Improving Environmental Sustainability

Annual Financial Report

2020-2021

BRIGHTER WORLD | mcmaster.ca

McMaster University

Table of Contents

Through our cutting-edge research and world-class teaching and learning, we are working to advance human and societal health and well-being. McMaster's strategic objectives are centred on inclusive excellence, teaching and learning, research and scholarship, community engagement, and operational excellence. Within this context McMaster is working to address some of the most pressing challenges facing communities across our planet, such as climate change, equity and inclusion, and infectious diseases. For example, McMaster is clustering its strengths associated with infectious diseases and vaccine development to support global preparedness for pandemic responses, vaccine development, and disease management as an outcome for COVID-19 and highlighted in last year's 2019/20 Annual Financial Report.

This 2020/21 Annual Financial Report highlights McMaster's recent contributions focused on improved environmental sustainability necessary to support our campus and surrounding communities. Key environmental sustainability strategies include waste reduction on campus, engaging our communities on sustainable practices, decarbonizing investment portfolios and increasing clean technology investments, managing climate risks associated with campus operations and invested assets, undertaking research to address food and water insecurity, and much more. Objectively, McMaster aspires to be a growing driving force in addressing climate change and enabling a more sustainable, less carbon-dependent future.

Year in Review

From Deidre Henne, Assistant Vice-President (Administration) and Chief Financial Officer

This 2020/21 Annual Financial Report is themed on sustainability, in part due to the global climate crisis affecting communities worldwide having broad implications to our future societal health. Beyond last year's theme centred on the pandemic highlighting McMaster's contributions to sequence identification, vaccine and policy development, and personal protective equipment design; climate change and environmentally balanced economics are critical priorities of our time. The sustainability focus of this report reflects McMaster's ongoing long-term commitment to the Okanagan Charter and McMaster's focus on achieving a net zero Greenhouse Gas (GHG) emissions campus, a net zero GHG emissions across invested asset pools, and being a global contributor through research and education into commercial applications needed to more rapidly transition the economy onto sustainable clean energy solutions that promote environmental sustainability and consequently societal health.

In addition to McMaster's sustainability focus, the University continues pandemic response contributions both from vaccine development research to personal protective equipment solutions, and Canadian production and supply partnerships. The ambitions of McMaster as a global contributor and leader addressing current societal issues reflect the University's strategic focus on solutions that can be translated into commercial solutions and serve today's diverse communities. These directions are further captured in McMaster's refreshed vision and updated three-year strategic plan organized around five themes and launched in 2021 following extensive community consultation. McMaster's strategic themes focus University directions on supporting inclusive excellence, research and scholarship, teaching and learning, community engagement, and operational excellence. Faculty and department objectives will be underpinned by these strategic themes over the next three years.

Vision

Impact, Ambition and Transformation through Excellence, Inclusion and Community: Advancing Human and Societal Health and Well-being

McMaster's 2020/21 consolidated surplus of $232.0 million is materially favourable driven by two key factors. First, extraordinary investment income provided a 26.1% return, net of fees, increasing planned investment income based on normalized returns of 5.6% by over $127.1 million. Secondly, the Operating Fund tuition revenue totalling $398.4 million was $61.1 million favourable to budget due to increased offers of admission based on an expectation that greater than normal enrolment deferrals would be realized due to the pandemic. However, McMaster's increased offers translated into higher acceptances resulting in over-enrolled domestic participation and year-over-year growth in international student participation. Anticipated student enrolment deferrals did not materialize and consequently McMaster exceeded provincial domestic enrolment caps resulting in $22 million in unfunded operating grants for domestic student support. McMaster's enrolment management team will work to reduce domestic offers back to provincially funded levels over the coming years.

Research income of $168.6 million is lower but relatively flat to prior year actuals based on pandemic-related closures causing some delays to research activity. Research funding received increased by $38.4 million, however research income is recognized as a matching function to current year research expenditures, and the lower spending caused an increase of $43.6 million reflected as deferred contributions for future years. The slower research spending in 2020/21 due to temporary closures is expected to increase in 2021/22 as campus resumes operations.

Electric and Hybrid parking spaces located in front of John Hodgins Engineering Building

Original financial planning assumed University operations would fully re-open in January 2021, however mid-fiscal year McMaster made the decision to remain predominantly closed for the full academic year. The full year closure had the greatest impact on ancillary operations with a net sales decline of $58.2 million or 76.6% over prior year. Ancillary operations generally support on-campus student activities, areas of greatest impact include housing, food services, and parking, as well as other service impacts to campus stores and media/print production. However, continuing online education sales surpassed expectations due in part possibly to a larger population catchment upgrading skills and certifications during pandemic-related layoffs or while spending more time at home.

Capital projects progressed in 2020/21 namely on the Student Athletic Facility Expansion and on other renovation opportunities created by the closed campus operations. Some planned capital projects were delayed due to periods of pandemic-related closures resulting in $94.5 million in lower spending on capital projects than originally planned.

Extraordinary investment income in 2020/21 provided substantial capital preservation to long-standing external trusts and endowments. Further, the income on internal reserves is either allocated directly to unitized internal reserves or to the specific purpose reserve. The current year's strong performance enabled extra one-time payments of $45.0 million into the post-retirement benefit reserve to support McMaster's commitment to fund this obligation net of employee contributions, as well as an extra $25.0 million contribution to the McMaster capital reserve used to support strategic infrastructure needs and match Canada Foundation for Innovation (CFI) funding opportunities.

