Financial Statements of

McMASTER UNIVERSITY

Year ended April 30, 2003

McMASTER UNIVERSITY

FINANCIAL STATEMENTS

APRIL 30, 2003

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STATEMENT OF MANAGEMENT RESPONSIBILITY

The University is responsible for the preparation of the financial statements and has prepared them in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The financial statements present fairly the financial position of the University as at April 30, 2003 and the results of its operations and its cash flows for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. Members of the Audit Committee are not officers or employees of the University. The Audit Committee meets with management and the external auditors to discuss the results of audit examinations and financial reporting matters. The external auditors have full access to the Audit Committee, with and without the presence of management.

The financial statements for the year ended April 30, 2003 have been reported on by KPMG LLP, the auditors appointed under the University Act. The Auditors' Report outlines the scope of their examination and provides their opinion on the fairness of presentation of the information in the financial statements.

Dr. P. George President and Vice-Chancellor	Ms. K. Belaire Vice-President, Administration

AUDITORS' REPORT

The Board of Governors
McMaster University

We have audited the statement of financial position of McMaster University as at April 30, 2003 and the statements of operations and changes in unrestricted net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Hamilton, Canada

July 31, 2003

McMASTER UNIVERSITY
STATEMENT OF FINANCIAL POSITION

APRIL 30, 2003, WITH COMPARATIVE FIGURES FOR 2002
(in thousands of dollars)

	2003	2002 (restated - note 3)
Assets		
Current Assets:		
Cash and cash equivalents	$ 196,039	$ 62,347
Research grants receivable	57,598	46,627
Accounts receivable	26,933	25,245
Government grants receivable	138	11,414
Inventories	6,031	5,801
Prepaid expenses	752	716
	287,491	152,150
Long-Term Assets:		
Investments (note 4)	311,984	296,295
Deferred pension asset (notes 10 and 11)	163,509	295,303
	475,493	591,598
Capital Assets, net (note 5)	402,968	332,886
Total Assets	$ 1,165,952	$ 1,076,634
Liabilities, Deferred Contributions and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 44,896	$ 36,343
Unearned fees and other deferred revenue	19,800	15,977
Current portion of long-term debt (note 7)	689	270
	65,385	52,590
Deferred Contributions (note 6):		
Deferred contributions for future expenses	174,588	196,492
Deferred contributions for capital assets	261,057	244,758
	435,645	441,250
Long-term debt (note 7)	157,139	23,591
Accrued employee future benefits (note 10)	64,304	61,734
Provision for decommissioning nuclear reactor (note 14(c))	3,292	2,973
Net Assets (note 8):		
Unrestricted	3,351	4,471
Reserves	125,594	262,748
Invested in capital assets	60,688	42,240
Internally restricted endowments	127,535	75,530
Externally restricted endowments	123,019	109,507
	440,187	494,496
Total Liabilities, Deferred Contributions and Net Assets	$ 1,165,952	$ 1,076,634

See accompanying notes to financial statements

McMASTER UNIVERSITY

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2003, WITH COMPARATIVE FIGURES FOR 2002
(in thousands of dollars)

	2003	2002 (restated - note 3)
Revenues:		
Operating grants	$ 120,270	$ 112,664
Research overhead grants	5,707	12,315
Research grants and contracts	120,844	110,708
Tuition fees	92,595	81,125
Sales by ancillary operations	56,651	52,094
Donations and other grants	44,526	6,190
Investment income, net	(6,687)	13,811
Other revenue	57,830	45,098
Earned capital contributions	25,396	20,924
	517,132	454,929
Expenses:		
Salaries and wages	259,918	234,855
Employee benefits:		
Current	32,904	27,610
Future (note 10)	(9,987)	(4,604)
Supplies and services	176,463	163,336
Amortization of capital assets	38,984	33,114
Interest on long-term debt	5,587	1,423
	503,869	455,734
Excess of revenues over expenses (expenses over revenues) before the following	13,263	(805)
Pension plan surplus withdrawal (note 11)	(77,884)	–
Excess of expenses over revenues	(64,621)	(805)
Transfers/(uses of) excess of revenues over expenses:		
Increase in net assets invested in capital assets	(18,448)	(9,778)
Transfers from internally restricted endowments	9,527	6,931
Transfers from reserves	72,422	4,648
	63,501	1,801
(Decrease) increase in unrestricted net assets	(1,120)	996
Unrestricted net assets, beginning of year	4,471	3,475
Unrestricted net assets, end of year	3,351	$ 4,471

See accompanying notes to financial statements.

