Annual Financial Report

2017-2018

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McMaster University

Annual Financial Report
2017-2018

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Year in Review

2017/18 Financial Analysis and Commentary

McMaster University manages annual consolidated revenues of approximately $1 billion per year across its operating, capital, research, trusts, and ancillary funds. The University's primary expenditures relate to the employment of the faculty and staff who advance, sustain, and support McMaster's academic and research mission. In addition to these critically important costs, the University has a number of long-term funding obligations associated with current operations, some of which are legislated, including future pension and non-pension payments, the cost of decommissioning the Nuclear Reactor, and bond repayments. McMaster regularly estimates, and reports the status of future obligations, and has established a number of funding strategies, including reserves, to settle these obligations without adversely impacting the core academic and research mission of the University.

In 2017/18 McMaster achieved a net surplus of $123.8 million compared to $112.0 million in the previous year. This surplus includes a $44.2 million surplus in the operating fund predominantly held by the Faculties for use for future academic priorities, including capital renovations or infrastructure needs and/or strategic mandate initiatives. The surplus also includes additional funding set aside to pay future benefit and post-retirement costs, as well as bond sinking funds. As a result of McMaster's prudent approach to budgeting and financial planning the University has been able to maintain strong and stable credit ratings of AA from both Standard and Poors and DBRS.

Revenue growth achieved in the year predominantly relates to increased enrolment in both undergraduate and graduate programs, and associated tuition income, as well as revenues from specially funded programs, non-regulated fees, new referendum related fees, and other enrolment-related support service revenues. The operating grant remained relatively fixed at the 2016/17 level determined by the Ministry's corridor funding model. It is unclear how long the corridor funding model will remain in place at this level, and it is also unclear whether the new provincial government will introduce additional policy levers or funding cuts in the coming year.

Reflecting the uncertainty of the financial markets, University investment income remains volatile from year to year. Net investment income earnings of $52.3 million were achieved in 2017/18, which is down from $98.4 million in the previous year. The primary contributor to investment income is the performance of the long-term investment pool, which earned a rate of return for 2017/18 of 5.2%, compared to 16.0% in 2016/17. We anticipate an inevitable correction in financial markets at some future time and have built a reserve in preparation. In 2017/18 both the Investment Pool and Pension Trust assets were subject to a third party review initiated by the University administration. These reviews examined asset allocations and return objectives and as a result alternative allocation strategies for both asset pools are being examined, along with associated risk tolerances for each of the funds. It is anticipated that changes will be made in the 2018/19 fiscal year and in the case of the Investment Pool, any changes will be aligned with recommendations from the President's Advisory Committee on Fossil Fuels Divestment. The carbon footprint of the Investment Pool was measured this year and although the footprint was below its policy benchmark, further actions are planned, as well as the introduction of a socially responsible investment fund.

As noted earlier, personnel costs remain the University's greatest expenditure, reflecting over 62.9% of total expenses or $619.7 million, up 2.9% over the previous year (2016/17 - $602.0 million). Salary and wages grew 5.6% due to the addition of 168 faculty members and permanent staff, as well as negotiated pay increases. Although these increases were offset somewhat by a decrease in benefit costs (7.1%), which related primarily to actuarial measurements and interest rates, they still represent an ongoing challenge for the University to manage in the context of revenue that is largely fixed. To this end, McMaster is undertaking a series of benchmarking and operating reviews to better understand cost structures and opportunities.

In 2017/18 McMaster approved an investment in research commercialization infrastructure to further support the transition of research activities into self-sustaining spin-off business enterprises. In addition to opening the Fraunhofer-McMaster Project Centre for Biomedical Engineering and Advanced Manufacturing (BEAM), capital planning is underway with four research spin-off businesses that intend to relocate to McMaster Innovation Park. Over the last year construction has continued on the Peter George Living and Learning Centre, with the opening planned for 2019/20. The University has also completed the construction of a combined heat and power cogeneration plan to produce electricity, steam and chilled water, and has progressed renovation and expansion work on the Arthur N. Bourns Building. Finally, capital planning is underway for expansions related to the Athletics and Recreation approved phase 1 project, involving the expansion of the pulse workout facility, a new gym, and additional studio, study, event, lounge and prayer space. This initiative responds directly to student need and is supported partially by student fees following a referendum held by the McMaster Students Union.

The information contained in this Annual Financial Report is intended to provide the reader with financial information for the fiscal year ended April 30, 2018. While the focus of this document is the consolidated operations of all funds on an accrual basis, extended variance analysis information regarding the operating fund results, which operates on a modified cash basis for budgeting and accounting purposes, has been included on page 25.

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

Signed Strategic Mandate Agreement 2017-2020
https://president.mcmaster.ca/wp-content/uploads/2018/01/SMA_SIGNED_PublicVersion_Oct17.pdf

Forward with Integrity
https://president.mcmaster.ca/guiding-strategy/

Consolidated Budget – June 2018
https://www.mcmaster.ca/bms/pdf/2018-19_budget.pdf

University Fact Book
https://ira.mcmaster.ca/fact-book/

McMaster Goals and Priorities Report 2017-2018
https://op.mcmaster.ca/wp-content/uploads/2018/09/Fact-Book-Goals-and-Priorities-2018_FINAL-1.pdf

By the Numbers

$558,400,000

Available expendable resources vs. $528,900,000 last year

$156,500,000

Capital spending vs. $113,500,000 last year

$1,109,500,000

Total revenue vs. $1,076,000,000 last year

$985,700,000

Total expenses vs. $963,900,000 last year

$123,800,000

Excess of revenues over expenses vs. $112,100,000 last year

$24,443

Endowment per FTE students vs. $24,191 last year

$37,285

Revenue per FTE students vs. $36,938 last year

$(247,700,000)

Non-pension employee future benefit unfunded obligation vs. $(220,300,000) last year

$19,100,000

Pension employee future benefit surplus vs. $(3,500,000) unfunded obligation last year

$1,209,100,000

Total net assets vs. $1,094,200,000 last year

$44,200,000

Excess of revenues over expenses operating fund only vs. $25,900,000 last year

29,758

Enrolment (full time equivalent (FTE)) vs. 29,130 last year

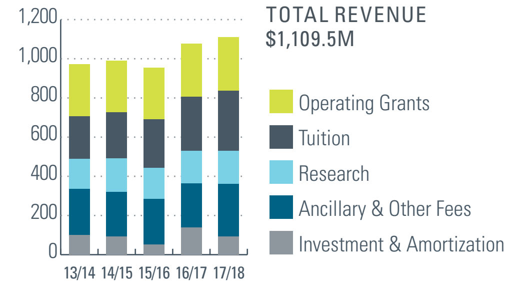
7,616

Staff and Faculty head count vs. 7,448 last year

Financial Analysis

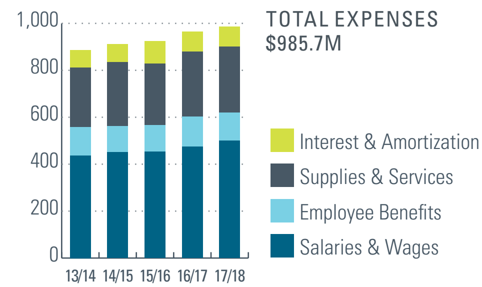
TOTAL REVENUE

- Tuition income and operating grants increased 11.1% and 1.2% respectively, as a result of new programs, fee increases, and increased enrolment.
- Other income increased 15.5% generated by various faculty programs and university support services.
- Investment income declined by $46.2 million over prior year to $52.3 million related to a 5.2% rate of return compared to 16.0% last year in the long-term investment pool.



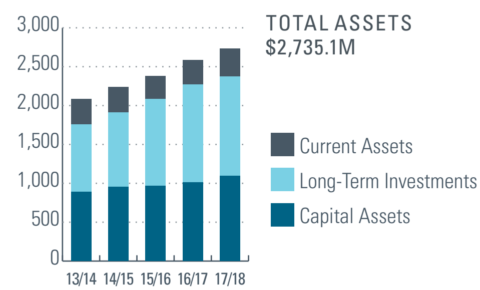
TOTAL EXPENSES

- Expenses increased 2.3% from $963.9 million to $985.7 million.
- Salaries and wages increased by $26.8 million (5.6%), due to the addition of faculty members and permanent staff, negotiated pay increases, and adjustments as set out in Bill-148.
- Employee benefits expense decreased by $9.0 million (7.1%) due to reduced pension interest costs.



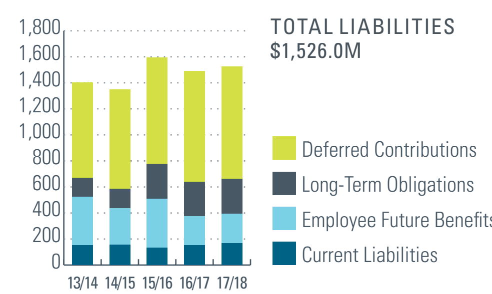
TOTAL ASSETS

- Assets increased by $150.6 million (5.8%) primarily related to additional capital assets and increased investments.
- Capital assets grew by a net $84.4 million (8.4%) related to $156.5 million in capital additions for new buildings and equipment net of $72.1 million in amortization.
- Total investment holdings increased by $72.2 million to $1,446.5 million primarily due to the 5.2% return on investments.



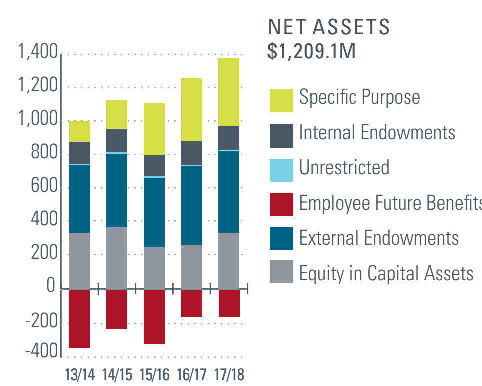
TOTAL LIABILITIES

- Liabilities increased by 2.4% to $1,526.0 million from $1,490.3 million. Current liabilities increased by $16.8 million (11.2%) primarily related to an increase in accounts payable and accrued liabilities.
- Deferred contributions and long-term obligations remained relatively flat year over year with additions and deductions resulting in small balance changes.



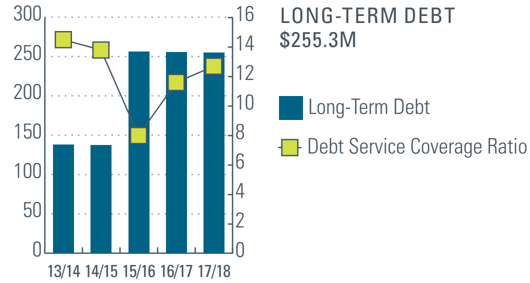
NET ASSETS

- Net assets increased by 10.5% due to an increase in specific purpose reserves and equity in capital assets.
- Specific purpose reserves grew by $25.2 million (6.7%) primarily due to an increase in departmental, faculty and investment reserves required to settle future obligations or invest in infrastructure.
- Equity in capital assets increased by $71.9 million (27.2%) due to capital asset expenditures.



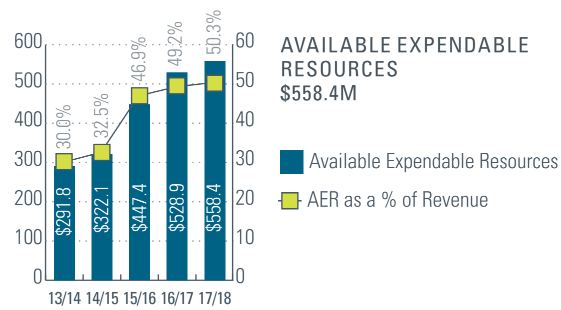
LONG-TERM DEBT

- The debt service coverage ratio improved due to the increase in net income.
- Total long-term debt decreased due to the $586 thousand principal repayment on the bank loan maturing in May 2033.



