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 5). 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 5). 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 5). 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 5). 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 5. 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	5% to 10%
Equipment, furnishings and vehicles	20%
Computing equipment	33.3%
Leasehold improvements	term of lease

Capital assets in progress are 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 $274,000 (2014 - $172,000) 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 defined benefit registered and non registered pension plans, retirement incentive program and group registered retirement savings plans. Non-pension post-retirement and post-employment benefits plans are also provided. Financial information is disclosed in Note 7.

- The University accrues its obligations for the defined benefit plans as the employees render the services necessary to earn the pension benefits. The current service cost and the finance cost for the year are charged to excess of revenues over expenses. The actuarial determination of the accrued benefit obligations for funded defined benefit plans uses the funding valuation method. This cost reflects management's estimates of investment yields, salary escalation, health care trend rates and other factors.

- The University has elected to accrue its obligations and related costs for unfunded plans on a basis consistent with funded plans.

- Remeasurement and other items are recognized as a direct increase (decrease) to net assets and are not reclassified to the statement of operations in subsequent periods. Remeasurement and other items comprise the aggregate of: the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation; the actuarial gains and losses; the effect of any valuation allowance in the case of a net defined benefit asset; past service costs; and any gains and losses arising from settlements and curtailments.

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.

2. Change in accounting policy:

Effective May 1, 2014, the University adopted the new Chartered Professional Accountants of Canada Handbook Part III Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations* which incorporates Section 3462, *Employee Future Benefits*. This change in accounting policy is made in accordance with its transitional provisions and requires retrospective application.

Under the new accounting standard, actuarial gains and losses and past service costs are no longer deferred and amortized into future periods through excess of revenues over expenses. The new accounting standard requires the full actuarial liability net of assets to be recorded on 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 funding valuation discount rate used to calculate the net defined benefit obligation.

For defined benefit plans for which an actuarial valuation for funding purposes exists, an accounting policy choice between using the funding valuation or an accounting valuation is available. The University has elected to apply the funding valuation in the financial statements on the same basis used for funding purposes. The standard also allows for unfunded plans to be measured using the same valuation method as funded plans, provided there is a funded plan. The University has elected to use a funding valuation for unfunded plans.

The impact on the University's net assets as of May 1, 2013 and its excess of revenues over expenses for the year ended April 30, 2014 is as follows:

(thousands of dollars)	Excess of revenues over expenses for the year end April 30, 2014	Total net assets as at May 1, 2013
As previously reported	$ 46,411	$ 843,836
Adjustments to:		
Registered pension plans	45,358	(344,592)
Supplemental pension plan	(827)	(6,234)
Other post employment benefits	(4,371)	39,474
	40,160	(311,352)
Restated	$ 86,571	$ 532,484

3. Government grants and other accounts receivable:

(thousands of dollars)	2015	2014
Government grants	$ 5,428	$ 11,830
Other	36,685	45,380
	42,113	57,210
Less allowance for doubtful accounts	5,443	4,734
Balance, end of year	$ 36,670	$ 52,476

4. Investments:

Details of investments are as follows:

(thousands of dollars)	2015		2014	
	Fair value	Cost	Fair value	Cost
Equities:				
Canadian	$ 172,607	$ 145,022	$ 165,142	$ 129,877
United States	189,475	96,716	168,549	99,613
Non-North American	179,563	161,428	146,747	143,808
	541,645	403,166	480,438	373,298
Fixed income	388,924	379,779	333,742	332,295
Other	36,440	29,803	30,062	25,684
	$ 967,009	$ 812,748	$ 844,242	$ 731,277

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.

5. Other investments:

Details of other investments are as follows:

(thousands of dollars)	2015	2014
McMaster Innovation Park (a)	$ 18,831	$ 15,863
Downtown Land Holdings Inc. (b)	-	-
Adiga Life Sciences Inc. (c)	938	816
The Director's College (d)	(982)	(941)
	$ 18,787	$ 15,738

Details of loans receivable are as follows:

(thousands of dollars)	2015	2014
Downtown Land Holdings Inc. (b)	$ 3,947	$ 3,948
Graduate Students Association (e)	722	890
Other (g)	169	-
	$ 4,838	$ 4,838

5. Other investments (continued):

(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)	2015	2014
Balance, beginning of year	$ 15,863	$ 14,903
Equity earnings	279	960
Investment in the year	2,689	-
Balance, end of year	$ 18,831	$ 15,863

The University is party to a Debt Service Deficiency Agreement as disclosed in Note 14(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, 2015, $108,921 (2014 - $107,683) in income was recorded by the University.