McMASTER UNIVERSITY
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2003, WITH COMPARATIVE FIGURES FOR 2002
(in thousands of dollars)

	2003	2002 (restated - note 3)
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Excess of expenses over revenues	$ (64,621)	$ (805)
Add (deduct) non-cash items:		
Decrease (increase) in deferred pension asset	131,794	(13,939)
Increase in accrued employee future benefits	2,570	4,099
Amortization of capital assets	38,984	33,114
Earned capital contributions	(25,396)	(20,924)
Net decrease in deferred contributions restricted for future expenses	(21,904)	(5,404)
Increase in provision for decommissioning nuclear reactor	319	787
Net change in non-cash working capital (note 9)	10,727	(23,252)
Cash provided from (used in) operating activities	72,473	(26,324)
FINANCING AND INVESTING ACTIVITIES:		
Increase in deferred contributions restricted for capital assets	41,695	70,944
Contributions to externally restricted endowments	10,312	18,175
Repayment of long-term debt	(203)	(4,862)
Issue of long-term debt	134,170	10,827
Acquisition of capital assets	(109,066)	(98,632)
Net change in long-term investments	(15,689)	8,326
Cash provided from financing and investing activities	61,219	4,778
Increase (decrease) in cash position	133,692	(21,546)
Cash and cash equivalents, beginning of year	62,347	83,893
Cash and cash equivalents, end of year	$ 196,039	$ 62,347
Supplementary information:		
Interest paid during year	$ 5,482	$ 1,513

See accompanying notes to financial statements.

1. AUTHORITY AND PURPOSE:

McMaster University operates by authority of The McMaster University Act, 1976. It is governed by a Board of Governors and Senate, the powers and responsibility of which are set out in the Act. It is a comprehensive research university offering a broad range of undergraduate, graduate and continuing education programs and degrees. The University is a not-for-profit organization and is therefore exempt from income tax under Section 149 of the Income Tax Act.

These financial statements include the assets, liabilities, deferred contributions, net assets, revenues, expenses, and other transactions of the operations for which the University has jurisdiction. They do not include the assets, liabilities and operations of McMaster Divinity College, McMaster Students Union Inc., and McMaster Children's Centre, Inc. which are independently governed and managed. Information on related organizations is disclosed in Note 15 (Related Party Transactions).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements are prepared in accordance with the standards established by the Canadian Institute of Chartered Accountants for not-for-profit organizations.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of revenues and expenses. Actual results could differ from those estimates.

(a) Accrual Accounting:

The University follows the accrual basis of accounting by recording income when earned and expenses when materials or services are received. Commitments for goods and services not yet received are not included in expenses.

Pledges from fund raising and other donations, because of the uncertainty of receipt, are not recorded until the year of receipt of cash or other assets.

(b) Revenue Recognition:

Operating grants are recognized as revenue in the period received or receivable. Operating grants relating to a future period are recorded as deferred contributions and recognized as income in the periods to which they relate.

Tuition fees which relate to academic terms or parts thereof occurring after April 30 are recorded as deferred revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(b) Revenue Recognition (continued):

Grants for sponsored research are recorded as deferred contributions. When research expenditures funded by such grants are incurred during the year, the equivalent amounts are brought into revenue.

Grants and donations received for the acquisition of capital assets are recorded as deferred contributions until such time as they are invested in capital assets. When invested in capital assets, the amounts are transferred to deferred contributions for capital assets and recognized as earned capital contributions revenue in the periods in which the amortization of the related capital assets is recorded.

Endowment donations are recognized as a direct increase in net assets held as endowments. Income earned from the investment of endowments principal, to the extent it is restricted, is recorded as deferred contributions and recorded as revenue in the periods in which the related expenses are incurred.

Other externally-restricted contributions are recorded as deferred contributions and recognized as revenue in the periods in which the related expenses are incurred.

Gifts-in-kind are recorded at their fair market value on the date of receipt or at nominal value when fair market value cannot be reasonably determined.