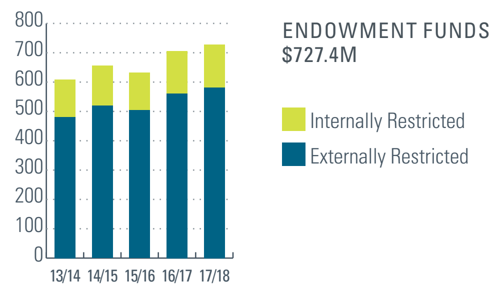
AVAILABLE EXPENDABLE RESOURCES (AER)

- AER represents funds held that are not externally committed, such as unrestricted net assets, specific purpose reserves, faculty and department appropriations, and internally restricted endowments.
- AER increased to $558.4 million from $528.9 million mainly due to an increase in faculty and investment reserves.



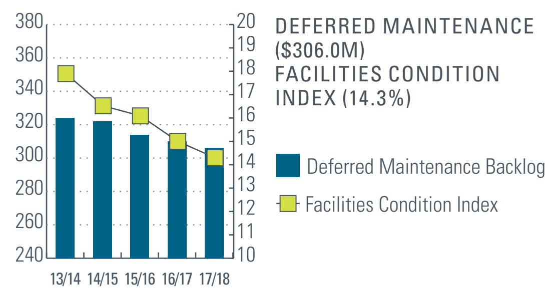
ENDOWMENT FUNDS

- McMaster's internal and external endowments increased by 3.2% related mainly to the investment return of 5.2% for the long-term investment pool.
- Endowment funds per student increased by 1.0% to $24,443 from $24,191 even with an increase in student enrolment.



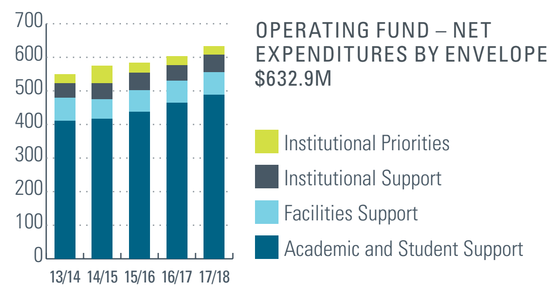
DEFERRED MAINTENANCE

- McMaster's deferred maintenance backlog decreased from $310.1 million to approximately $306.0 million.
- McMaster's Facilities Condition Index (FCI) improved to 14.3% from 15.0% in 2016/17.
- The improvement in the deferred maintenance backlog and the University FCI is attributable to increased base operating and Ministry support for deferred maintenance projects and the addition of new buildings.



OPERATING FUND – EXPENDITURES BY ENVELOPE

- Operating fund net expenditures increased by 4.6%.
- Academic and student support increased 5.2% from the prior year due to increased enrolment and faculty renewal in growth areas.
- Institutional support increased 8.8% from the previous year due to increased investments related to the IT Review recommendations and a benchmarking project.
- Institutional priorities decreased by a net of 2.5% related to savings associated with completing the Mosaic implementation.



Revenues

In 2017/2018 total revenue increased by $33.5 million (3.1%) to $1,109.5 million (2016/17 – $1,076.0 million) reflecting revenue per student of $37,286 (2016/17 – $36,938). Revenues reflect a net increase that includes a $30.4 million increase in tuition fees, a $25.2 million increase in donations and other grants, a $16.5 million increase in other income, and a decrease of $46.2 million in net investment income. McMaster continues to focus on new revenue generation opportunities across all areas while actively managing existing revenue streams to optimize investments in the student experience, academic and research mission. Key investment priorities include differentiation through experiential learning programs, research infrastructure investments, technology, and other infrastructure transformations.

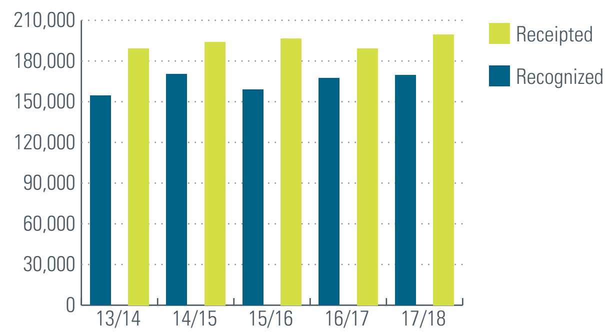
OPERATING GRANTS INCOME

Government operating grants increased by $3.2 million (1.2%) over prior year for graduate enrolment and undergraduate enrolment transition. Operating grants for domestic undergraduate enrolment are frozen at 2016/17 levels by the Ministry's corridor funding model dramatically impacting current and future operating grant increases.

RESEARCH GRANTS AND CONTRACTS

Research revenue is recognized as income in the year related expenditures occur. Unspent research funding and funds spent on capital are reflected as deferred contributions. McMaster's research revenue does not include research funding received and administered by affiliated hospitals or funding directed to Network Centres of Excellence, such as the Centre for Probe Development and Commercialization hosted at McMaster. Research funding received increased to $199.5 million (2016/17 – $189.2 million). Research expenditures increased by 1.4%, resulting in $169.7 million in research revenue recognition compared to $167.3 million last year. The table shows the increase in research receipts and slight increase in research revenue recognized compared to the prior year.

RESEARCH REVENUE:
RECEIPTED VS RECOGNIZED IN INCOME – $ THOUSANDS



	$ millions	
RESEARCH REVENUE RECOGNIZED	2018	2017
Total research funds received	199.5	189.2
Less: amount deferred to future	(29.8)	(21.9)
	169.7	**167.3**

RESEARCH OVERHEAD GRANTS

Research overhead grants decreased to $14.0 million in 2017/18 (2016/17 – $14.4 million) related to less overhead eligible awards received. Overhead grants assist the University in 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.

TUITION FEES

Revenue from tuition fees increased by 11.1% in 2017/18 due to increases in international graduate and undergraduate enrolment and tuition fee increases allowable by legislation. In 2017/18, the University adjusted fees within the allowable cap for each regulated program and remained within an overall increase cap of 3.0% for domestic students. Contributing to improved tuition revenue are increases in other fees not subject to the legislative cap. These include non-government funded programs and international student fees. International students pay fees that are higher than domestic rates and account for approximately 11.8% (2016/17 – 9.8%) of the total student population.

ANCILLARY OPERATIONS

Ancillary operations provide essential academic and student support services across the University, such as housing, food services, parking, campus stores, and media/print production. Ancillaries are responsible for providing efficient and affordable services while covering all related operating and capital expenditures. Ancillaries contribute approximately 4.5% on sales toward direct student support and the operating fund. 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, faculty and staff feedback is sought through surveys and advisory committees.

A detailed breakdown of ancillary sales is shown in the table below. Net ancillary sales revenue increased by 3.8% to $77.1 million in 2017/18 (2016/17 – $74.3 million). Hospitality Services was the largest contributor to the revenue growth increasing sales by 9.2% mainly due to meal plan changes and increased cash sales resulting from increased food service offerings. Housing and conference services sales increased 4.4% mainly due to increased residence fees and higher residence utilization. Further, event income increased due to the hosting of the 2017 North American Indigenous Games. Parking services sales increased by 10.8% due to higher parking voucher demand and increased visitor sales after the opening of L.R. Wilson Hall. Campus Store sales declined 2.9% due to lower sales in course materials over prior year. Media production services increased total sales by 12.0% largely due to increased internal demand for web, print and other application development.

$ thousands

SALES BY ANCILLARY OPERATIONS	April 30, 2018	April 30, 2017
Hospitality Services	27,641	25,303
Housing and Conference Services	27,128	25,977
Campus Store	15,897	16,364
Continuing Education	7,183	7,006
Media Production Services	4,190	3,742
Parking	5,821	5,252
Miscellaneous	103	133
	87,963	83,777
Less internal sales	(10,851)	(9,504)
	77,112	**74,273**

INVESTMENT INCOME

The long-term investment pool rate of return (net of investment manager fees approximating 0.3%) for 2017/18 was 5.2%, compared to 16.0% in 2016/17. For the year ending April 30, 2018, the endowment fund achieved a rate of return of 5.5%, which was above the fund benchmark return of 3.7%. Market volatility and low interest rates remain key management concerns, as such broad geographic and asset class diversification within the long-term Investment Pool helps protect capital. In the year, an asset allocation third party review was initiated for both the Investment Pool and the Pension Trust assets examining asset allocations and alternatives against return objectives and risk tolerances. This work is in progress, with recommendations and change results likely to affect 2018/19. Any changes affecting the Investment Pool will take into consideration the recommendations and actions associated with the President's Advisory Committee on Fossil Fuels Divestment including consideration of recommendations on the portfolio's carbon footprint and management's action to establish a new socially responsible investment fund. Finally, further work is underway toward the University's multi-year plan to become a signatory to the United Nations Principles for Responsible Investing.

Historical and projected future investment returns are included in multi-year financial projections along with sensitivity analysis to highlight the significance of variances possible in investment income associated with market fluctuations. The endowment funds are invested based on a benchmark asset mix of 60.0% equities and 40.0% fixed income, real estate, and infrastructure. Total investment earnings are allocated as either income in the Statement of Operations or direct increases to endowment balances as preservation of capital adjustments in the Statement of Changes in Net Assets.

Investment returns for endowed funds are used for purposes set out by donors or by the Board of Governors, where gifts are for discretionary purposes. Annual endowment spending is targeted at a rate of 4.0% determined using a five-year average rate of return, any returns in excess of spending and other expenses go toward capital preservation. In 2017/18 approximately $23.4 million (2016/17 – $24.6 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.

$ thousands

INVESTMENT INCOME	2017/2018 Actual	2016/2017 Actual
Recognized in income	52,275	98,432
Net posted directly to external endowments	2,718	44,799
Total earned	**54,993**	**143,231**


thermoscientific

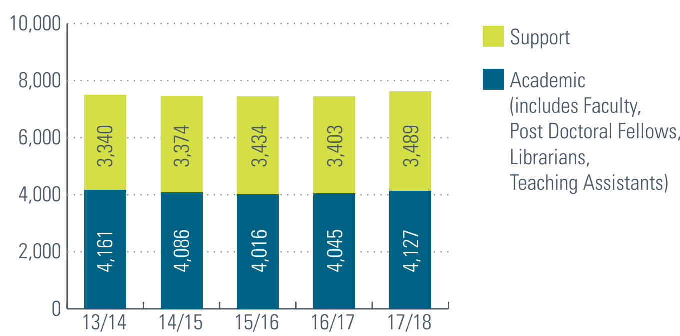
Compensation and Benefits

McMaster University provides compensation and various 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 long-term financial sustainability. 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, pension and non-pension liabilities and unfunded deficits are included in this section.

EXPENSE

Total compensation (salary and wages along with benefit costs) accounts for 62.9% of total expenditures (62.5% last year) representing a total of 7,616 permanent faculty and staff members at October 2017 (compared to 7,448 October 2016).

FACULTY MEMBERS AND PERMANENT STAFF
AS OF OCTOBER 2017 – 7,616



Salary and wage expenses increased by 5.6%, whereas benefit expenses decreased by 7.1% over prior year primarily due to interest rate change impact on the accrued benefit cost determined by actuarial measurement. Total compensation expenses of $619.7 million are up 2.9% (2016/17 – $602.0 million) representing a net 0.7% increase on a per staff basis.