Included in rent expense for the University for the year ended April 30, 2015 is $1,004,262 (2014 - $569,410). Included in accounts receivable at April 30, 2015 is $2,180,745 (2014 - $1,428,681) receivable from the Park. Included in Note 14(f) are $2,303,301 (2014 - $2,615,441) in operating lease commitments with the Park.

During the year the University provided payroll services at a fee which amounted to $13,200 (2014 - $13,200).

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

(thousands of dollars)	December 31, 2014	December 31, 2013
Total assets	$ 109,269	$ 108,350
Total liabilities	$ 86,219	$ 84,399
Total deferred capital grants	6,908	8,088
Total trusts' equity	16,142	15,863
	$ 109,269	$ 108,350
Results of operations:		
Total revenues	$ 11,645	$ 11,646
Total expenses	11,366	10,686
Net earnings	$ 279	$ 960
Cash flows:		
Used in operating activities	$ (1,271)	$ (4,725)
From financing and investing activities	1,657	1,513
Increase (decrease) in cash	$ 386	$ (3,212)

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, 2015 amounted to $21,734,531 (2014 - $21,768,183) and are included in the University's capital assets. Included in Note 11(b) are $9,238,000 (2014 - $10,268,000) in internally financed capital projects for MARC.

5. Other investments (continued):

(b) Downtown Land Holdings Inc.:

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

(thousands of dollars)	April 30, 2015	April 30, 2014
Total assets	$ 4,751	$ 4,442
Total liabilities	$ 4,751	$ 4,442
Total equity	-	-
	$ 4,751	$ 4,442

The University has a loan receivable from Downtown Land Holdings Inc. in the amount of $3,947,000 at April 30, 2015 (2014 - $3,948,000). The loan bears interest at an annual rate of 6.75%.

(c) Adiga Life Sciences Inc.:

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

(thousands of dollars)	August 31, 2014	August 31, 2013
Total assets	$ 3,414	$ 2,638
Total liabilities	$ 1,538	$ 1,006
Total equity	1,876	1,632
	$ 3,414	$ 2,638
Results of operations:		
Total revenue	$ 10,602	$ 7,117
Total expenses	10,358	6,404
Net earnings	$ 244	$ 713

5. Other investments (continued):

(d) The Director's College:

The University's share of cash distributions from The Director's College during the year ended April 30, 2015 amounted to $nil (2014 - $300,000). 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, 2014	May 31, 2013
Total assets	$ 748	$ 832
Total liabilities	$ 312	$ 314
Total equity	436	518
	$ 748	$ 832
Results of operations:		
Total revenue	$ 1,725	$ 2,066
Total expenses	1,807	1,799
Net earnings	$ (82)	$ 267

(e) Graduate Students Association:

The University has a loan receivable from Graduate Students Association in the amount of $721,534 at April 30, 2015 (2014 - $889,890). 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.

(f) OSCAR EMR:

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

(thousands of dollars)	December 31, 2014	December 31, 2013
Total assets	$ 74	$ 157
Total liabilities	$ 1,500	$ 770
Total equity	(1,426)	(613)
	$ 74	$ 157
Results of operations:		
Total revenue	$ 207	$ 175
Total expenses	1,020	788
Net earnings	$ (813)	$ (613)

(g) Other:

The University has a loan receivable from a leasee in the amount of $169,500 as at April 30, 2015 (2014 - $nil). The loan bears interest at a rate of 0% per annum and is payable over 10 years beginning in January 2016.

6. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	2015 Net
Land	$ 54,675	$ -	$ 54,675
Buildings	1,079,349	362,222	717,127
Decommissioning retirement costs	2,943	422	2,521
Site improvements	26,302	9,946	16,356
Leasehold improvements	13,589	3,666	9,923
Library materials	149,849	122,782	27,067
Equipment, furnishings and vehicles	438,651	368,530	70,121
Computing systems and computing equipment	147,255	89,676	57,579
	$ 1,912,613	$ 957,244	$ 955,369

(thousands of dollars)	Cost	Accumulated amortization	2014 Net
Land	$ 54,675	$ -	$ 54,675
Buildings	1,012,486	342,060	670,426
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
	$ 1,807,839	$ 919,502	$ 888,337

Included in buildings is $92,122,006 (2014 - $77,078,000) representing buildings currently under construction and not available for use or subject to amortization. Included in computing systems and computing equipment is $1,720,000 (2014 - $5,961,000) representing software currently under development and not available for use or subject to amortization.