(c) Investments:

Investments with a term to maturity of 90 days or less at date of acquisition are included with cash and cash equivalents and are recorded at cost plus accrued income. Long-term investments are carried at estimated fair values, generally evidenced by the quoted market value. The estimated fair values are based upon market conditions at a specific point in time and may not reflect future fair values. Changes in fair values are included in investment income. Externally restricted investment income is included with deferred contributions and recognized as revenue when the related expenses are incurred. Unrestricted investment income is recognized as revenue during the period in which it is earned. Investment income related to internally restricted endowments is recorded as revenue during the period in which it is earned and is transferred from unrestricted net assets to internally restricted endowments. (See Note 3: Change in Accounting Policy).

(d) Inventories:

Inventories are stated at the lower of cost and net realizable value.

(e) Prepaid Expenses:

Expenditures incurred for materials and services to be consumed in future periods are recorded as prepaid expenses and recorded as expenses in the year consumed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(f) Capital Assets:

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

Asset	Rate
Land	-
Buildings	2.5%
Site improvements	5%
Library materials	10%
Equipment, furnishings and vehicles	20%
Computing equipment	33.3%

(g) Works of Art:

Works of art are expensed in the year of acquisition. During the year, $92,000 (2002 - $113,000) of works were purchased or donated.

(h) Contributed Services:

The University acknowledges the receipt of donated services. Because of the difficulty of determining their fair value, donated services are not recognized in the financial statements.

(i) Ancillary Enterprises:

Charges are made to ancillary enterprises for all costs associated with these operations including replacements and renovations of equipment and facilities. The enterprises are self-sustaining and are intended to operate on a breakeven basis.

Any profits/losses from ancillary operations are added to/deducted from reserves.

(j) Employee Future Benefits:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(k) Reserves:

The Board of Governors has approved a policy of permitting departments to carry forward unexpended budgets into the subsequent fiscal year for expenditure in that year. In addition, the University reserves other portions of fund balances for specific purposes approved by the Board of Governors.

(l) Financial instruments:

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

3. CHANGE IN ACCOUNTING POLICY:

The University has changed its method of accounting for the valuation of long-term investments. Previously, such investments were recorded at cost and losses in value were only recorded when investments were disposed of or when there was a significant and permanent impairment in value. These investments are now carried at fair value with the annual change in fair value recorded as a gain or loss for the year (see note 2(c)). This change has been applied retroactively with the effect of changing amounts previously reported at April 30, 2002 as follows:

	Previously Reported	Effect of Change	Restated
Investments	$ 312,286	$ (15,991)	$ 296,295
Deferred contributions for future expenses	207,113	(10,621)	196,492
Accrued employee future benefits	62,143	(409)	61,734
Provision for decommissioning nuclear reactor	3,099	(126)	2,973
Net assets:			
Reserves	262,181	567	262,748
Internally restricted endowments	80,932	(5,402)	75,530
Investment income	15,780	(1,969)	13,811
Employee benefits – future	(4,468)	(136)	(4,604)
Supplies and services	163,385	(49)	163,336
Uses of excess of expenditures over income:			
Decrease in internally restricted endowment	5,152	1,779	6,931
Decrease in reserves	4,643	5	4,648

4. INVESTMENTS:

(in thousands of dollars)		2003		2002
	Market	Cost	Market	Cost
Equities:				
Canadian	$ 60,454	$ 56,623	$ 60,680	$ 52,428
United States	35,295	57,712	40,739	57,706
Non-North American	34,443	56,384	46,610	55,885
	130,192	170,719	148,029	166,019
Fixed income	179,858	174,580	141,851	139,189
Other	1,934	2,080	6,415	7,078
Total	$ 311,984	$ 347,379	$ 296,295	$ 312,286

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

	2003	2002
Restricted for debt repayment sinking funds:		
Student residence mortgage (note 7(a))	$ 3,596	$ 3,331
Debentures due 2052 (note 7(d))	6,140	–
Restricted for provision for decommissioning of nuclear reactor (note 14 (c))	3,292	3,099
	$ 13,028	$ 6,430

5. CAPITAL ASSETS:

Capital assets consist of the following:

(in thousands of dollars)			2003	2002
	Cost	Accumulated amortization	Net	Net
Land	$ 2,707	$ –	$ 2,707	$ 2,707
Buildings	355,480	155,641	199,839	157,272
Site improvements	5,863	4,681	1,182	1,259
Library materials	89,026	58,485	30,541	29,346
Equipment, furnishings and vehicles	172,830	103,857	68,973	52,282
Computing equipment	70,741	57,222	13,519	14,637
Construction in progress	86,207	–	86,207	75,383
	$ 782,854	$ 379,886	$ 402,968	$ 332,886