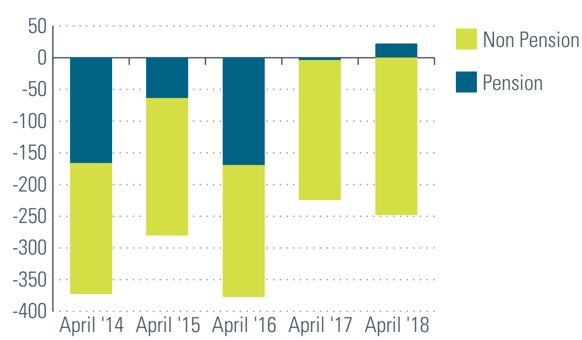
EMPLOYEE FUTURE BENEFIT OBLIGATIONS

(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. Under the Canadian accounting standards for not-for-profit organizations, annual re-measurements, investment gains and losses, and other items specifically related to employee future benefits are recorded directly in the Statement of Changes in Net Assets. Only current year benefit costs are expensed in the Statement of Operations.

The pension and non-pension plan obligations continue to be a significant draw on University resources. Over the last few years, several cost-balancing measures have been taken including plan design changes and increased employee contributions. However, the University has not yet been able to achieve a 50:50 cost sharing with any employee groups. The benefit costs could be 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 and ongoing increase to future benefit 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; the University charges an average benefit rate of approximately 30.0% each year although annual benefit cash outflows can vary year-over year.

POST RETIREMENT (UNFUNDED OBLIGATIONS)/SURPLUS
(includes pension and non-pension benefits) ($228.6M)



PENSION

Steps taken over the last few years to manage the pension liability have included revised eligibility rules for some groups, increased employee contributions and the introduction of a group RRSP plan for new employees in some groups. The group RRSP now includes 361 full time employees (2016/17 – 312).

New pension rules have come into effect for valuations filed 2018 or later. McMaster's next hourly rated employee pension plan valuation filing is July 1, 2019, unless the University elects an earlier filing date. Under the revised pension rules additional solvency payments are required where a plan falls below 85.0% funded on a solvency basis. Further, a new Provision for Adverse Deviation (PfAD) must be funded representing a percentage of the going concern liability and applying a formula based on asset mix and whether the plan is open or closed to new members. Based on the new pension rules management is monitoring its solvency funded status and estimating future PfAD payments to incorporate into its smoothed benefit rate strategy. In the interim, Stage 3 solvency funding relief rules are in place for both the Hourly and Salaried plans allowing interest only payments on solvency deficiencies for the next 2 years.

In addition to the above new pension rules for all public and private sector Ontario defined benefit plans, the province has also passed enabling legislation for a jointly sponsored pension plan (JSPP) to be developed for the higher education sector. Three institutions are moving working toward establishing a JSPP. The JSPP as designed, is more expensive than McMaster's current plans however management is monitoring JSPP design and transition plan.

The change in the funded status of the defined benefit pension plans is summarized in the chart below.
Pension expense decreased by 23.1% from $43.3 million to $33.3 million, due to lower net interest cost applied to a lower opening obligation balance than the prior year.

A small $10.6 million negative pension re-measurement adjustment was made in the Statement of Net Assets related to plan asset expected returns compared to a positive $143.8 million re-measurement adjustment in the prior year.

$ millions

ACCOUNTING BASIS
CHANGE IN FUNDED STATUS OF PENSION BENEFIT PLANS

	April 30, 2014	April 30, 2015	April 30, 2016	April 30, 2017	April 30, 2018
Funded status, opening balance	**$(217.4)**	**$(165.9)**	**$(63.3)**	**$(169.3)**	**$(3.5)**
Current service and finance cost	(49.0)	(42.6)	(36.3)	(43.3)	(33.3)
Remeasurement	40.3	95.8	(134.4)	143.8	(10.6)
University contributions	60.2	49.4	64.7	65.3	66.5
Funded status, closing balance, net	**$(165.9)**	**$(63.3)**	**$(169.3)**	**$(3.5)**	**$19.1**

OTHER POST-RETIREMENT AND POST-EMPLOYMENT BENEFIT PLANS

These plans provide extended health benefits to retirees and to employees on long-term disability leave. The deficit status of the plans as at April 30, 2018 totaled $247.7 million, an increase of $27.4 million from April 30, 2017. The long-term funding strategy for these obligations includes annual contributions to an internally restricted reserve monitored annually and reassessed by actuaries on a tri-annual basis. In 2017/18, non-pension employee benefit expenses were $20.4 million, a $0.7 million increase from 2016/17 primarily due to the interest cost on the liabilities. Payments by the University for claims from the plans totaled $7.9 million.

$ millions

CHANGE IN FUNDED STATUS OF NON-PENSION BENEFIT PLANS

	April 30, 2014	April 30, 2015	April 30, 2016	April 30, 2017	April 30, 2018
Funded status, opening balance	**$(176.9)**	**$(206.8)**	**$(217.2)**	**$(208.0)**	**$(220.3)**
Current service and finance cost	(19.4)	(19.0)	(19.9)	(19.7)	(20.4)
Remeasurement	(16.8)	1.9	22.3	0.2	(14.9)
University contributions	6.3	6.7	6.8	7.2	7.9
	(206.8)	(217.2)	(208.0)	(220.3)	(247.7)
Internally restricted reserve	38.0	51.3	60.4	73.6	83.2
Funded status, closing balance, net	**$(168.8)**	**$(165.9)**	**$(147.6)**	**$(146.7)**	**$(164.5)**


Methods in Psychological Research

Capital Projects and Financing

McMaster University is committed to building purpose-focused technology enabled spaces, and renewing existing infrastructure to ensure its research focused student-centered 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.

CAPITAL PROJECTS

During fiscal 2017/18, the University completed construction of the Fraunhofer-McMaster Project Centre for Biomedical Engineering and Advanced Manufacturing (BEAM). Opened in March 2018, BEAM Centre brings together the expertise of researchers from science, health sciences and engineering. Also during the year, the University completed construction of a new Combined Heat and Power co-generation plant (Cogen). The Cogen's 5.7 Megawatt natural gas fired turbine produces electricity, steam and chilled water, which allowed the University to retire other aging boilers and chillers.

Construction of the Peter George Centre for Living and Learning (PGCLL), a 500-bed undergraduate residence on campus adjacent to the Ron Joyce Stadium, continued development during 2017/18. The PGCLL also includes teaching and learning spaces, expanded study and collaborative student spaces, a new home for both the Student Wellness Centre, the McMaster Child Care Centre, underground parking, and new hospitality services. This multi-purpose building maximizes the use of campus lands.
Other capital projects underway in 2017/18 included the deep retrofit and expansion of the Arthur N. Bourns Building (ABB) and the land acquisition and pre-construction phase of the McMaster Main Street undergraduate residence.

In addition to these capital building projects, the University spent approximately $33.4 million on equipment, software and furnishings. This represents an increase of $5.7 million over last year primarily due to the acquisition of additional utilities infrastructure related to the Cogen project.

The University's total capital expenditures for 2017/18 totaled $156.5 million (2016/17 – $113.5 million) and are summarized in the table below. Building and Construction in Process expenditures have increased largely due to spending for BEAM, Cogen, PGLLC, and ABB.

$ thousands

CAPITAL ASSET ADDITIONS	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Completed Building Projects & Construction in Process	50,144	73,698	44,631	76,317	113,355
Computers, Software, Furniture and Other Equipment	45,204	56,696	31,502	27,673	33,367
Library Materials	5,226	5,482	18,264	9,497	9,778
	100,574	**135,876**	**94,397**	**113,487**	**156,500**

CAPITAL FINANCING

Completed 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 2017/18, all scheduled loan repayments were received. The internal central bank capital loans decreased to $78.6 million in 2017/18 from $80.6 million last year. The loans have varying repayment terms and interest rates, which reflect the date of issue and the project income stream.

Internal bridge financing for Construction in Process is also provided through the University's capital reserves, which decreased by almost $30 million year over year. This decrease is largely attributable to bridge financing for the Peter George Centre for Living and Learning project. Once the project is completed, formal internal loans will be established for the ancillary operations within the project (e.g. housing and food services).

The University's Debt Policy ratios provide a framework for monitoring the University's ability to undertake additional external or internal debt to carry out strategic investments. The University has two long term bonds outstanding, each for $120 million, one maturing in 2052 at 6.15% and the other maturing in 2065 at 4.105%. Debt is considered a perpetual component of the University's capital financing structure, as such additional debt is contemplated annually in conjunction with the Capital Plan updates and the multi-year financial projections. McMaster's weighted average cost of capital used for internal loans is 5.75%, including administration costs.

FINANCIAL HEALTH AND SUSTAINABILITY METRICS

The Ministry of Advanced Education and Skills Development (MAESD), has now incorporated financial health metrics into the Strategic Mandate Agreement and its annual reporting requirements. The inclusion of financial health metrics recognizes financial health and sustainability are critical to achieving institutional mandates. McMaster's strong financial health, as indicated also by its strong credit rating, is supported by the Ministry selected metrics outlined in the table below.

FINANCIAL HEALTH AND SUSTAINABILITY METRICS

Key Ratios	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Net Income/Loss: A performance measure that calculates the net income or loss as a % of total revenues	6.47%	8.90%	7.93%	3.05%	10.42%	11.16%
Net Operating Revenues: A performance measure that calculates cash flow from operating activities as a percent of revenues	7.57%	12.5%	14.75%	7.08%	14.28%	13.57%
Primary Reserve (days): A liquidity measure that calculates the number of days university reserves can cover operating expenses	102	120	129	176	200	207
Interest Burden: A leverage measure that calculates interest expense as a percent of total expenses	1.06%	1.05%	1.01%	1.29%	1.50%	1.46%
Viability: A leverage measure that calculates the proportion of long term debt that could be settled using unrestricted assets	1.7	2.0	2.2	1.7	2.0	2.1


McMaster
University

Enterprise Risk Management

The Enterprise Risk Management program continued to evolve and mature with the inclusion and adaption of enterprise risk considerations applied to strategic priorities. Review and update of McMaster's risk appetite was initiated with management and members of University governance during the year, along with detailed review sessions lead by key risk owners or leaders. Sessions held in 2017/18 with the President and Vice Presidents (PVP) and the Audit Committee focused on Research Risk, Research Infrastructure Risk and Physical Infrastructure Risk.

An Enterprise Risk Steering Committee annually updates both the Opportunity and Risk Registers. The Committee reviews risk maps and key risk mitigation strategies updated annually by assigned risk owners or leaders. Seventeen key risks are identified and assessed based on residual (net) risk levels. Three risks were added in 2017/18 (Partnership, Leadership, and Change Readiness) along with updates to existing definitions to accurately reflect current landscape. Finally, a number of modifications were made to the rankings of the various risks in the year as a result of factors including current government initiatives and priorities, as well as in recognition of the impact that various risk mitigation strategies and other strategic and operational initiatives underway have had on the University.

2018 KEY RISKS:	Information Availability & Quality	Reputation and Brand
Attract Graduate Students	Information Security	Research
Change Readiness	Leadership	Research Infrastructure
Financial	Mental Wellness	Student Experience, Retention & Satisfaction
Government Policy	Partnership	Technology
Human Capital	Physical Infrastructure	Undergraduate Student Enrolment

Supplemental Information

Operating Fund Variances in relation to Strategic Mandate Agreement objectives

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.

McMaster University's finances are managed pursuant to the concepts of fund accounting. Under this method, budgets are established for each fund, which is comprised of assets, liabilities, revenues and expenses. Fund accounting enhances accountability over resources ensuring restricted grants and contributions are spent only for the purposes intended. McMaster uses the following segregated funds: Operating, Specifically Funded, Research, Capital, Externally Restricted Trusts and Endowments, Internally Restricted Endowments, and Ancillary Operations. The University budget model focuses on the allocation of resources within the Operating fund, however the consolidated Statement of Operations and Statement of Financial Position represents the results of all funds combined.