7. Employee future benefits:

The University maintains three contributory defined benefit registered pension plans, one for full-time hourly employees and two for salaried employees. The plan for hourly employees was closed to new members on March 15, 2010, one of the salaried plans was closed to new members on January 14, 2003 and the other salaried plan remains open to new members. The defined benefit registered pension plans provide a pension for life based on the best average earnings of the member and years of pensionable service in the plan. The University also maintains both contributory defined contribution and non-contributory defined benefit supplementary non-registered pension plans and a retirement incentive program.

The University additionally maintains a non-pension post-retirement benefit plan which provides health, dental and life insurance benefits to retirees, a post-employment benefit plan which provides health benefits to employees on long-term disability and a special retirement arrangement for some senior administrators.

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

7. Employee future benefits (continued):

(a) Information on the accrued benefit liability is as follows:

(thousands of dollars)	2015			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,744,210	$ 72,882	$ 217,194	$ 2,034,286
Fair value of plan assets	1,753,794	-	-	1,753,794
Funded status - surplus (deficiency)	$ 9,584	$ (72,882)	$ (217,194)	$ (280,492)

(thousands of dollars)	2014 (restated)			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,660,264	$ 69,074	$ 206,759	$ 1,936,097
Fair value of plan assets	1,563,395	-	-	1,563,395
Funded status - surplus (deficiency)	$ (96,869)	$ (69,074)	$ (206,759)	$ (372,702)

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

(thousands of dollars)	2015			
	Pension			
	Registered	Supplemental	Other	Total
Current service cost	$ 32,155	$ 593	$ 7,475	$ 40,223
Interest cost	5,816	4,128	12,324	22,268
	$ 37,971	$ 4,721	$ 19,799	$ 62,491

(thousands of dollars)	2014 (restated)			
	Pension			
	Registered	Supplemental	Other	Total
Current service cost	$ 31,460	$ 319	$ 7,431	$ 39,210
Interest cost	13,073	4,168	12,003	29,244
	$ 44,533	$ 4,487	$ 19,434	$ 68,454

7. Employee future benefits (continued):

(c) Information on remeasurements and other items is as follows:

(thousands of dollars)	2015			
	Pension			
	Registered	Supplemental	Other	Total
Investment gains	$ 96,994	$ -	$ -	$ 96,994
Past service cost	-	(4,928)	-	(4,928)
Actuarial gain/(loss) on accrued benefit obligation	3,554	276	1,856	5,686
	$ 100,548	$ (4,652)	$ 1,856	$ 97,752

(thousands of dollars)	2014 (restated)			
	Pension			
	Registered	Supplemental	Other	Total
Investment gains	$ 108,778	$ -	$ -	$ 108,778
Past service credit	-	-	5,908	5,908
Actuarial gain/(loss) on accrued benefit obligation	(68,615)	165	(22,648)	(91,098)
	$ 40,163	$ 165	$ (16,740)	$ 23,588

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

	Percentage of fair value of total plan	Target allocation percentage
Equity securities	69.0%	65.0%
Debt securities	30.5%	35.0%
Other	0.5%	0%

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

	Pension	Other
Discount rate	6.00%	6.00%
Expected long-term rate of return on plan assets	5.75%	-
Rate of compensation increase	3.97%	4.00%

7. Employee future benefits (continued):

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

	Pension	Other
Discount rate	6.00%	6.00%
Expected long-term rate of return on plan assets	5.75%	-
Rate of compensation increase	3.97%	4.00%

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

(thousands of dollars)	2015		2014	
	Pension	Other	Pension	Other
Employer contributions	$ 49,469	$ 6,690	$ 60,169	$ 6,320
Employee contributions	23,272	-	23,124	-
Benefits paid	73,001	6,690	73,084	6,320

(h) For measurement purposes, a 5.63% annual rate of increase in per capita medical cost was assumed for 2015, 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.

(i) 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, 2014, the next required filing date is July, 2017.
- other benefit: completed as at March 31, 2013; the next required filing date is March 31, 2016.
- post-employment and retirement allowance: completed as at April 30, 2014.

The results of valuations not completed as of April 2015, have been extrapolated to April 30, 2015, which is the measurement date used to determine the accrued benefit obligation for all employee future benefit plans.

(j) In 2008 the University created a group RRSP for certain types of new employees. University and employees' contributions in 2015 amounted to $965,176 each (2014 - $817,903).

8. 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 $6,103,000 (2014 - $5,558,000).