Subsequent to year-end McMaster issued two new long-term debentures to support initiatives associated with McMaster's updated strategic plan. One of these debentures reflects McMaster's first green bond of $25.0 million over 30 years at 3.255% along with a traditional bond of $125.0 million over 50 years at 3.405%. The 50-year bond was over-subscribed with 26 investors and reflects the lowest interest rate on a higher education 50-year bond issue in recent history. Much of the new financing will support McMaster's key strategic objective to cluster its academic and research strengths associated with infectious diseases and pandemic responses into a new build Global Nexus located at McMaster Innovation Park, which will support education of undergraduate and graduate professionals and serve Canada and global societal needs associated with future epidemic, pandemic, and infectious disease tracking, vaccine and treatment development, and disease management.

Finally, McMaster continues to make progress on its commitment to fully adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) across all invested assets (including pension pools). In 2020/21, McMaster announced its investment pool GHG emission reduction target of 45% by 2030 and ambitiously net zero by 2050 based on a 2018 baseline. McMaster also received its first GHG emission measure for the salaried pension plan assets to inform its Phase 1 reporting requirements included in a new section to this report. During 2020/21, the salaried pension plan oversight committee will explore its GHG emission target setting for McMaster's Phase 2 reporting. In 2020/21, McMaster became a signatory to the United Nations

Principles for Responsible Investment, and became an inaugural member to the University Network for Investor Engagement (UNIE). The UNIE program focuses on combined university members' invested assets and tackles carbon and sustainability issues directly with companies based on combined ownership holdings. Further, McMaster became an inaugural member to the Canadian Climate Charter committing the University to work with other charter members on advancing carbon measurement disclosures, adopting responsible investing practices, setting carbon reduction strategies, and integrating carbon goals into manager performance objectives. McMaster is well advanced in Canada on its adoption of globally recognized responsible investing strategies and continues to serve as an advisory role to other institutions advancing decarbonization and clean technology initiatives.

The information contained in this Annual Financial Report is intended to provide the reader with financial information for the fiscal year ended April 30, 2021. 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 33.

MEDIA LINKS	
Other media links to supplemental information providing additional in-depth discussion of University information include:	
McMaster University Strategic Plan 2021-2024	*University Fact Book*
Strategic Mandate Agreement	*Sustainability Report 2020-2021*
Goals and Priorities	*Net Zero Carbon Roadmap*
Consolidated Budget – June 2021	

"An abundance of initiatives are occurring across McMaster by students, faculty members and employees to promote sustainability."

– Debbie Martin, Assistant Vice-President and Chief Facilities Officer

RESPONSIBLE CONSUMPTION AND PRODUCTION INITIATIVES

- Sustainable Food Purchasing
- Waste and Recycling Bin Labelling
- McMaster Campus Store Eliminates Single-Use Plastic Bags
- Promoting Reusable Bottles Through Campus Water Filling Stations
- Compostable Products
- From Trash to Treasure
- McMaster Teaching and Community Garden (MTCG)
- Sustainable Future Program
- Students Pitch Signs That Make the Green Choice Clear on Campus
- Environmentally Responsible Art
- McMaster Sustainability Week: Tree Planting
- Sustainable Chemistry Program

By the Numbers

$723,800,000

Available expendable resources vs. $598,300,000 last year

$109,300,000

Capital spending vs. $127,900,000 last year

$1,300,700,000

Total revenue vs. $1,161,000,000 last year

$1,068,700,000

Total expenses vs. $1,068,900,000 last year

$232,000,000

Excess of revenues over expenses vs. $92,100,000 last year

$25,800

Endowment per FTE students vs. $22,800 last year

$37,500

Revenue per FTE students vs. $36,200 last year

$(287,300,000)

Non-pension employee future benefit unfunded obligation vs. $(277,200,000) last year

$117,400,000

Pension employee future benefit unfunded obligation vs. ($171,200,000) last year

$2,200,000

Excess of revenues over expenses operating fund only vs. $28,900,000 last year

$1,804,700,000

Total net assets vs. $1,185,400,000 last year

34,720

Enrolment (full time equivalent (FTE)) vs. 32,063 last year

8,103

Staff and Faculty head count vs. 7,954 last year

Financial Analysis

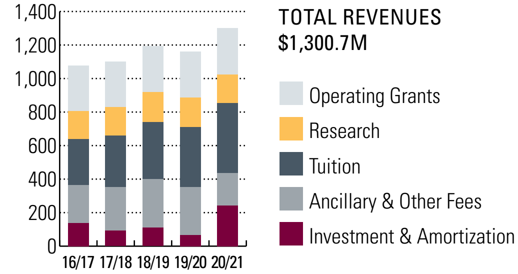
GREEN SPACES

L.R. Wilson Hall, situated at the corner of Forsyth Avenue and Sterling Street, features a roof-line extending green landscaping.