6. DEFERRED CONTRIBUTIONS AND DEFERRED CAPITAL CONTRIBUTIONS:

Deferred contributions represent unexpended amounts which are subject to externally imposed restrictions. Deferred capital contributions represent the unamortized amounts of grants and donations used for the purchase of capital assets. Changes during the year are as follows:

(in thousands of dollars)	Deferred Contributions	Deferred Capital Contributions
Balance, beginning of year	$ 196,492	$ 244,758
Contributions received and receivable:		
Restricted operating grants	142	–
Research grants and contracts	159,251	–
Donations and other grants	29,059	–
Investment income	(11,197)	–
Transferred to revenue:		
Operating grants	(1,271)	–
Research grants and contracts	(120,844)	–
Donations and other grants	(46,546)	–
Investment income	11,197	–
Amortization of capital assets acquired with capital grants and donations	–	(25,396)
Transferred to acquire capital assets	(41,695)	41,695
Balance, end of year	$ 174,588	$ 261,057

Deferred contributions consist of the following:

(in thousands of dollars)	2003	2002
Research grants and contracts	$ 137,524	$ 129,749
Donations, other grants and investment income	23,402	40,153
Capital grants and donations	13,520	25,319
Other restricted funds	142	1,271
	$ 174,588	$ 196,492

7. LONG-TERM DEBT:

Long-term debt consists of the following:

(in thousands of dollars)	Maturity Year	Interest Rate	2003 Principal Outstanding	2002 Principal Outstanding
Student residence mortgage	2011	9.81%	$ 11,544	$ 11,544
Bank loan	2012	6.25%	5,366	4,000
Mortgage	2016	5.38%	1,420	1,490
Debentures	2052	6.15%	120,000	–
Bank bridge financing for new residence construction			19,498	6,827
			157,828	23,861
Principal due within one year			(689)	(270)
			$ 157,139	$ 23,591

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

2004	$ 689
2005	751
2006	799
2007	851
2008	905

(a) An internal sinking fund has been established to provide funds to repay a portion of the principal of the student residence mortgage upon maturity in 2011. The purchase of sinking fund investments is financed by a charge to the residence ancillary operation. No additional sinking fund investments were purchased in 2003. The value of the sinking fund is $3,596,000 (2002 - $3,331,000) and is included in investments at April 30, 2003.

(b) The leasehold liability for student residences was paid during 2002 and replaced by a bank demand loan of $4,000,000 and bridge financing of $700,000. During 2003, an additional bank loan of $800,000 was received to finance furniture acquisitions for the new student residence. These loans were converted to a $5,500,000 unsecured amortizing bank promissory note dated December 1, 2002 and maturing December 1, 2012, bearing interest at 6.25% under a 10-year interest rate swap agreement.

7. LONG-TERM DEBT (continued):

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

(in thousands of dollars)	Due date	Interest rate		Amount
Floating rate demand note	Floating	Prime less .50%	$	2,538
Fixed rate demand note	May 1/03	3.54%		16,960
Bridge financing outstanding at April 30, 2003				19,498
Additional bank approved bridge financing available				5,302
Long-term financing commitment from the bank			$	24,800

On May 1, 2003, $19,200,000 of the bridge financing was converted to take out financing for the new student residence. The remaining bridge financing of $298,000 plus additional bridge financing for the completion of the student residence will be renewed until September 30, 2003 at which time it will be converted to take out financing under the long-term financing commitment by the bank.

The long-term financing commitment by the bank is in the form of a 30-year amortization, 10-year floating rate unsecured term loan of up to $24,800,000. The University has entered into an interest rate swap agreement with the bank whereby an interest rate of 6.72% has been fixed for 30 years on $19,200,000 of these loans.

The interest rate swap agreements, which are in a net unfavourable position at April 30, 2003, constitute an unrecognized financial liability with a fair value of $2,671,000 (2002 - net unfavourable position of $236,000). The fair value of interest rate swap agreements is based on amounts quoted by the University's bank to realize favourable contracts or settle unfavourable contracts, taking into account current interest rates at April 30, 2003.