9. Long-term obligations:

Details of long-term obligations are as follows:

(thousands of dollars)	Maturity	Interest rate	Current portion	Non-current portion	2015 Total outstanding	2014 Total outstanding
Long term debt:						
Mortgage	Oct 2016	5.38%	140	73	213	345
Bank term loan (a)	May 2033	floating	515	16,447	16,962	17,447
Debentures (b)	Oct 2052	6.15%	-	120,000	120,000	120,000
			655	136,520	137,175	137,792
Decommissioning obligations (c)			-	11,206	11,206	9,610
			$ 655	$ 147,726	$ 148,381	$ 147,402

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

2016	$ 655
2017	622
2018	586
2019	625
2020	665

(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, 2015 amounted to $15,054,000 (2014 - $13,650,000).

(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, 2015, the fair value of the trust funds amounted to $10,801,000 (2014 - $9,708,000). The net present value of the estimated cost for decommissioning, at April 30, 2015 is $10,089,000 (2014 - $9,610,000) using risk free rates ranging between 4.5% and 5.1%.

During the year, an additional decommissioning obligation related to non-reactor radioactive materials was recognized. The obligation recognized was in the amount of $1,117,000 (2014 - $nil) based on an estimated useful life of 25 years and using a risk free rate of 4.0%.

9. 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 9(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)	2015		2014	
	Notional value	Fair value	Notional value	Fair value
30-year interest rate swap	$ 16,962	$ (6,870)	$ 17,447	$ (5,829)

The change in fair value of the swap for the year ended April 30, 2015 is ($1,041,000) (2014 - $1,691,000).

10. 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)	2015	2014
Balance, beginning of year	$ 314,350	$ 305,568
Deferred and capital contributions received	341,577	329,588
	655,927	635,156
Less:		
Amounts recognized as revenue	(273,587)	(262,014)
Deferred capital contributions transfer	(73,382)	(58,792)
Balance, end of year	$ 308,958	$ 314,350

Deferred contributions consist of the following:

(thousands of dollars)	2015	2014
Research grants and contracts	$ 177,320	$ 176,690
Donations, other grants and investment income	80,477	75,559
Capital grants and donations	33,225	47,866
Other restricted funds	17,936	14,235
	$ 308,958	$ 314,350

10. 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)	2015	2014
Balance, beginning of year	$ 420,293	$ 399,105
Add: contribution transfers	73,382	58,792
Less: amount amortized to revenue	(37,897)	(37,604)
Balance, end of year	$ 455,778	$ 420,293

11. Internally restricted net assets:

(a) Employee future benefits:

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

(thousands of dollars)	2015	2014 (restated)
Pensions	$ (69,502)	$ (177,738)
Other retirement and post employment benefit plans	(165,912)	(168,722)
	$ (235,414)	$ (346,460)

(b) Specific purpose:

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

(thousands of dollars)	2015	2014
Unexpended departmental carryforwards	$ 68,199	$ 80,296
Research	22,942	18,481
Ancillaries	6,559	3,655
Other	102,622	72,243
	200,322	174,675
Sinking funds	15,054	13,650
Facilities services projects	(34,406)	(32,464)
	$ 180,970	$ 155,861

Included in unexpended departmental carryforwards is a $2,000,000 (2014 - $2,500,000) advance to the Faculty of Science from unrestricted net assets for which arrangements for recovery are in place.

11. 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, 2015 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (18,963)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(5,314)
Les Prince Residence	Ancillary operations	(16,137)
David Braley Athletic Centre	Student levies, pledges, fundraising	(9,369)
McMaster Automotive Resource Centre (MARC)	Various	(9,238)
McMaster University Medical Centre (MUMC)	Various	(4,538)
Internal equipment loans	Various	(194)
		(63,753)
Other projects (net)	Various	29,347
		$ (34,406)

(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	(10,269)
Internal equipment loans	Various	(346)
		(71,424)
Other projects (net)	Various	38,960
		$ (32,464)

12. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	2015	2014
Capital assets	$ 955,369	$ 888,337
Less amounts financed by:		
Net long-term debt	(135,970)	(135,475)
Unamortized deferred capital contributions	(455,778)	(420,293)
	$ 363,621	$ 332,569

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	2015	2014
Repayment of long-term debt	$ 617	$ 579
Capital asset purchases from operating	61,382	41,784
	$ 61,999	$ 42,363

13. Endowments:

(a) Internal:

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

(thousands of dollars)	2015	2014
Balance, beginning of year	$ 127,746	$ 115,733
Donations	58	99
Investment income	12,935	16,927
Net transfers and expenses	(4,130)	(5,013)
Balance, end of year	$ 136,609	$ 127,746

Included in internal endowments is an amount of $64,458,000 (2014 - $60,873,000) 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)	2015	2014
Balance, beginning of year	$ 405,666	$ 364,739
External contributions	8,358	5,111
Income retained - capital protection policy	24,400	35,816
Balance, end of year	$ 438,424	$ 405,666

Investment income on external endowments amounted to $38,284,000 (2014 - $49,140,000). In accordance with the endowment capital protection policy, this income less the amount made available for spending of $13,552,000 (2014 - $13,870,000) and net transfers of $(332,000) (2014 - $546,000) were added to endowment net assets. The amount made available for spending is recorded as investment income in the statement of operations.