Key Financial Indicators

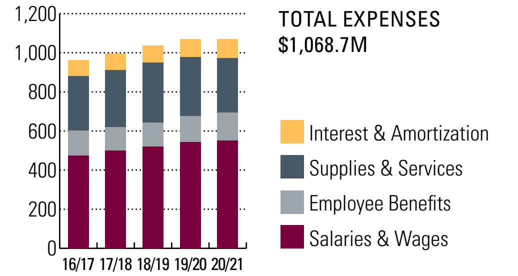
TOTAL REVENUES

- Revenues increased 12.0% to $1,300.7 million from $1,161.0 million.
- Investment income increased by $172.7 million due to a 26.1% rate of return net of investment fees in the Investment Pool compared to -1.9% in the prior year.
- Tuition income increased by $55.8 million (15.5%) due to increased domestic and international enrolment at both the graduate and undergraduate levels, tuition rate changes for international students, and new programs.
- Enrolment-based operating grants remained frozen at 2016/17 levels with an increased international student recovery levy associated with higher enrolment. The performance-based Operating Grant includes research overhead support previously separately as research overhead income.
- Ancillary sales & other fees decreased by $88.3 million (-31.1%) due to temporary pandemic-related operational closures.



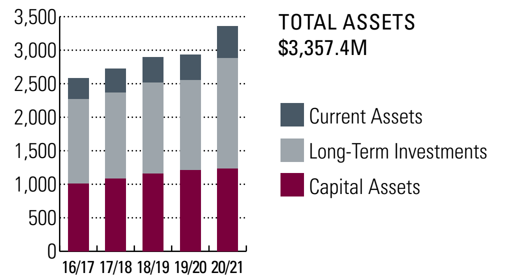
TOTAL EXPENSES

- Expenses remained relatively flat at $1,068.7 million compared to $1,068.9 million in the prior year.
- Salaries and wages increased by $7.1 million (1.3%) due to the planned faculty and staff hires to support increased enrolment and due to negotiated pay increases.
- Employee benefits increased by $10.2 million (7.7%) primarily due to increased current service and finance costs for pensions.
- Supplies and services decreased by $21.9 million (-7.3%) primarily due to pandemic-related travel restrictions and temporary operational closures.



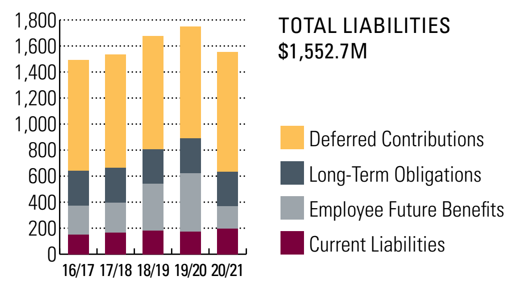
TOTAL ASSETS

- Total assets increased 14.3% to $3,357.4 million from $2,937.3 million.
- Investment assets increased by $401.9 million (26.8%) due primarily to the 26.1% return on investments.
- Current assets increased by $90.4 million (23.5%) due primarily to greater short-term investments and loans receivable from McMaster Innovation Park, offset by deductions in accounts receivable and prepaid expenses.
- Capital assets increased by $23.0 million (1.9%) related to $109.3 million in capital additions for new buildings and equipment less $86.3 million in amortization and recoveries.



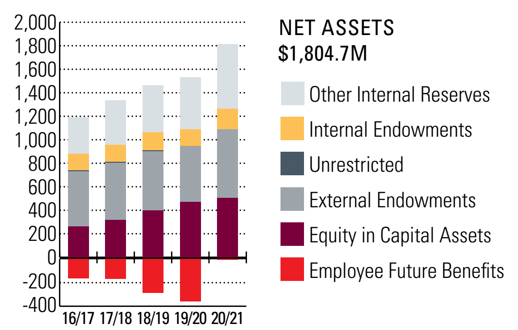
TOTAL LIABILITIES

- Liabilities decreased 11.4% to $1,552.7 million from $1,751.9 million.
- Employee future benefit liabilities decreased by $278.5 million (-62.1%) primarily due to a positive return on pension plan assets.
- Deferred contributions increased by $56.0 million (6.5%) due to temporary pandemic closures and delayed spending.
- Current liabilities increased by $23.4 million (13.5%) due to April 2020 operational campus closure versus April 2021 partially open campus.
- Long-term obligations remained relatively flat year over year.



NET ASSETS

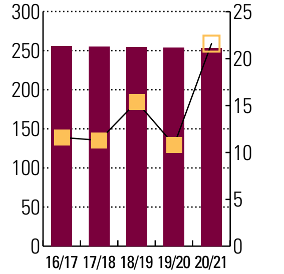
- Net assets increased 52.2% to $1,804.7 million from $1,185.4 million.
- Net employee future benefit reserves increased by $351.0 million (97.7%) due to a positive return on invested pension plan assets and transfers from other internal reserves as part of McMaster's funding strategy for post-retirement benefits.
- Internal and external endowments increased by $138.9 million (22.5%) due to the Investment Pool's positive returns.
- Other internal reserves increased by $95.1 million (20.8%) mainly due to capital funding for projects either in progress and expected to be completed in 2022 or for future capital strategies to support enrolment growth.