The 2017/18 Operating Fund financial results compared to the approved budget and updated projections on a cash basis are presented in this section as well as a comparison to the consolidated results on a full accrual basis.

OPERATING FUND SUMMARY STATEMENT OF OPERATIONS

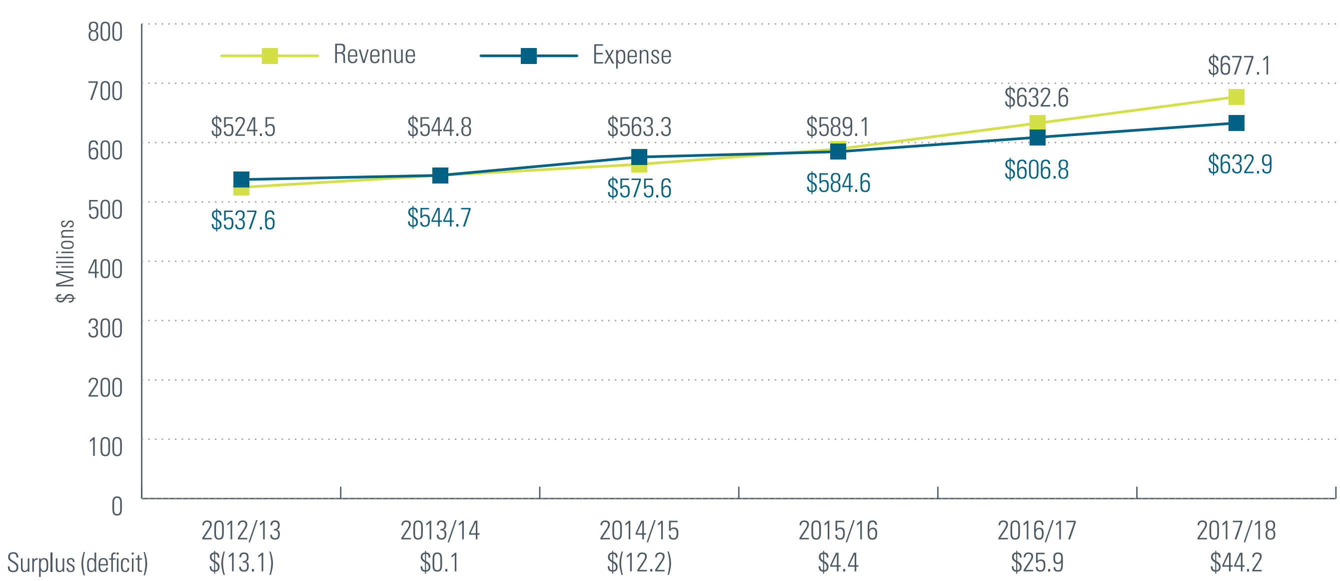
The operating fund represents approximately 64% of the consolidated budget and includes all revenue and expenses for Faculties and support departments or units, such as student affairs, libraries, financial affairs, human resources, facilities, and information technology. The 2017/18 operating fund budget included a number of strategic funding priorities, such as the branding initiative, IT systems, and sustainability and equity staffing. Overall, the budget supported McMaster's Strategic Mandate Objectives, including key differentiation goals, enrolment targets, and other targeted program outcomes. The operating fund ended 2017/18 in a more favourable position compared to both the eight-month projection and original budget due to both greater funding and lower expenditures (Table 1).

TABLE 1: OPERATING FUND SUMMARY

$ thousands

OPERATING FUND	2016/17 Actual	2017/18 Budget	2017/18 Projection	2017/18 Actual	Variance: Actual vs. Actual PY		Actual vs. Budget		Actual vs. Projection	
Revenues										
Provincial grants	233,786	236,186	234,718	235,939	2,153	1%	(247)	0%	1,221	1%
Tuition	265,601	287,847	294,092	294,314	28,713	11%	6,467	2%	222	0%
Research Overhead income	28,582	25,396	26,989	29,737	1,155	4%	4,341	17%	2,748	10%
Investment income	13,366	13,168	13,168	13,168	(198)	-1%	-	0%	-	0%
Other income	91,297	86,444	96,821	103,986	12,689	14%	17,541	20%	7,165	7%
Total revenues	**632,632**	**649,041**	**665,788**	**677,144**	**44,512**	**7%**	**28,102**	**4%**	**11,356**	**2%**
Expenses										
Salaries, wages and benefits	423,703	448,263	448,429	442,351	(18,648)	-4%	5,913	1%	6,078	1%
Utilities and maintenance	38,634	39,680	38,610	40,527	(1,893)	-5%	(847)	-2%	(1,917)	-5%
Equipment and renovations	37,121	39,694	42,398	35,424	1,697	5%	4,270	11%	6,974	16%
Scholarships, bursaries, and work study	30,772	29,770	35,891	35,972	(5,200)	-17%	(6,202)	-21%	(81)	0%
Library acquisitions	12,228	12,760	12,581	12,512	(284)	-2%	248	2%	69	1%
Debt and financing charges	18,145	18,039	18,079	16,956	1,189	7%	1,084	6%	1,124	6%
All other expenses	46,168	59,403	57,606	49,189	(3,021)	-7%	10,213	17%	8,416	15%
Total expenses	**606,771**	**647,609**	**653,594**	**632,931**	**(26,160)**	**-4%**	**14,678**	**2%**	**20,663**	**3%**
Excess of revenues over expenses	**25,861**	**1,432**	**12,194**	**44,213**	**18,352**	**71%**	**42,781**	**2,987%**	**32,019**	**263%**
Fund balance, beginning of year	72,623	77,241	98,485	98,485	25,861	36%	21,244	28%	-	0%
Fund balance, end of year	**98,485**	**78,673**	**110,679**	**142,698**	**44,213**	**45%**	**64,025**	**81%**	**32,019**	**29%**

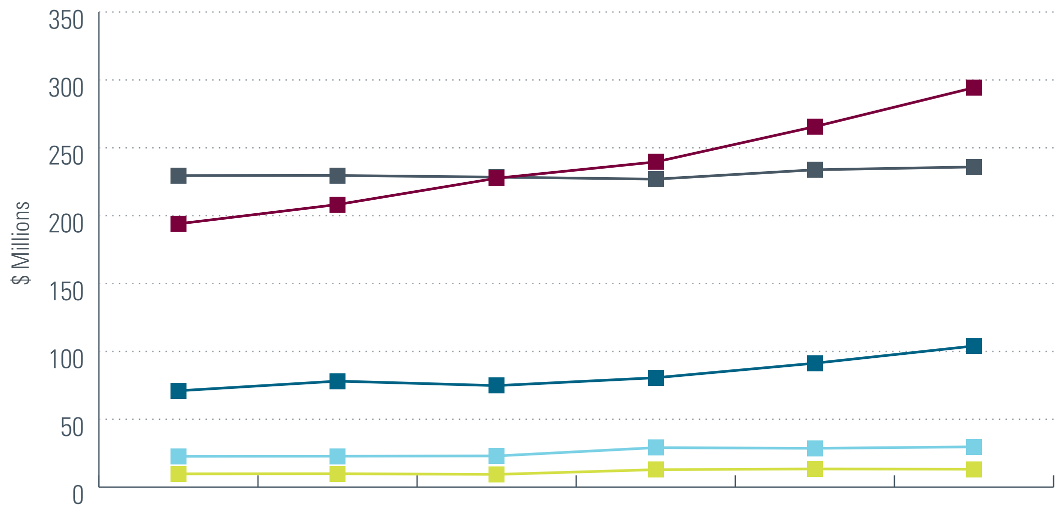
FIGURE 1: OPERATING FUND (ONLY) REVENUE AND EXPENSES TREND



SOURCES OF FUNDING

Total operating fund revenues increased to $677.1 million as compared to the budgeted funding of $649.0 million or to the projected funding of $665.8 million. Increased operating revenue from tuition is due to increased enrolment and domestic tuition rate increases within the provincial framework. In addition, research overhead revenue grew by 17% and 10% compared to budget and projection (Figure 2). Other sources of revenue remained relatively flat.

FIGURE 2: OPERATING FUND (ONLY) REVENUE TREND BY TYPE



	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Provincial Grants	$229.5	$229.6	$228.4	$226.9	$233.8	$235.9
Tuition	$194.0	$208.2	$227.6	$239.6	$265.6	$294.3
Research Overhead Income	$22.7	$22.8	$23.0	$29.1	$28.6	$29.7
Investment Income	$9.8	$9.9	$9.4	$12.9	$13.4	$13.2
Other Income	$71.0	$78.1	$74.8	$80.6	$91.3	$104.0

In 2017/18, the Ministry introduced a corridor funding model, which limits enrolment-based funding to the 2016/17 grant, while allowing universities to be plus or minus 3% (corridor) of the funding mid-point. Ministry funding is now flowed to universities via funding envelopes defined as:

- Enrolment Envelope: enrolment-based funding that is based on a revised weighted grant unit (WGU) value;
- Differentiation Envelope: funding based on performance and/or achievement of priorities as set out in the Strategic Management Agreement; or
- Special Purpose Envelope: grants based on government priorities such as improving access for Indigenous learners and students with disabilities.

Within the enrolment envelope the Ministry provided a one-time undergraduate enrolment transition grant to support the transition of students admitted during the period of recent growth into upper years of study, which was not budgeted. Further, the Ministry also provided a graduate expansion grant to recognize graduate student growth over the 2016/17 level (Table 2). These adjustments resulted in a favourable total provincial grant position to projection by $1.2 million (0.5%) due to a higher than expected graduate expansion grant connected with higher enrolment.

TABLE 2: PROVINCIAL GRANTS $ thousands

	2016/17 Actual	2017/18 Budget	2017/18 Projection	2017/18 Actual
Enrolment Envelope				
Core Operating Grant	223,763	226,141	215,372	215,367
WGU adjustment	-	(8,977)	-	-
Undergraduate Enrolment Transition Grant	-	-	1,250	1,252
Graduate Expansion Grant	-	-	428	1,545
	223,763	217,164	217,050	218,165
Differentiation Envelope				
Performance/Student Success Grant	11,176	11,247	19,168	19,168
WGU adjustment	-	8,977	-	-
Graduate Expansion – Performance	-	-	38	139
	11,176	20,224	19,206	19,307
Special Purpose Envelope				
Grant for Clinical Programs	429	429	457	458
International Student Recovery	(1,582)	(1,631)	(1,995)	(1,991)
Total Provincial Grants	**233,786**	**236,186**	**234,718**	**235,939**

TUITION

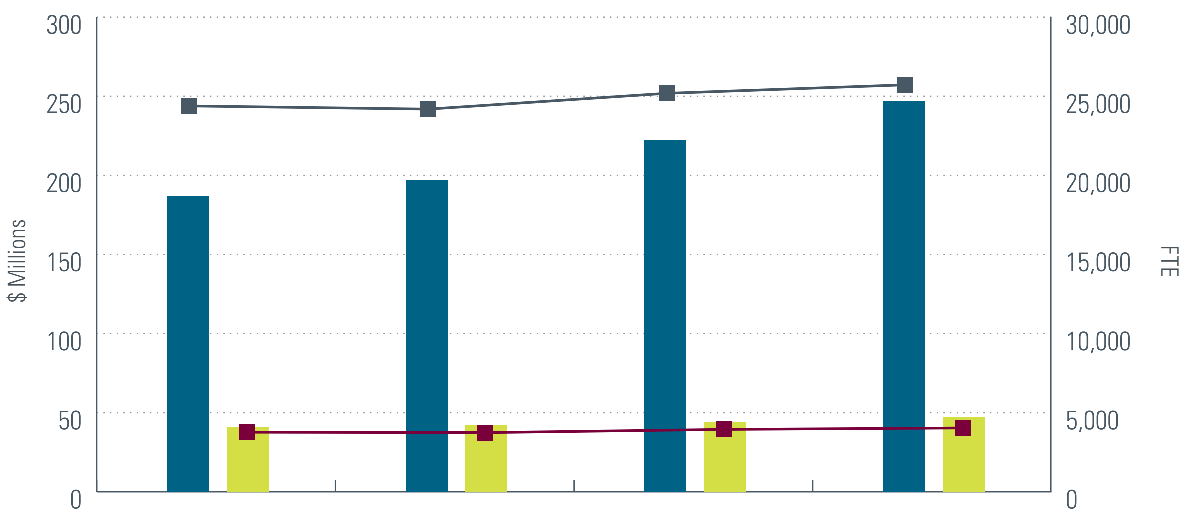
Increased actual tuition compared to budget is high due to increased enrolment (Table 3) and tuition rate increases.