14. 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.

14. 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, 2015 was $22.1 million (2014 - $21.3 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2015, 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 $221.2 million at April 30, 2015 (2014 - $240.7 million). The major commitments are as follows: McMaster Health Campus ($13.2 million), L.R. Wilson Hall ($41.2 million), ExCEL ($10.7 million) and the Living Learning Centre ($118 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, 2015, the University's remaining share of the costs are estimated to be $25.0 million (2014 - $27.3 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 $7.9 million.

(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)	
2016	$ 2,987
2017	2,694
2018	2,543
2019	2,013
2020	1,848

(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 $15 million has been received.

15. Other income:

Details of other income are as follows:

(thousands of dollars)	Major Sources		2015		2014
Faculty of Health Sciences	Non-degree educational fees, specifically funded programs, international postgraduates stipends, space/equipment rentals, other student fees	$	48,679	$	47,797
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees		8,558		6,140
Academic Services	Nuclear reactor sales, contracts and patent royalties, registrar administration fees		11,113		10,620
Student Services	Athletics and Recreation memberships and user fees		17,483		18,205
Miscellaneous	Application fees, late payment fees, sales of utilities and other departmental sales		11,810		13,111
Other Investment Income	The Director's College, Adiga Life Sciences Inc.		91		(110)
		$	97,734	$	95,763

16. Related party transactions:

In addition to certain transactions and balances disclosed in note 5, the University received funds of $216,000 (2014 - $152,000) during the year from fundraising entities.

17. 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 2015. 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 2014.

(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 3).

(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 4 and the long term obligations are included in note 9.

(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 2014.

18. 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, 2015 and 2014 in the first phase of the Ontario Student Opportunity Trust Fund (OSOTF I) balance:

(thousands of dollars)	2015	2014
Endowment balance, beginning of year	$ 30,808	$ 31,321
Investment income (used from) retained for protection of capital	2,108	(254)
Investment income transferred (to) expendable income	(305)	(259)
Endowment balance, end of year	32,611	30,808
Funds available for awards, beginning of year	-	-
Investment income	1,243	1,188
Bursaries awarded (2015 - 1,451 awards; 2014 - 1,316 awards)	(1,548)	(1,447)
Investment income transferred from endowment balance	305	259
Funds available for awards, end of year	-	-
Total funds at book value	$ 32,611	$ 30,808

The market value of the endowment as at April 30, 2015 was $37,112,000 (2014 - $33,589,000).

(b) Ontario Student Opportunity Trust Fund - Phase II

The Ontario government requires separate reporting of balances as at April 30th, 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)	2015	2014
Endowment balance, beginning of year	$ 5,771	$ 5,670
Investment income (used from) retained for protection of capital	190	101
Endowment balance, end of year	5,961	5,771
Funds available for awards, beginning of year	37	27
Investment income for expenditures	221	211
Bursaries awarded (2015 - 263 awards; 2014 - 241 awards)	(224)	(201)
Funds available for awards, end of year	34	37
Total funds at book value	$ 5,995	$ 5,808

The market value of the endowment as at April 30, 2015 was $7,042,000 (2014 - $6,679,000).

19. 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)	2015	2014
Endowment balance, beginning of year	$ 36,910	$ 35,932
Investment income retained for protection of capital	1,224	978
Endowment balance, end of year	38,134	36,910
Funds available for awards, beginning of year	1,296	1,195
Investment income for expenditures	1,289	1,214
Bursaries awarded (2015 - 428 awards; 2014 - 349 awards)	(1,301)	(1,113)
Funds available for awards, end of year	1,284	1,296
Total funds at book value	$ 39,418	$ 38,206

The market value of the endowment as at April 30, 2015 was $48,370,000 (2014 - $44,156,000).

20. Pledges receivable:

Outstanding but unrecorded pledges for donations and other fund raising amounted to $75,085,000 (2014 - $67,834,000).

21. Comparative figures:

Certain comparative figures for 2014 have been reclassified to conform with the financial statement presentation adopted in the current year.

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