Key Financial Indicators

LONG-TERM DEBT

- Long-term debt primarily relates to two $120.0 million bonds maturing in 2052 and 2065, respectively. Two sinking funds exist to repay these debts on maturity, valued at $42.9 million.
- The debt service coverage ratio improved to 21.6 from 10.8 due to the increase in net income.
- Total long-term debt decreased due to the $0.7 million principal repayment on the bank loan maturing in May 2033.
- Subsequent to year-end, additional long-term debt of $125.0 million maturing in 2071 and $25.0 million maturing in 2051 was issued. Two additional sinking funds have been established to settle these debts on maturity.

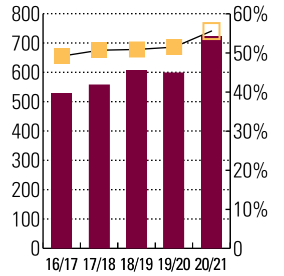


LONG-TERM DEBT
$253.3M

Long-Term Debt
Debt Service Coverage Ratio

AVAILABLE EXPENDABLE RESOURCES (AER)

- AER represents equity (cash and non-cash funds) that is not externally committed, such as unrestricted net assets, specific purpose reserves, faculty and department appropriations, and internally restricted endowments.
- AER increased 21.0% to $723.8 million from $598.3 million.
- AER is internally restricted for specific purposes such as future financial obligations to settle debt, fund pension and non-pension liabilities, and invest in strategic and capital priorities. The financial statement notes provide full descriptions of each reserve held for future financial obligations.

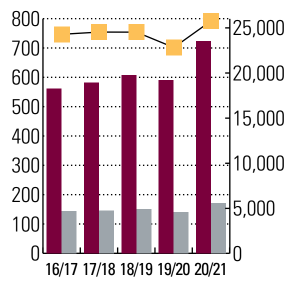


AVAILABLE EXPENDABLE RESOURCES
$723.8M

Available Expendable Resources
AER as a % of Revenue

TRUSTS AND ENDOWMENTS

- McMaster's internal and external trusts and endowments increased 22.3% to $895.0 million from $731.9 million related to the 26.1% Investment Pool return, net of fees.
- Endowment funds per student increased 12.9% to $25,800, despite the 8.3% increase in student enrolment, again mainly due to the Investment Pool return.

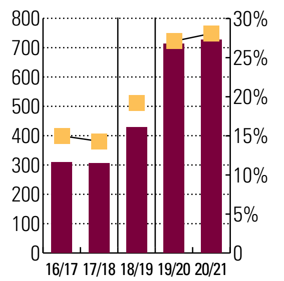


TRUSTS AND ENDOWMENTS
$895.0M

Internally Restricted
Externally Restricted
Endowment Per FTE

DEFERRED MAINTENANCE

- Deferred maintenance is funded from multiple sources, including a facilities infrastructure grant, an allocation of operating revenues, and an annual contribution from residence revenues for residence infrastructure.
- Measurement methodology changes have been implemented to harmonize with colleges. The new measure includes the addition of a soft cost multiplier, generation of automatic maintenance requirements, and costs are now updated over three years instead of five years.
- The new approach is considered more accurate across the Ontario higher education sector, but it is not comparable to prior years' assessments.
- Where required, asbestos abatement is conducted by external contractors as part of building renovations and is not included in the deferred maintenance backlog, an approach that will differ from government-controlled universities in provinces outside of Ontario.



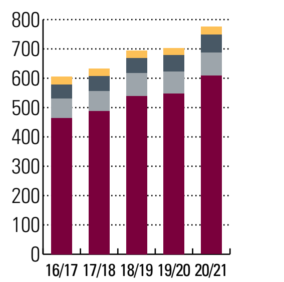
DEFERRED MAINTENANCE ($726.9M)
FACILITIES CONDITION INDEX (28.1%)

Deferred Maintenance Backlog
Facilities Condition Index

Note: new methodologies in 2019 and 2020, prior years not comparable

OPERATING FUND – NET EXPENDITURES BY ENVELOPE

- Operating Fund net expenditures increased 10.4% to $776.1 million from $703.2 million.
- Academic and Student Support increased 11.1% mainly as a result of higher revenues enabling greater investment in strategic capital projects such as the McLean Centre for Collaborative Discovery, Faculty of Engineering building expansion, and Faculty of Science infrastructure renovations, and other non-capital expenses mainly due to increased salary and benefits costs. Some expense savings occurred due to delayed spending and travel restrictions associated with the pandemic and temporary campus closures.
- Facilities Support increased 5.3% with internal rent waivers provided to ancillary operations and less internal revenues due to operational closures.
- Institutional Support increased 9.6% as a result of higher salaries and benefits, as well as legal and information technology expenses.



OPERATING FUND – NET EXPENDITURES BY ENVELOPE $776.1M

Institutional Priorities
Institutional Support
Facilities Support
Academic & Student Support

Revenues

Total revenues increased by $139.7 million (12.0%) to $1,300.7 million (2019/20: $1,161.0 million) reflecting revenue per student of $37,461 (2019/20: $36,209). Revenue increases relate to a $172.7 million increase in net investment income and a $55.8 million increase in tuition fees, partially offset by a $88.3 million decrease in ancillary sales and other fees. McMaster continues to focus on new alternative revenue generation opportunities with increased research commercialization spin-off entity equity investments, real estate investments with lease revenues, public-private partnerships to support operational infrastructure needs, new program developments, and other non-traditional areas. Within the academy, revenue growth and diversification across international student participation is a key priority and contributor to operating financial health. New revenue generation strategies occur in parallel with actively managing existing revenue streams with the overall aim to optimize investments to support the student experience, academic, and research missions.