TABLE 3: UNDERGRADUATE AND GRADUATE ENROLMENT

	2016/17 Actual	2017/18 Budget	2017/18 Projection	2017/18 Actual	Actual vs. Actual PY		Actual vs. Budget		Actual vs. Projection	
Undergrad FTE	25,186	25,603	25,616	25,722	536	2.1%	119	0.5%	106	0.4%
Grad FTE	3,944	4,024	4,036	4,036	92	2.3%	12	0.3%	–	0.0%
Total FTE	**29,130**	**29,627**	**29,652**	**29,758**	**628**	**2.2%**	**131**	**0.4%**	**106**	**0.4%**

Overall enrolment increased in accordance with the Strategic Mandate Agreement and the enrolment management targets, enabled by the completion of Wilson Hall in 2016/17. McMaster demand remains greater than the number of spaces available. Many applicants whose academic record suggests that they could be successful at McMaster must be turned away. Enrolment increases are expected to be maintained and managed through a combination of admitting eligible domestic applicants up to the corridor midpoint and allowing increased international participation rates due to provincial limitations on domestic new entrants.

FIGURE 3: TUITION AND FTE

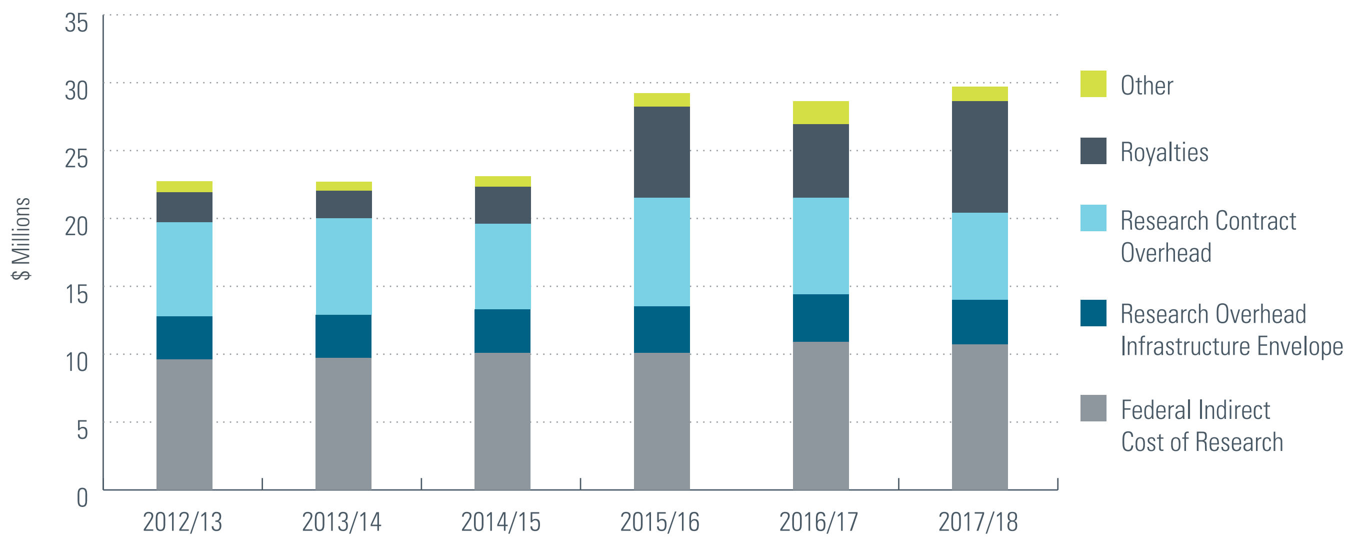


	2014/15	2015/16	2016/17	2017/18
Undergrad Tuition	$187	$197	$222	$247
Grad Tuition	$41	$42	$44	$47
Undergrad FTE	24,389	24,187	25,186	25,722
Grad FTE	3,768	3,742	3,944	4,036

RESEARCH OVERHEAD

Research overhead income was $2.7 million (10.2%) favourable to projection, primarily due to additional royalties from license agreements executed with large clinical trials (Figure 4).

FIGURE 4: RESEARCH OVERHEAD INCOME



INVESTMENT INCOME

The investment income attributed to the operating fund is predominantly fixed with differences held or taken from the University's investment reserve. The investment reserve is used to ensure the operating fund receives investment income each year regardless of returns in the year. The annual fixed transfer is $9 million, which beginning in 2015/16 is higher by five one-time $3 million per year transfers to assist in balancing the operating fund. Additional transfers on a one-time basis is to assist the operating fund during years following the policy lever implementation, which resulted in a permanent $3.4 million provincial grant cut, and transition to the corridor model whereby the operating grant is fixed at the 2016/17 level.

OTHER INCOME

Higher student enrolment contributed more than expected to other income. The favourable variance of $17.5 million (20.3%) compared to budget and $7.2 million (7.4%) compared to projection was primarily due to:

- additional funding for Indigenous and first generation programs;
- higher fees from non-degree programs;
- student fees approved in the March 2017 referendum, following the setting of the original budget, for the Pulse gym, recreation expansion, and student activity building; and
- higher recoveries for utilities from external affiliates due to increased usage.

EXPENDITURES

Total operating fund expenditures were $632.9 million compared to budget and projected expenditures of $647.6 million and $653.6 million respectively. The favourable variances are small as a percentage of both the original budget (2.3%) and projection (3.2%), resulting from conservative budgeting.

Under the current budget model, Faculties (activity units) are allocated all central revenue net of support unit costs. Early finalization of support unit projections in the fall allows for more certain inputs to activity unit budgets, which are prepared in the spring. However, this means that there is greater chance that support unit plans will change during the remainder of the year. This greater variability is not considered a significant risk to planning and will continue for 2018/19 and beyond.

The favourable variance of $20.7 million (3.2%) compared to projection was due to:

- Salaries, wages and benefits were favourable by $6.1 million (1.4%) primarily due to unfilled staff vacancies.
- Utilities and maintenance were unfavourable by $1.9 million (5.0%) due to increased cost for electricity, offset by favourable external recoveries and financing charges.
- Equipment and renovations were favourable by $7.0 million (16.4%) due to deferral of projects.
- Debt and financing charges were favourable by $1.1 million (6.2%) as an internal loan payment for controls retrofit was charged against utilities.
- All other expenses were favourable by $8.4 million (14.6%) primarily due to timing differences, as well as lower transfers to research projects.
- Variances were insignificant in scholarships, bursaries and work-study, and in library acquisitions.

FIGURE 5: 2017/18 OPERATING FUND ACTUAL EXPENSE BY TYPE $ Millions

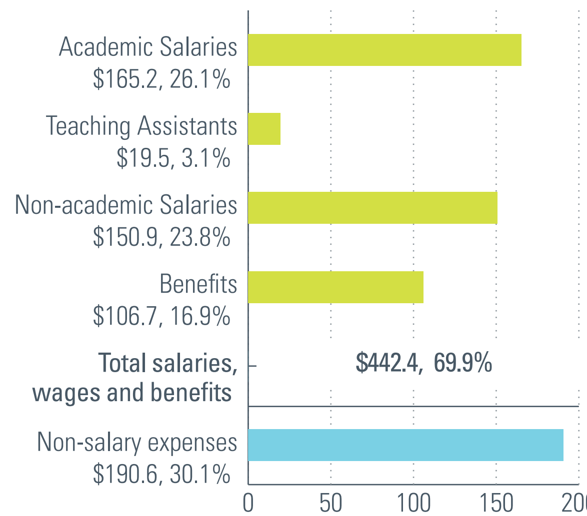
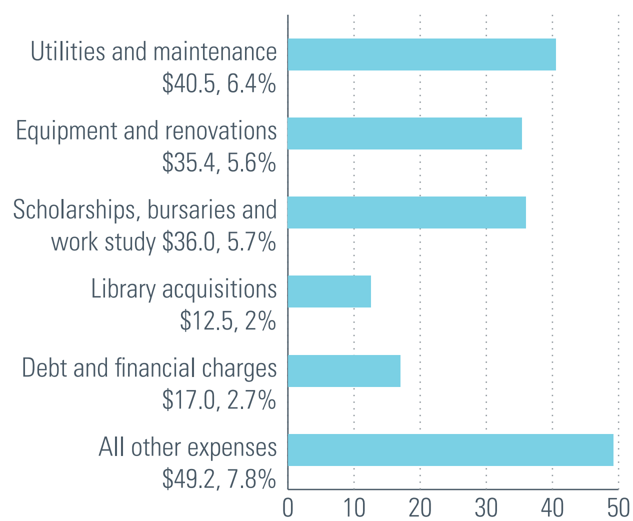


FIGURE 6: 2017/18 OPERATING FUND ACTUAL NON-SALARY EXPENSE BY TYPE $ Millions



APPROPRIATIONS

The favourable results increase the operating fund appropriations balance by $44.2 million to $142.7 million (Figure 7), which represents an improvement of $32.0 million on projection. Appropriations are carried forward for expenditure in 2018/19 and future years by activity or support units. Appropriation balances are used for capital renovations and/or Strategic Mandate initiatives. Of the $142.7 million held in appropriations $81.1 million is held by the Faculties and another $44.7 million is held for academic priorities (Table 4).