(d) On October 7, 2002, the University issued senior unsecured debentures in the aggregate principal amount of $120,000,000 at a price of $999.07 for proceeds of $119,888,400. The debentures bear interest at 6.15% payable semi-annually on April 7 and October 7 with the principal payable on October 7, 2052. The proceeds of the issue are being used to finance capital projects including a new parking structure, portions of the new University Student Centre, expansion of the Health Sciences Centre and various other academic and research buildings. Approximately $47,063,000 of the proceeds have been spent to April 30, 2003 with the remainder to be spent in future years. The issue price discount and other debt issue costs were expensed during the year and are included in supplies and services expense on the statement of operations and changes in unrestricted net assets. An amount of $6,140,000 has been transferred from internally restricted endowments to investment in capital assets represented by a sinking fund for the future payment of the debenture principal. The sinking fund investments are included in restricted investments on the Statement of Financial Position.

8. NET ASSETS:

Net assets are classified as follows:

(a) Unrestricted Net Assets: General funds available for future operations or, if negative, cumulative operating deficit.

(b) Reserves: Funds allocated for specific purposes and unexpended budgets carried forward for future expenditures within budget units.

(c) Invested in Capital Assets: Internally generated funds invested in capital assets, exclusive of capital assets financed through long-term debt or capital contributions.

(d) Internally Restricted Endowments: Unrestricted donations and bequests which have been endowed by action of the Board of Governors, including unspent investment income.

(e) Externally Restricted Endowments: Non-expendable donations and bequests. Unspent investment income is shown as deferred contributions for future expenses.

Changes in net assets for the year are:

(in thousands of dollars)	2003						2002
	Unrestricted	Reserves	Invested in Capital Assets	Internally Restricted Endowments	Externally Restricted Endowments	Total	Total
Balance, beginning of year:							
As previously reported	$4,471	$262,181	$42,240	$80,932	$109,507	$499,331	$480,177
Change in accounting policy (note 3)	–	567	–	(5,402)	–	(4,835)	(3,051)
As restated	4,471	262,748	42,240	75,530	109,507	494,496	477,126
Excess of revenues over expenses	(83,069)	–	18,448	–	–	(64,621)	(805)
Internal restrictions:							
Transfers (to) from reserves	72,422	(70,735)	–	(1,687)	–	–	–
Transfers (to) from internally restricted endowments	9,527	–	–	(9,527)	–	–	–
Transfer (to) from externally restricted endowments	–	–	–	(3,200)	3,200	–	–
University share of pension surplus	–	(72,559)	–	72,559	–	–	–
Reserve for debenture sinking fund	–	6,140	–	(6,140)	–	–	–
Externally restricted donations received	–	–	–	–	10,312	10,312	18,175
Balance, end of year	$3,351	$125,594	$60,688	$127,535	$123,019	$440,187	$494,496

8. NET ASSETS (continued):

Reserves consist of the following:

(in thousands of dollars)	2003	2002
Employee benefits:		
Pensions	$ 135,328	$ 271,169
Other Post-Employment and Post-Retirement Benefits	(58,373)	(55,445)
	76,955	215,724
Unexpended departmental budgets	30,218	32,030
Other specific purposes	18,421	14,994
	$ 125,594	$ 262,748

9. NET CHANGE IN NON-CASH WORKING CAPITAL:

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

(in thousands of dollars)	2003	2002
Research grants receivable	$ (10,971)	$ (2,226)
Accounts receivable	(1,688)	(8,509)
Government grants receivable	11,276	(11,165)
Inventories	(230)	(285)
Prepaid expenses	(36)	973
Accounts payable and accrued liabilities	8,553	(4,424)
Unearned fees and other deferred revenue	3,823	2,384
	$ 10,727	$ (23,252)

10. EMPLOYEE FUTURE BENEFITS:

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

The accrued benefit obligations as determined by independent actuaries and the fair values of plan assets are as at January 31, 2003.

In 2003, the expense/(income) for the University's benefit plans is as follows:

	2003		2002	
(in thousands of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Defined benefit plans (income)	$ (12,490)	$ 2,928	$ (8,972)	$ 4,504

10. EMPLOYEE FUTURE BENEFITS (continued):

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

(in thousands of dollars)	2003 Pension Benefit Plans	2003 Other Benefit Plans	2002 Pension Benefit Plans	2002 Other Benefit Plans
Accrued benefit obligation	$ 840,780	$ 72,029	$ 792,422	$ 70,358
Fair value of plan assets	863,579	–	974,753	–
Funded status – plan surplus (deficit)	$ 22,799	$ (72,029)	$ 182,331	$ (70,358)
Accrued benefit asset (liability) at April 30	$ 163,509	$ (64,304)	$ 295,303	$ (61,734)