OPERATING GRANTS INCOME

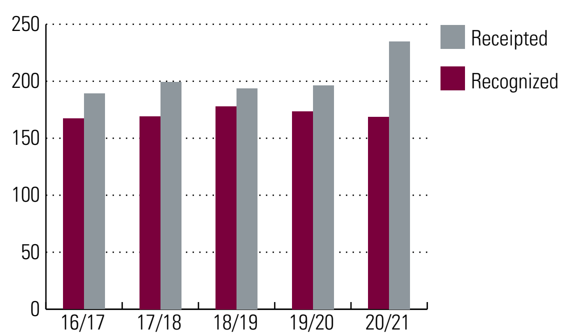
Operating grants from the Ministry of Colleges and Universities (MCU) remains flat compared to 2019/20. The MCU's corridor funding model holds grants for domestic undergraduate enrolment at 2016/17 levels and allows universities to be plus or minus 3.0% of the enrolment funding mid-point. In 2020/21, domestic enrolment exceeded the funded cap as students did not decline offers or withdraw due to the pandemic as anticipated. While the additional students are welcome, the result is provincially unfunded domestic participation estimated at $22 million. Future enrolment will be managed to return domestic participation to funded corridor levels over the next several years.

The MCU has reallocated some funding in 2020/21 from an enrolment grant to performance-based funding. As part of this restructuring, the $3.6 million Research Overhead Infrastructure Envelope is now reported as part of Operating Grants. In addition, the Graduate Expansion Grant was rolled into a new base level at 2019/20 enrolment levels. In real terms, the operating grant amount reflects lower grant revenue per year due to inflation not factored into the annual funding amount, as well as lower grant revenue per student due to increased enrolment and unfunded domestic students.

RESEARCH GRANTS AND CONTRACTS

Research revenue is recognized in the period research expenditures occur. Research funding unspent is reflected as deferred contributions. Externally restricted funding is reconciled routinely throughout the year and is not used for unrelated operational expenses. McMaster's research revenue does not include funding received and administered by affiliated hospitals or Networks of Centres of Excellence. Research funding receipted in the year increased by $38.4 million (19.6%) to $234.9 million (2019/20: $196.5 million) as shown in Figure 1.

Figure 1: RESEARCH REVENUE: RECEIPTED VS. RECOGNIZED IN INCOME $ Millions



This increase in receipted funding is largely due to grants related to the investigation of the prevention, detection, and treatment of COVID-19. Research expenditures decreased by $5.1 million (-3.0%) due to restriction of on-campus activity, resulting in $168.6 million in research revenue recognized (2019/20: $173.7 million).

RESEARCH OVERHEAD GRANTS

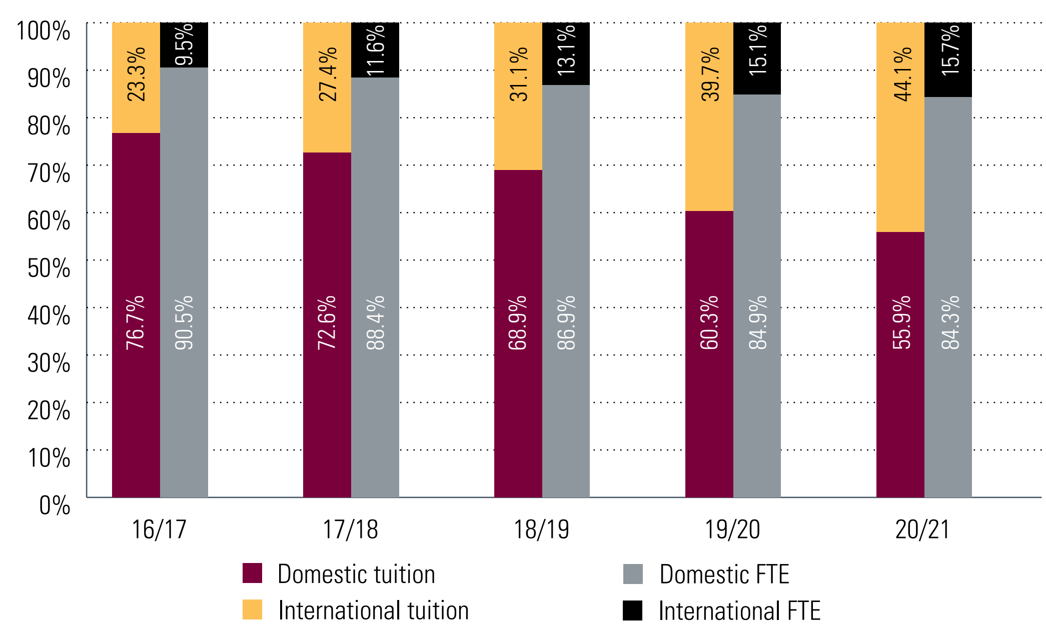
Research overhead grants decreased by $3.0 million (-23.9%) to $12.6 million (2019/20: $15.6 million) mainly due to the movement of the Research Overhead Infrastructure Envelope (ROIE), representing $3.6 million, into Operating Grants. Research overhead grants assist the University in defraying indirect support costs associated with hosting research activities. The federal government contributes indirect costs based on a percentage of total direct federal research grants.