FIGURE 7: OPERATING FUND APPROPRIATIONS

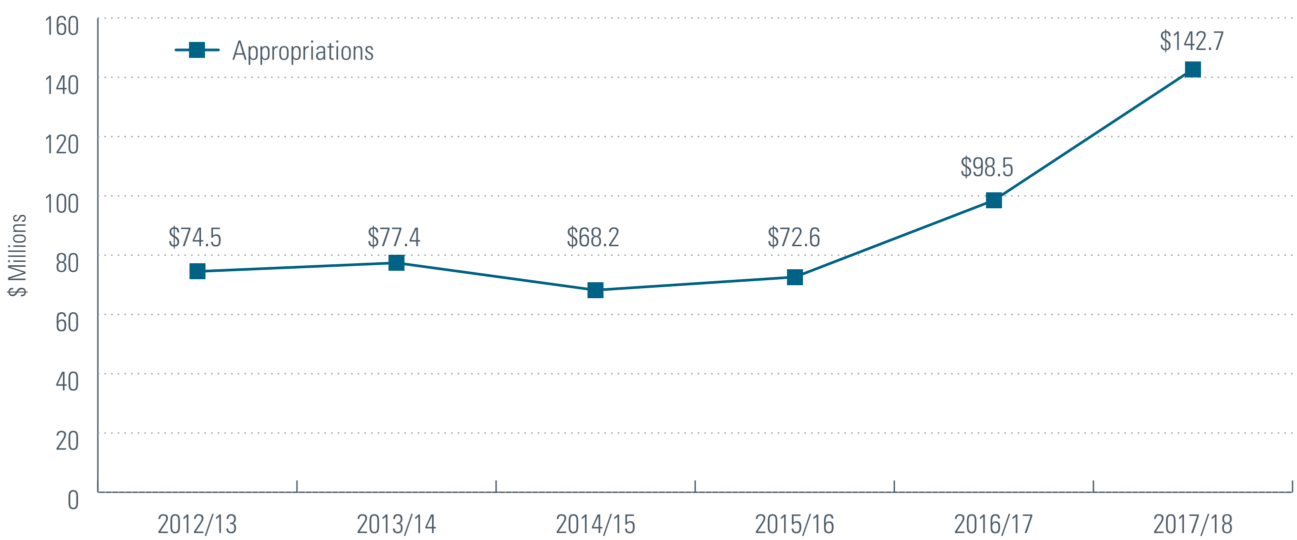


TABLE 4: APPROPRIATION/ENVELOPE ANALYSIS, YEAR ENDED APRIL 30, 2018

$ thousands

	Appropriations May 1, 2017	Net Surplus (Deficit)	Appropriatins May 1, 2018	Net Surplus (Deficit) Variance
Faculties and Academic Programs				
Business	(113)	3,647	3,534	1,053
Engineering	23,093	(1,776)	21,318	79
Health Sciences	35,688	4,729	40,418	9,306
Humanities	(4,188)	3,084	(1,104)	(851)
Science	2,899	10,397	13,295	800
Medical Radiation – Mohawk share	1	0	1	0
Social Sciences	(2,312)	3,475	1,164	896
Arts & Science	2,237	265	2,502	105
Sub-total	57,305	23,821	81,127	11,390
Academic Priorities	36,480	8,256	44,736	2,714
Academic Support	14,798	(758)	14,040	3,435
Research Support	54	1,318	1,372	1,358
Student Support	4,799	2,592	7,391	5,026
Facilities Support	7,286	(208)	7,078	6,077
Institutional Support	7,940	2,951	10,891	569
Institutional Priorities	(30,178)	6,242	(23,936)	1,450
Total Operating Fund	**98,485**	**44,213**	**142,698**	**32,019**

COMPARISON TO CONSOLIDATED RESULTS – FULL ACCRUAL BASIS

The consolidated financial statements are prepared on the accrual accounting basis for accounting standards compliance and auditing purposes. Adjustments from McMaster's cash basis budgeting approach to accrual accounting involve the following key changes (Table 5):

- Net capital expenditures within fund units or departments are reversed and only one year of asset use is expensed (amortized). Asset lives vary between 1 and 40+ years.
- Share of investment income earned/lost on internal endowments and not already assigned to the Operating fund and earned/lost on non-operating funds is booked to revenue.
- Non-cash adjustments for pension and non-pension employee accrued future benefit costs measured at April 30th are recorded.
- Adjustments eliminating internal revenue and expense transactions between funds occur.

TABLE 5: KEY CHANGES

$ thousands

	2016/17 Actual	2017/18 Projection	2017/18 Actual
Excess of Operating Fund revenues over expenses	**25,861**	**12,194**	**44,213**
+ Capital expenditures net of amortization	19,746	70,097	73,953
+ Investment income on internal endowments	15,550	2,224	2,355
+ Pension & non-pension adjustments	16,448	12,175	21,885
± Change in othe reserves; investment reserve, capital projects reserve, and university benefits reserve	34,477	(24,019)	(18,577)
Total accrual adjustment	86,221	60,477	79,616
Excess of revenues over expenses	**112,082**	**72,671**	**123,829**

The total 2017/18 accrual adjustment of $79.6 million compared to $60.5 million projected results in a $19.1 million favourable variance related to:

- Larger accrual adjustment for pension and non-pension employee future benefits by $11.1 million;
- Smaller draw down on other reserves for capital projects than projected; and
- Smaller than expected decrease in the university benefits reserve.

Annual Financial Report

2017-2018

Financial Statements

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, 2018 and the results of its operations, changes in net assets and its cash flows for the year ended April 30, 2018. 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 Planning and Resources 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, 2018 have been reported on by KPMG LLP, Chartered Professional Accountants, the auditors appointed by the Board of Governors. The Independent Auditors' Report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

Vice-President, Administration	President	AVP (Administration) & CFO
October 18, 2018		

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton Ontario L8P 4W7
Canada
Telephone (905) 523-8200
Fax (905) 523-2222

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of McMaster University

We have audited the accompanying financial statements of McMaster University, which comprise the statement of financial position as at April 30, 2018, and 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity'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 entity'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, 2018, and its results of operations and its cash flows for the year then ended in accordance Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
October 18, 2018

McMASTER UNIVERSITY
Statement of Financial Position
April 30, 2018, with comparative figures for 2017
(thousands of dollars)

	2018	2017 (restated - note 21)
Assets		
Current assets:		
Cash	$ 18,636	$ 28,185
Short-term investments (note 2)	189,606	133,638
Government grants and other accounts receivable (note 3)	37,748	37,759
Research grants receivable	98,207	97,146
Inventories	5,080	6,423
Prepaid expenses and deposits	10,253	8,993
	359,530	312,144
Investments (note 2)	1,256,897	1,240,598
Other investments (note 4)	23,138	21,158
Other assets (note 5)	1,230	683
Capital assets (note 6)	1,094,324	1,009,956
	$ 2,735,119	$ 2,584,539
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 140,958	$ 123,307
Deferred revenue	24,960	25,849
Current portion of long-term obligations (note 8)	624	586
	166,542	149,742
Accrued employee future benefits (note 9)	228,579	223,805
Long-term obligations (note 8)	267,810	267,918
Deferred contributions (note 10):		
Deferred for future expenses	359,191	358,035
Deferred capital contributions	503,932	490,828
	863,123	848,863
Net assets:		
Unrestricted	9,781	7,846
Internally restricted (note 11):		
Employee future benefits	(168,688)	(165,660)
Specific purpose	402,839	377,617
Equity in capital assets (note 12)	336,021	264,108
Endowments (note 13):		
Internal	145,777	143,422
External	483,335	466,878
	1,209,065	1,094,211
Commitments and contingencies (note 14)		
	$ 2,735,119	$ 2,584,539

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, 2018**,** with comparative figures for 2017

(thousands of dollars)

	2018	2017 (restated - note 21)
Revenues:		
Operating grants	$ 273,493	$ 270,333
Research grants and contracts	169,725	167,329
Tuition fees	305,171	274,788
Other (note 15)	122,533	106,070
Ancillary sales and services	77,112	74,273
Investment income, net	52,275	98,432
Donations and other grants	54,994	29,819
Research overhead grants	14,043	14,401
Amortization of deferred capital contributions	40,202	40,553
	1,109,548	1,075,998
Expenses:		
Salaries and wages	500,690	473,939
Employee benefits	119,033	128,066
Supplies and services	280,524	278,272
Interest on long-term obligations	13,340	13,377
Amortization of capital assets	72,132	70,262
	985,719	963,916
Excess of revenues over expenses	$ 123,829	$ 112,082

McMASTER UNIVERSITY

Statement of Changes in Net Assets

Year ended April 30, 2018, with comparative figures for 2017

(thousands of dollars)

		Internally restricted						
	Unrestricted	Employee future benefits	Specific purposes	Equity in capital assets	Endowments Internal	Endowments External	2018 Total	2017 Total
								(restated - note 21)
Net assets, beginning of year, as previously reported	$ 7,846	$ (165,660)	$ 390,442	$ 268,440	$ 143,422	$ 466,878	$1,111,368	$ 784,450
Restatement (note 21)	-	-	(12,825)	(4,332)	-	-	(17,157)	-
Net assets, as restated	$ 7,846	$ (165,660)	$ 377,617	$ 264,108	$ 143,422	$ 466,878	$1,094,211	$ 784,450
Excess (deficiency) of revenues over expenses	155,759	-	-	(31,930)	-	-	123,829	112,082
External endowment contributions:								
Contributions (note 13)	-	-	-	-	-	13,739	13,739	8,898
Protection of capital (note 13)	-	-	-	-	-	2,718	2,718	44,799
Transfers and adjustments:								
Transfers for specific purposes	(47,626)	22,404	25,222	-	-	-	-	-
Capital transactions from operating (note 12)	(103,843)	-	-	103,843	-	-	-	-
Transfer to internal endowments (note 13)	(2,355)	-	-	-	2,355	-	-	-
Remeasurements and other items (note 9)	-	(25,432)	-	-	-	-	(25,432)	143,982
	1,935	(3,028)	25,222	71,913	2,355	16,457	114,854	309,761
Net assets, end of year	$ 9,781	$ (168,688)	$ 402,839	$ 336,021	$ 145,777	$ 483,335	$1,209,065	$1,094,211

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Cash Flows

Year ended April 30, 2018, with comparative figures for 2017

(thousands of dollars)

	2018	2017 (restated - note 21)
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	$ 123,829	$ 112,082
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(40,202)	(40,553)
Amortization of capital assets	72,132	70,262
Employee future benefits	(20,658)	(9,468)
Equity (earnings) loss of other investments	(1,980)	3,735
Increase in decommissioning obligation	516	577
Gain on sale of capital assets	-	(800)
	133,637	135,835
Net change in contributions deferred for future expenses	1,156	4,112
Net change in other non-cash working capital	15,795	13,752
	150,588	153,699
Financing and investing activities:		
Purchase of capital assets	(156,500)	(113,487)
Proceeds on sale of capital assets	-	1,778
Net change in investments	(72,267)	(187,427)
Net change in other investments	-	45
Net change in other assets	(547)	221
Net change in external endowments	16,457	53,697
Deferred capital contributions	53,306	69,237
Principal repayments on long-term obligations	(586)	(622)
	(160,137)	(176,558)
Net decrease in cash	(9,549)	(22,859)
Cash, beginning of year	28,185	51,044
Cash, end of year	$ 18,636	$ 28,185

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 4). Since the Trusts which form the Park have fiscal year ends of December 31st, the University records its share of the operating results effective on that date.

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

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

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

- Halton McMaster Family Health Centre:

  These financial statements include the University’s 50% contribution to the Halton McMaster Family Health Centre (note 4). This joint venture is a project with Joseph Brant Hospital involving the construction and establishment of a family health centre and hospital clinical and administration building. The joint venture is in the process of registering the constructed building as a leasehold condominium corporation.

OSCAR EMR:

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

1. Significant accounting policies (continued):

(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(n)) 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:

Short-term investments are investments with a remaining term to maturity of one year or less and are intended to be converted to cash within one year. Short-term investments recorded at cost plus accrued income which together approximates fair value. Short-term investments includes cash and short-term investments held within pooled fund investments.

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	20%
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) Intangible assets:

Intangible assets are comprised of emissions allowances which are recorded at fair market value. These intangible assets have an indefinite life and will be surrendered at the end of a pre-defined compliance period.

(i) 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 $328,000 (2017 - $494,000) and are recorded in operations in the year of acquisition.

(j) 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.

(k) 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.

(l) Employee future benefits:

The University maintains defined benefit registered and non-registered pension plans, a 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 9.

- The University accrues its obligations for the defined benefit plans as the employees render the services necessary to earn the 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):

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to the use of management estimates and assumptions include the valuation of financial instruments, the carrying amount of capital assets, intangible assets, the valuation allowance for receivables, the valuation of pension and other employee future benefits, provisions for contingencies, and the decommissioning obligation. Actual results could differ from those estimates.

2. Investments:

Details of investments are as follows:

(thousands of dollars)	2018		2017	
	Fair value	Cost	Fair value	Cost
Equities:				
Canadian	$ 213,691	$ 178,688	$ 192,350	$ 160,370
United States	250,291	121,839	236,803	112,113
Non-North American	243,617	192,461	210,900	171,098
	707,599	492,988	640,053	443,581
Fixed income	496,981	506,833	547,987	545,597
Other	52,317	44,648	52,558	43,242
	1,256,897	1,044,469	1,240,598	1,032,420
Short-term investments	189,606	189,599	133,638	133,611
	$ 1,446,503	$ 1,234,068	$ 1,374,236	$ 1,166,031

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.