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

(in thousands of dollars)	2003 Pension Benefit Plans	2003 Other Benefit Plans	2002 Pension Benefit Plans	2002 Other Benefit Plans
Accrued benefit obligation	$ 63,413	$ 72,029	$ 62,484	$ 70,358
Fair value of plan assets	–	–	–	–
Funded status – plan deficit	$ 63,413	$ 72,029	$ 62,484	$ 70,358

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

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

10. EMPLOYEE FUTURE BENEFITS (continued):

For measurement purposes, a 10% annual rate of increase in the per capita cost of medical benefits was assumed for 2001. The rate was assumed to decrease to 5% by 2005, and remain at that level thereafter. A 5% annual rate of increase is assumed for dental benefits.

	2003		2002	
(in thousands of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Employer contribution	$ 6,158	$ 3,755	$ 4,967	$ 2,206
Employee contribution	3,726	–	3,702	–
Benefits paid	39,716	3,755	39,019	2,206

11. SALARIED PENSION PLAN SURPLUS WITHDRAWAL:

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

12. PLEDGES RECEIVABLE:

Outstanding pledges expected to be received in future years, not included in revenue and accounts receivable, are $11,144,000 (2002 - $17,342,000).

13. ONTARIO STUDENT OPPORTUNITY TRUST FUND:

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

(in thousands of dollars)	2003	2002
Endowment balance, beginning of year	$ 30,715	$ 31,224
Donations	–	–
Matching funds from the Government of Ontario	–	–
	30,715	31,224
Investment income (provided from) preservation of capital	(1,298)	(509)
Investment income transferred from expendable income	200	–
Balance, end of year	29,617	30,715
Funds available for awards, beginning of year	–	384
Investment income	1,448	1,372
Bursaries awarded (2003: 907 awards; 2002: 1,322 awards)	(1,248)	(1,756)
Investment income transferred to preservation of capital	(200)	–
Funds available for awards, end of year	–	–
Total funds	$ 29,617	$ 30,715

14. COMMITMENTS AND CONTINGENT LIABILITIES:

(a) Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE), a self-insurance co-operative comprised of over forty Canadian universities and colleges. CURIE insures property damage, general liability and errors and omissions risks. If premiums collected are insufficient to cover expenses and claims, the University may be requested to pay additional amounts.

(b) Outstanding Legal Issues:

The University is involved from time to time in litigation which arises in the normal course of operations. With respect to claims outstanding at April 30, 2003, the University believes it has valid defenses and appropriate insurance coverage in place. In the event that any claims are successful, the settlements of such claims are not expected to have a material effect on the financial position of the University, except as follows:

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

14. COMMITMENTS AND CONTINGENT LIABILITIES (continued):

(c) McMaster Nuclear Reactor:

It is expected that at some undeterminable future date the McMaster Nuclear Reactor will be decommissioned. The current estimated cost to dispose of the nuclear fuel and place the reactor in a safe state is $2,940,000 with a further $7,322,000 required for disposal of remaining nuclear waste, building decommissioning and demolition, as well as site rehabilitation. An amount is being charged to reactor operations annually to provide for these costs. The provision for decommissioning at April 30, 2003 of $3,292,000 (2002 - $2,973,000) is shown as a long-term liability and the related investments restricted by the Board of Governors exclusively for this purpose are included in long-term liabilities.

(d) Capital Commitments:

The estimated cost to complete approved capital projects is $158,378,000 at April 30, 2003. These costs, will be financed by unexpended departmental budget reserves, government grants, fundraising, student contributions, bank financing, the proceeds of the $120,000,000 debenture issue and future ancillary operations revenue streams.

The University is a party to the bid to host the 2010 Commonwealth Games. If the bid is successful, the University is committed to an investment of $46,500,000 in additional athletic and residence facilities which will be financed through student contributions, fundraising and future ancillary operations revenue streams.

15. RELATED PARTY TRANSACTIONS:

Certain fundraising activities are carried out by the following related organizations: The McMaster Medical Fund, The McMaster University Trust, the McMaster University Foundation, Friends of McMaster Incorporated. The assets and liabilities and operations of these organizations have not been consolidated with and are not material to these financial statements. Funds donated by these organizations to McMaster University during the year were $1,584,000 (2002 - $482,000).

16. COMPARATIVE FIGURES

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