TUITION FEES

Revenue from tuition fees increased by $55.8 million (15.5%) to $416.5 million (2019/20: $360.7 million). In 2020/21, domestic enrolment increased by 7.6% and international enrolment increased by 12.1%. International students pay higher tuition fees than domestic students because there is no provincial operating grant to offset the total education costs of these students.

McMaster's goal is to diversify the international student population and increase international participation. Along with the enrolment increase, revenue from international students makes up a growing proportion of tuition fees (Figure 2), offsetting the additional costs required to support the specialized needs of international students. The combination of the increase in international enrolment and higher international tuition fees increased international student revenue by $40.7 million (28.4%). International students now account for approximately 15.7% (2019/20: 15.1%) of the total student population and 44.1% (2019/20: 39.7%) of tuition revenue. Further contributing to improved tuition revenue are increases in fees for non-government funded programs not subject to the legislative cap, notably the McMaster English Language Development diploma program for prospective international students.

Figure 2: DOMESTIC VS. INTERNATIONAL TUITION AND FTE



ANCILLARY SALES AND SERVICES

Ancillary operations provide essential support services across the University, such as housing, food services, parking, campus stores, continuing education, and media/print production. Ancillary units are responsible for providing efficient and affordable services while covering all related operating and capital expenditures. Additionally, ancillaries contribute approximately 4.5% on sales toward direct student support and the Operating Fund while also providing employment opportunities to students.

A summary of ancillary sales by unit is shown in Table 1. Sales for all operations that depend on in-person campus attendance were significantly impacted by temporary pandemic-related closures with lost sales and refunds decreasing revenue by $58.2 million (-76.6%) to $17.8 million (2019/20: $76.0 million). Housing and Conference Services experienced the greatest revenue decline, decreasing sales by $27.9 million or 98.2% related to residence closure and refunds, and occupancy reserved for exceptional circumstances. Hospitality Services food and catering sales declined $25.2 million or 98.0% due to pandemic restrictions and operational closures. Parking Services sales dropped $5.2 million or 97.0% resulting from campus closure eliminating monthly permit and visitor parking revenues, and raising parking gates to support remaining campus essential workers. The Campus Store and Media Production Services sales declined $3.2 million or 22.9% and $2.8 million or 66.9%, respectively, again due to campus closures. The pandemic had a positive impact on Continuing Education, with revenue increasing $0.9 million or 11.2% due to registration increases for online certificate and diploma courses.

Ancillary losses were substantially mitigated through staff layoffs and other cost containment measures, however the net reserve balance of these operations reflects a $4.7 million deficit position. With the return to campus in 2021/22 the reserve is expected to return to a surplus within three years.

Table 1: SALES BY ANCILLARY OPERATIONS — $ Thousands

	2016/17	2017/18	2018/19	2019/20	2020/21
Housing and Conference Services	26,110	27,231	27,792	28,440	524
Hospitality Services	25,303	27,641	27,240	25,696	506
Campus Store	16,364	15,897	14,978	14,073	10,849
Continuing Education	7,006	7,183	7,759	8,342	9,276
Parking	5,252	5,821	6,222	5,345	161
Media Production Services	3,742	4,190	4,331	4,194	1,388
	83,777	87,963	88,322	86,090	22,704
Less internal sales	(9,504)	(10,851)	(10,120)	(10,131)	(4,937)
	74,273	**77,112**	**78,202**	**75,959**	**17,767**

INDIGENOUS LEARNING CIRCLE

The Indigenous Circle or Karahakon Kateweienstha (Learning in the Forest) in Mohawk, and Nibwaajkaawin Teg (Place of Wisdom) in Ojibway, was created under the guidance of McMaster's Indigenous Education Council as a space for learning, reconciliation and the remembrance of Indigenous people and the histories of this land.

The Indigenous Circle is bordered by both the McMaster campus and the lush canopy of Cootes Paradise. The space features tiered stone arranged around a stage in the form of a medicine wheel, a symbol that represents the interconnectivity of all beings. Plantings in the space were sourced from Six Nations of the Grand River. The area demonstrates the role nature and outdoor spaces play in teaching and learning and signifies the importance of Indigenous knowledge to the growth of the McMaster community.

INVESTMENT INCOME

The long-term investment pool (Investment Pool), consisting of both endowed and non-endowed funds, earned a total rate of return of 26.1% (2019/20: -1.9%). This return is net of investment management fees approximating 0.3%. The Investment Pool achieved a total rate of return before investment management fees of 26.4% (2019/20: -1.7%) compared to the investment policy benchmark return of 19.3% (2019/20: -1.1%).

Capital markets improved significantly in 2021, in part reflecting market expectations that global economic activity will improve post-pandemic as economies resume more normalized activity. The improved markets had a significant impact on investment returns in 2021 that are not typical, and expectations of reoccurrence are low. The Investment Pool strategy is to produce returns better than the four-year annualized policy benchmark. The April 30, 2021 four-year annualized return for the Investment Pool at 8.7% is 1.7% above the investment policy benchmark return of 7.0%.