3. Government grants and other accounts receivable:

(thousands of dollars)	2018	2017
Government grants	$ 7,130	$ 7,273
Other	36,051	35,898
	43,181	43,171
Less allowance for doubtful accounts	5,433	5,412
Balance, end of year	$ 37,748	$ 37,759

4. Other investments:

Details of other investments are as follows:

(thousands of dollars)	2018	2017
McMaster Innovation Park (a)	$ 17,234	$ 15,427
Adiga Life Sciences Inc. (b)	1,184	1,011
Halton McMaster Family Health Centre (c)	4,720	4,720
	$ 23,138	$ 21,158

4. 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)	2018	2017
Balance, beginning of year	$ 15,427	$ 19,945
Equity earnings (loss)	1,807	(4,518)
Balance, end of year	$ 17,234	$ 15,427

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, 2018, $107,506 (2017 - $102,282) in income was recorded by the University.

Included in rent expense for the University for the year ended April 30, 2018 is $3,490,872 (2017 - $2,486,261). Included in accounts receivable at April 30, 2018 is $1,085,390 (2017 - $398,134) receivable from the Park. Included in Note 14(f) are $6,701,822 (2017 - $5,349,086) in operating lease commitments with the Park.

During the year the University provided payroll services at a fee which amounted to $13,200 (2017 - $13,200).

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

(thousands of dollars)	December 31, 2017	December 31, 2016
Total assets	$ 108,533	$ 110,038
Total liabilities	$ 87,645	$ 90,000
Total deferred capital grants	3,684	4,641
Total trusts' equity	17,204	15,397
	$ 108,533	$ 110,038
Results of operations:		
Total revenues	$ 12,279	$ 12,341
Total expenses	10,472	16,859
Net earnings (loss)	$ 1,807	$ (4,518)
Cash flows:		
Used in operating activities	$ (1,177)	$ (8,958)
From financing and investing activities	209	11,199
(Decrease) increase in cash	$ (968)	$ 2,241

4. Other investments (continued):

(b) Adiga Life Sciences Inc.:

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

(thousands of dollars)	August 31, 2017	August 31, 2016
Total assets	$ 2,374	$ 2,382
Total liabilities	$ 7	$ 361
Total equity	2,367	2,021
	$ 2,374	$ 2,382
Results of operations:		
Total revenue	$ 1,382	$ 5,102
Total expenses	1,036	5,792
Net earnings (loss)	$ 346	$ (690)

(c) Halton McMaster Family Health Centre:

The investment in the Halton McMaster Family Health Centre represents the University's contribution of the base costs to construct the building.

(d) OSCAR EMR:

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

(thousands of dollars)	December 31, 2017	December 31, 2016
Total assets	$ 194	$ 105
Total liabilities	$ 1,754	$ 1,871
Net deficiency	(1,560)	(1,766)
	$ 194	$ 105
Results of operations:		
Total revenue	$ 624	$ 512
Total expenses	418	640
Net earnings (loss)	$ 206	$ (128)

5. Other assets:

Details of other assets are as follows:

(thousands of dollars)	2018	2017
Intangible assets	$ 802	$ -
Loans receivable	428	683
	$ 1,230	$ 683

Intangible assets are comprised of emission allowances received through Ontario's Cap and Trade Program under the Climate Change Mitigation and Low-carbon Economy Act, 2016, which sets out a framework for the reduction in greenhouse gas ("GHG") emissions for the province of Ontario. The first compliance period for the Cap and Trade Program is January 1, 2017 to December 31, 2020. The University has received free GHG emission allowances in 2017 which are reasonably expected to exceed the University's GHG emissions during the year.

The University records the emissions allowances as intangible assets and deferred contributions at fair market value. The emissions allowances contributions are amortized into the statement of operations each period. The associated emissions expense is recorded each period in supplies and services. For the year ended April 30, 2018, $650,000 in amortization was included in operating grants and $650,000 in expenses was recorded in supplies and services. The emissions allowances will be surrendered at the end of the compliance period and used to settle the liability. At April 30, 2018, $650,000 is included in Accounts payable and accrued liabilities and $152,000 is included in Deferred contributions.

Details of loans receivable are as follows:

(thousands of dollars)	2018	2017
Graduate Students Association (a)	$ 136	$ 355
Other (b)	292	328
	$ 428	$ 683

(a) Graduate Students' Association:

The University has a loan receivable from Graduate Students' Association in the amount of $136,324 at April 30, 2018 (2017 - $354,735). The loan bears interest at a fixed rate of 6.75%, repaid in lump sum payments due and payable within sixty days of the closing of each of the trimestrial graduate registration periods.

(b) Other:

The University has a loan receivable from a lessee in the amount of $291,667 for lease fit out costs as at April 30, 2018 (2017 - $328,508). The loan bears interest at a rate of 0% per annum and is payable over 10 years beginning in February 2016.

6. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	2018 Net
Land	$ 80,790	$ -	$ 80,790
Buildings	1,242,172	430,929	811,243
Decommissioning retirement costs	3,200	748	2,452
Site improvements	28,957	13,262	15,695
Leasehold improvements	57,893	12,677	45,216
Library materials	186,310	163,309	23,001
Equipment, furnishings and vehicles	420,742	364,186	56,556
Computing systems and computing equipment	141,062	81,691	59,371
	$ 2,161,126	$ 1,066,802	$ 1,094,324

(thousands of dollars)	Cost	Accumulated amortization	2017 Net
Land	$ 70,207	$ -	$ 70,207
Buildings	1,155,636	405,898	749,738
Decommissioning retirement costs	3,264	643	2,621
Site improvements	27,511	12,113	15,398
Leasehold improvements	43,103	8,854	34,249
Library materials	176,810	155,219	21,591
Equipment, furnishings and vehicles	428,921	372,440	56,481
Computing systems and computing equipment	144,054	84,383	59,671
	$ 2,049,506	$ 1,039,550	$ 1,009,956

Included in buildings is $87,980,000 (2017 - $70,104,000) representing buildings currently under construction and not available for use or subject to amortization. Included in computing systems and computing equipment is $843,000 (2017 - $1,791,000) representing software currently under development and not available for use or subject to amortization. Included in equipment, furnishings and vehicles is $nil (2017 - $742,000) representing equipment currently under development and not available for use or subject to amortization.

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable, which includes amounts payable for payroll related taxes of $4,845,000 (2017 - $3,599,000).

8. Long-term obligations:

Details of long-term obligations are as follows:

(thousands of dollars)	Maturity	Interest rate	Current portion	Non-current portion	2018 Total outstanding	2017 Total outstanding
Long term debt:						
Bank term loan (a)	May 2033	floating	624	14,688	15,312	15,898
Debentures (b)	Oct 2052	6.15%	-	120,000	120,000	120,000
Debentures (c)	Nov 2065	4.105%	-	120,000	120,000	120,000
			624	254,688	255,312	255,898
Decommissioning obligations (d)			-	13,122	13,122	12,606
			$ 624	$ 267,810	$ 268,434	$ 268,504

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

2019	$ 624
2020	665
2021	709
2022	756
2023	805

(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, 2018 amounted to $17,893,000 (2017 - $16,992,000).

(c) The debentures, which are unsecured, bear interest at 4.105% payable semi-annually in May and November. 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, 2018 amounted to $11,981,000 (2017 - $11,374,000).

(d) 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, 2018, the fair value of the trust funds amounted to $13,330,000 (2017 - $12,539,000). The net present value of the estimated cost for decommissioning, at April 30, 2018 is $12,347,000 (2017 - $11,767,000) using risk free rates ranging between 4.0% and 5.1%.

During fiscal 2015, an additional decommissioning obligation related to non-reactor radioactive materials was recognized. The obligation was recognized based on an estimated useful life of 25 years and using a risk free rate of 4.0%. At April 30, 2018, the amount of the obligation was $775,000 (2017 - $839,000), a decrease of $64,000 to reflect changes in the number of non-reactor radioactive materials in service. The CNSC does not require that a trust fund be established to satisfy this obligation.

8. Long-term obligations (continued):

(e) The University has in place an interest rate swap agreement for 30 years which expires in 2033. Under the terms of the agreement, the University agrees to receive a floating interest rate on the loan (note 8(a)) while paying a fixed rate of 6.384%. The use of the agreement effectively enables the University to convert the floating rate interest obligation of the loan into a fixed rate obligation and thus manage its exposure to interest rate risk.

The notional and fair values of the interest rate swap agreement is as follows:

(thousands of dollars)	2018		2017	
	Notional value	Fair value	Notional value	Fair value
30-year interest rate swap	$ 15,312	$ (4,441)	$ 15,898	$ (6,269)

The change in fair value of the swap for the year ended April 30, 2018 is $1,828,000 (2017 - $683,000).

9. 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, a retirement incentive program and a group RRSP.

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.

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

(thousands of dollars)	2018			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 2,002,233	$ 61,537	$ 247,721	$ 2,311,491
Fair value of plan assets	2,082,912	-	-	2,082,912
Funded status - surplus (deficiency)	$ 80,679	$ (61,537)	$ (247,721)	$ (228,579)

(thousands of dollars)	2017			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,914,005	$ 67,795	$ 220,326	$ 2,202,126
Fair value of plan assets	1,978,321	-	-	1,978,321
Funded status - surplus (deficiency)	$ 64,316	$ (67,795)	$ (220,326)	$ (223,805)

9. Employee future benefits (continued):

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

(thousands of dollars)	2018			
	Pension			
	Registered	Supplemental	Other	Total
Current service cost	$ 33,047	$ 41	$ 7,361	$ 40,449
Interest (income) cost, net	(3,807)	4,012	13,050	13,255
	$ 29,240	$ 4,053	$ 20,411	$ 53,704

(thousands of dollars)	2017			
	Pension			
	Registered	Supplemental	Other	Total
Current service cost	$ 33,134	$ 42	$ 7,298	$ 40,474
Interest (income) cost, net	5,882	4,263	12,400	22,545
	$ 39,016	$ 4,305	$ 19,698	$ 63,019

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

(thousands of dollars)	2018			
	Pension			
	Registered	Supplemental	Other	Total
Investment loss	$ (16,699)	$ -	$ -	$ (16,699)
Actuarial (loss) gain on accrued benefit obligation	1,741	4,373	(14,847)	(8,733)
	$ (14,958)	$ 4,373	$ (14,847)	$ (25,432)

(thousands of dollars)	2017			
	Pension			
	Registered	Supplemental	Other	Total
Investment gain	$ 147,893	$ -	$ -	$ 147,893
Actuarial (loss) gain on accrued benefit obligation	(6,214)	2,114	189	(3,911)
	$ 141,679	$ 2,114	$ 189	$ 143,982

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

	Percentage of fair value of total plan	Target allocation percentage
Equity securities	70.8%	64.0%
Debt securities	27.8%	35.0%
Other	1.4%	1.0%

9. Employee future benefits (continued):

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

	Pension	Other
Discount rate	5.60%	5.60%
Rate of compensation increase	4.00%	-

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

	Pension	Other
Discount rate	6.00%	6.00%
Rate of compensation increase	4.00%	-

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

(thousands of dollars)	2018		2017	
	Pension	Other	Pension	Other
Employer contributions	$ 66,499	$ 7,863	$ 65,341	$ 7,146
Employee contributions	25,021	-	24,557	-
Benefits paid	89,677	7,863	88,332	7,146

(h) For measurement purposes, a 5.25% annual rate of increase in per capita medical cost was assumed for 2016, 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, 2016, the next required filing date is July, 2019.
- salaried employees pensions (Plan 2000): completed as at July, 2017, the next required filing date is July, 2020.
- other (post-retirement benefit): completed as at March 31, 2016; the next valuation date is March 31, 2019.
- other (post-employment and retirement allowance): completed as at April 30, 2018.