Market volatility and interest rates remain key management concerns; as such, a broad geographic and asset class diversification strategy within the Investment Pool exists to help mitigate some volatility and protect capital. The Investment Pool is managed by external investment managers in accordance with the Statement of Investment Policy and Procedures, which deploys a responsible investment philosophy incorporating environmental, social and government considerations into its hiring and review practices. The Investment Pool is overseen by the Investment Pool Committee, a sub-committee of the Board of Governors, and includes advisory support from investment consultant and administration. Investments are diversified across several investment managers noted in Table 2.

Table 2: INVESTMENT POOL CONSULTANT AND INVESTMENT MANAGERS AS AT APRIL 30, 2021
Investment Consultant: Russell Investments Canada Limited
Investment Managers: Bentall Kennedy, Beutel Goodman & Company Ltd., BlackRock Asset Management Canada Limited, Brookfield Investment Management, Fiera Real Estate[1], Foyston, Gordon & Payne Inc., Harris Associates L.P., Mesirow Financial, Morgan Stanley Investment Management Inc., PCJ Investment Counsel Ltd., Russell Investments Canada Limited, and First Sentier Investors.

[1]Integrated Asset Management Corp. merged with Fiera Real Estate in 2020.

Sensitivity analysis is performed to highlight the significance of possible variances 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.

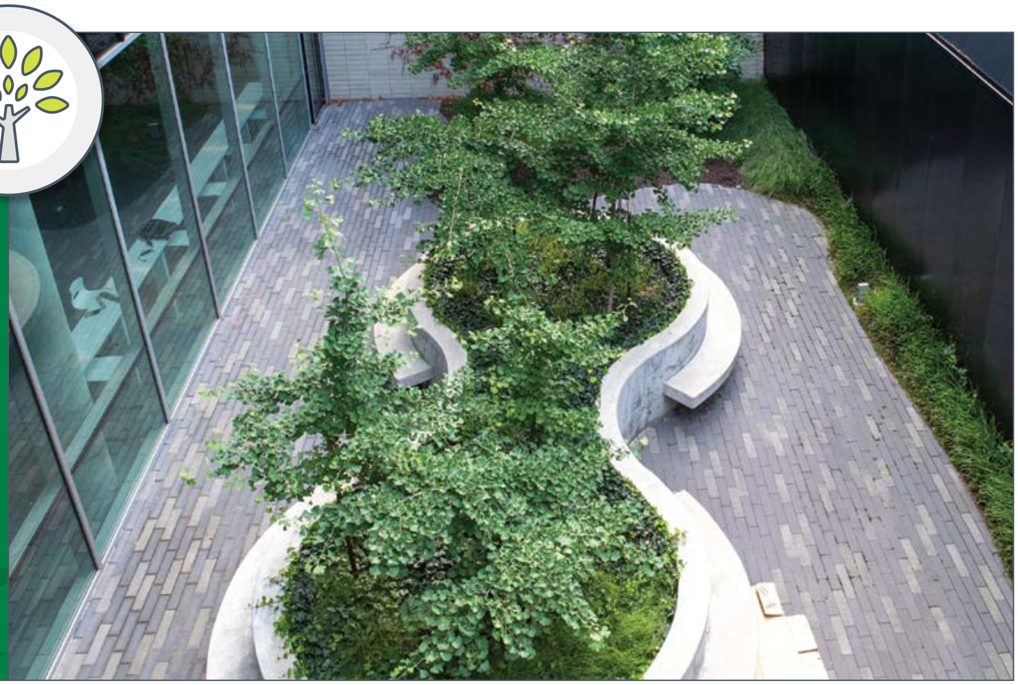
Total investment earnings are allocated as either income in the Statement of Operations or direct changes to endowment balances as preservation of capital adjustments in the Statement of Changes in Net Assets (Table 3). The amounts posted directly to external endowments are a function of net annual returns, whereas the amounts posted to income are a function of both net returns and revenue recognition associated with required annual spending on some of the trust funds.

Table 3: ALLOCATION OF INVESTMENT INCOME EARNED					$ Thousands
	2016/17	2017/18	2018/19	2019/20	2020/21
Recognized income	98,432	52,275	70,820	26,392	199,111
Amount posted directly to external endowments	44,799	2,718	7,266	(33,302)	96,932
Total earned	**143,231**	**54,993**	**78,086**	**(6,910)**	**296,043**

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 4.0%, along with a 1.0% allowance for trust administration costs. The total 5.0% annual spending is monitored against the five-year smoothed average rate of return. Returns greater than spending and other expenses are allocated to capital preservation. Approximately $36.2 million (2019/20: $23.4 million) of expenses were funded from the external endowment of which a significant portion is directed towards student scholarships, bursaries and funding of Chairs and Professorships.

Compensation and Benefits

McMaster University 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 service in the current year. Additional information related to the current year expenses, pension and non-pension liabilities and unfunded deficits are included in this section.