The results of valuations not completed as of April 2018, have been extrapolated to April 30, 2018, 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 2018 amounted to $2,870,000 (2017 - $2,469,000).

(k) The University has internal reserves set aside in the amount of $83,202,000 (2017 - $73,640,000) for the accrued benefit obligation of the non-pension post-retirement benefit plan.

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)	2018	2017 (restated - note 21)
Balance, beginning of year	$ 358,035	$ 353,923
Deferred and capital contributions received	339,265	332,252
	697,300	686,175
Less:		
Amounts recognized as revenue	(284,803)	(258,903)
Deferred capital contributions transfer	(53,306)	(69,237)
Balance, end of year	$ 359,191	$ 358,035

Deferred contributions consist of the following:

(thousands of dollars)	2018	2017 (restated - note 21)
Research grants and contracts	$ 222,354	$ 206,145
Donations, other grants and investment income	98,265	94,373
Capital grants and donations	13,708	34,096
Other restricted funds	24,864	23,421
	$ 359,191	$ 358,035

(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)	2018	2017 (restated - note 21)
Balance, beginning of year	$ 490,828	$ 462,144
Add: contribution transfers	53,306	69,237
Less: amount amortized to revenue	(40,202)	(40,553)
Balance, end of year	$ 503,932	$ 490,828

11. Internally restricted net assets:

(a) Employee future benefits:

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

(thousands of dollars)	2018	2017
Pensions	$ (4,170)	$ (18,974)
Other retirement and post employment benefit plans	(164,518)	(146,686)
	$ (168,688)	$ (165,660)

(b) Specific purpose:

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

(thousands of dollars)	2018	2017 (restated - note 21)
Unexpended departmental carryforwards	$ 142,699	$ 98,491
Research	35,129	32,050
Employee benefit	11,463	11,365
Ancillaries	10,971	15,758
Other	97,966	89,854
	298,228	247,518
Sinking funds	29,873	28,366
Internally financed capital projects	(78,559)	(80,599)
Capital reserves	113,246	162,961
Facilities services projects	40,051	19,371
	$ 402,839	$ 377,617

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, 2018 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (16,047)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(1,527)
Les Prince Residence	Ancillary operations	(14,150)
David Braley Athletic Centre	Student levies, pledges, fundraising	(6,021)
LR Wilson Parking Garage	Parking fees	(1,843)
McMaster Automotive Resource Centre (MARC)	Various	(7,593)
McMaster University Medical Centre (MUMC)	Various	(3,938)
Comprehensive Energy Reduction Program	Various	(25,549)
Biomedical Engineering and Advanced Manufacturing (BEAM)	Various	(1,089)
Equipment Loan	Various	(32)
Halton McMaster Family Medicine	Various	(770)
		(78,559)

11. Internally restricted net assets (continued):

(b) Specific purpose (continued):

(thousands of dollars) Project	Funding source	April 30, 2017 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (16,995)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(2,696)
Les Prince Residence	Ancillary operations	(14,847)
David Braley Athletic Centre	Student levies, pledges, fundraising	(7,197)
McMaster Automotive Resource Centre (MARC)	Various	(7,877)
McMaster University Medical Centre (MUMC)	Various	(4,238)
Comprehensive Energy Reduction Program	Various	(25,979)
Halton McMaster Family Medicine	Various	(770)
		(80,599)

12. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	2018	2017 (restated - note 21)
Capital assets	$ 1,094,324	$ 1,009,956
Less amounts financed by:		
Net long-term obligations	(254,371)	(255,020)
Unamortized deferred capital contributions	(503,932)	(490,828)
	$ 336,021	$ 264,108

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	2018	2017 (restated - note 21)
Repayment of long-term debt	$ 586	$ 622
Capital asset purchases from operating, net of disposals	103,257	43,252
	$ 103,843	$ 43,874

13. Endowments:

(a) Internal:

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

(thousands of dollars)	2018	2017
Balance, beginning of year	$ 143,422	$ 127,872
Donations	-	78
Investment income	6,925	19,741
Net transfers and expenses	(4,570)	(4,269)
Balance, end of year	$ 145,777	$ 143,422

Included in internal endowments is an amount of $67,854,000 (2017 - $66,981,000) reflecting the legacy of Dr. H. L. Hooker and $62,219,000 (2017 - $60,922,000) related to the Salaried Pension Plan surplus withdrawal from 2003. 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)	2018	2017
Balance, beginning of year	$ 466,878	$ 413,181
External contributions	13,739	8,898
Income retained - capital protection policy	2,718	44,799
Balance, end of year	$ 483,335	$ 466,878

Investment income on external endowments amounted to $19,035,000 (2017 - $60,202,000). In accordance with the endowment capital protection policy, this income less the amount made available for spending of $16,550,000 (2017 - $15,607,000), plus net transfers of $233,000 (2017 - $204,000) 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.

14. Commitments and contingencies (continued):

(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.

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 University's defined benefit pension plans for salaried employees ("Plan") during the period from 1973 to-date. The Ontario Superior Court of Justice ("Court") approved a settlement agreement between the University and the representative plaintiffs effective May 15th, 2015. A provision consistent with the Court approved settlement agreement is recorded in the financial statements. The University has made the majority of payments to class members who executed a full and final release in favour of the University.

(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, 2018 was $21.0 million (2017 - $21.9 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2018, 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 $204.5 million at April 30, 2018 (2017 - $167.9 million). The major commitments are as follows: The Peter George Centre for Living and Learning ($86.5 million), Arthur Bourns Building Retrofit ($22.4 million), Commercialization of Research ($20.0 million), and Combined Heat and Power Plant ($4.8 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, 2018, the University's remaining share of the costs are estimated to be $10.4 million (2017 - $11.4 million). Payments to HHSC will take place up to 2029.

14. Commitments and contingencies (continued):

(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)	
2019	$ 3,632
2020	3,509
2021	3,390
2022	2,116
2023	2,041

(g) David Braley Health Sciences Centre (formerly McMaster Health Campus):

The University entered into a Conditional Financial Contribution Agreement with the City of Hamilton which requires the University to meet certain milestones in order to receive grant installments totaling $20 million by 2020, of which $19 million has been received.

(h) McMaster Main Street Student Residence:

The University is working with a private developer to provide a new up to 1,500 bed undergraduate residence that includes learning, research and additional ancillary university spaces along Main Street West on lands McMaster owns or will own by September 2018. The project land once developed will be an extension of main campus. At April 30, 2018, $14.2 million is recorded in land. The project is expected to be completed in two phases with the first phase expected to be completed by 2020/21. The residence will be managed, operated and used by the University to suppor its mission.

(i) Grad Residence and Parking Garage:

The University is working with a private developer to provide a new 559 bed graduate residence and a 312 space parking garage in downtown Hamilton. The residence project is designed to be a public-private partnership project, for which the University is in ongoing negotiations. The parking garage project will be owned solely by the University.

(j) Research Commercialization:

In June 2017 the Board approved an investment of up to $25 million in facilities at MIP, including up to $5 million in in-kind rental space and rent subsidies over the next five years in exchange for leases and other financial arrangements, which may include equity interest in one or more of the entities renting the space. In June 2018 the Board approved ar additional investment of up to $25 million. These facilities investments are in support of research commercialization opportunities for early stage commercialization and established businesses.

15. Other income:

Details of other income are as follows:

(thousands of dollars)	Major Sources		2018		2017
Faculty of Health Sciences	Non-degree educational fees, specifically funded programs, international postgraduates stipends, space/equipment rentals, other student fees	$	56,269	$	54,042
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees		10,848		8,644
Academic Services	Contracts and patent royalties, registrar administration fees		13,842		10,814
Student Services	Athletics and Recreation memberships and user fees		21,020		18,078
Miscellaneous	Nuclear reactor sales, application fees, late payment fees, sales of utilities and other departmental sales		18,574		18,227
Other Investment Income (Loss)	The Director's College, Adiga Life Sciences Inc., and McMaster Innovation Park		1,980		(3,735)
		$	122,533	$	106,070

16. Related party transactions:

In addition to certain transactions and balances disclosed in note 4, the University received funds of approximately $217,000 (2017 - $257,000) 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 2018. 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 2017.

(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 2 and the long-term obligations are included in note 8.

(d) Currency risk:

Investments that trade in foreign markets are exposed to currency risk as the price in local terms on the foreign stock exchange is converted to Canadian dollars to determine fair value. The University’s overall currency positions are monitored on a daily basis by the portfolio manager. There has been no material change to the risk exposure from 2017.

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 30th, in the first phase of the Ontario Student Opportunity Trust Fund (OSOTF I) balance:

(thousands of dollars)	2018	2017
Endowment balance, beginning of year	$ 32,736	$ 32,842
Investment income (used from) retained for protection of capital	(270)	122
Investment income transferred to expendable income	(319)	(228)
Endowment balance, end of year	32,147	32,736
Funds available for awards, beginning of year	-	-
Investment income	1,467	1,408
Bursaries awarded (2018 - 1,288 awards; 2017 - 1,347 awards)	(1,786)	(1,636)
Investment income transferred from endowment balance	319	228
Funds available for awards, end of year	-	-
Total funds at book value	$ 32,147	$ 32,736

The market value of the endowment as at April 30, 2018 was $38,971,000 (2017 - $38,626,000).

(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)	2018	2017
Endowment balance, beginning of year	$ 6,126	$ 6,093
Investment income retained for protection of capital	17	33
Endowment balance, end of year	6,143	6,126
Funds available for awards, beginning of year	58	44
Investment income for expenditures	265	255
Bursaries awarded (2018 - 231 awards; 2017 - 252 awards)	(254)	(241)
Funds available for awards, end of year	69	58
Total funds at book value	$ 6,212	$ 6,184

The market value of the endowment as at April 30, 2018 was $7,308,000 (2017 - $7,265,000).

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)	2018	2017
Endowment balance, beginning of year	$ 39,312	$ 39,026
Investment income retained for protection of capital	227	286
Endowment balance, end of year	39,539	39,312
Funds available for awards, beginning of year	1,185	1,255
Investment income for expenditures	1,555	1,486
Bursaries awarded (2018 - 521 awards; 2017 - 555 awards)	(1,684)	(1,556)
Funds available for awards, end of year	1,056	1,185
Total funds at book value	$ 40,595	$ 40,497

The market value of the endowment as at April 30, 2018 was $51,903,000 (2017 - $51,124,000).

20. Pledges:

Outstanding but unrecorded pledges for donations and other fund raising amounted to approximately $85,000,000 (2017 - $95,000,000).

21. Prior period adjustment:

In the prior year, funding received from the Ministry of Advanced Education and Skills Development for the purchase of capital assets was recorded as an unrestricted contribution. It was subsequently determined the funding received was restricted for capital purposes. Correction of this error resulted in an increase in deferred contributions for future expenses of $12,825,000, an increase in deferred capital contributions of $4,332,000, a decrease in internally restricted net assets of $12,825,000 and a decrease in equity in capital assets of $4,332,000 as at April 30, 2017. In addition, for the year ended April 30, 2017, there was a decrease in donations and other grants of $17,645,000 and an increase in amortization of deferred capital contributions of $488,000, resulting in an overall decrease in excess of revenues over expenses of $17,157,000.

22. Comparative figures:

Certain comparative figures for 2017 have been reclassified to conform with the financial statement presentation adopted in the current year.

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

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