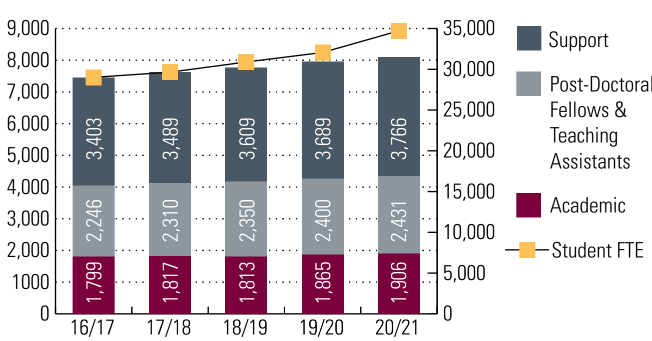


Aerial view of green space located in L.R. Wilson Hall with seating area.

EXPENSE

Total compensation (salary and wage along with benefit costs) accounts for 64.9% of total expenditures (2019/20: 63.3%). Figure 3 shows the count of 8,103 academic and permanent staff members at October 2020 (October 2019: 7,954).

Figure 3: ACADEMIC AND PERMANENT STAFF AS OF OCTOBER 2020



Salary and wage expenses increased 1.3% due to the addition of faculty members and permanent staff and negotiated pay increases. Benefit expenses increased 7.7% primarily due to increased pension financing costs. Total compensation expenses of $693.9 million are up 2.6% (2019/20: $676.5 million).

Approximately **5,000 TREES** are located on McMaster's **300**-ACRE main campus with new plantings added every year.

115 ACRES and **950** SPECIES are permanently protected through McMaster Forest.

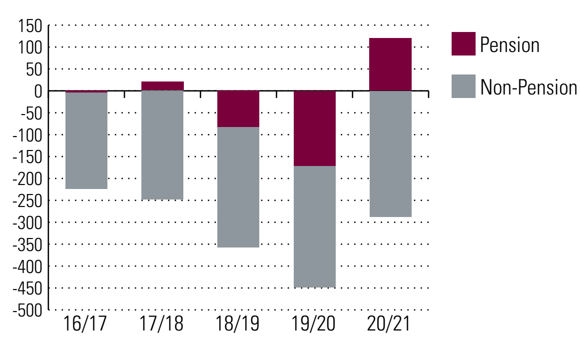
EMPLOYEE FUTURE BENEFIT COSTS

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 some employees of the University depending on date of hire. Under the Canadian accounting standards for not-for-profit organizations the annual remeasurements, 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 represent a significant liability (Figure 4). In 2020/21, returns on pension assets generated gains of $262.8 million. In combination with actuarial gains on pension obligations, the liability decreased by $278.5 million (-62.1%) to $169.9 million (2019/20: $448.4 million). The obligation for non-pension benefits increased slightly by $10.1 million (3.6%) to $287.3 million (2019/20: $277.2 million). Over the last several years, cost-balancing strategies have been put in place including plan eligibility, design changes, and increased employee contributions. Interest rate improvements in the future would further improve affordability of the benefit plans. However, changing mortality tables used to measure the liability, as a result of individuals living longer, are a permanent and ongoing increase to future benefit obligations.

The pension and non-pension obligations involve ongoing management monitoring and long-term strategic financial planning. The post-retirement obligation settlement strategy includes a 2011 threefold funding strategy approved by the Board of Governors, whereby (i) a fixed portion of the annual operating budget ($7.9 million) is allocated annually to the internal post-retirement settlement reserve, (ii) a departmental employee benefit cost is charged to each unit with staff associated within a benefit-eligible group, and (iii) the specific investment reserve allocates funding annually depending on investment performance. The Board-approved post-retirement benefit reserve is unitized in the Investment Pool and reflects the employer's commitment to set aside necessary funding to settle this obligation net of employee contributions. The employer's funding commitment is tied to employment-related agreements. The post-retirement obligation and reserve are reported to the University's Budget Committee and Board of Governors annually, with financial statement note disclosure under internally restricted net assets.

Figure 4: NET POST RETIREMENT (UNFUNDED OBLIGATIONS)/SURPLUS $ Millions



McMaster deploys a cost-smoothing approach for charging benefit expenses to faculties and departments. Benefit costs are monitored and projected over three to ten years with an employer departmental benefit rate charged at a smoothed average rate approximating 30.0% of associated salaries each year, although annual benefit cash outflows can vary year over year.

PENSION PLANS

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 in 2008 for new employees in some groups. The group RRSP now includes 511 full time employees (2019/20: 504).

McMaster filed an updated valuation for the Salaried Pension Plan as of July 1, 2018 under new pension rules which resulted in a negative remeasurement adjustment in the 2018/19 financial statements. The valuation included a new funding requirement for a Provision for Adverse Deviation (PfAD), which is based on the plan's open or closed status and its asset mix. The initial regulations identified McMaster's large salaried plan as closed. Since filing, the definition of a closed plan has changed and the large salaried plan is now under an open plan definition, affecting the PfAD calculation methodology. The open plan status will reduce the University's PfAD liability at the next valuation. Both the salaried Plan 2000 and the Original Plan ("Salaried Plans") are due for pension valuations as of July 1, 2021.

The valuation of the Hourly Pension Plan as of July 1, 2019 resulted in a solvency ratio below the minimum 85% required threshold. As a result, McMaster elected to provide an additional one-time contribution of $4.7 million into the plan, bringing the solvency ratio above 85%. The Hourly valuation was updated and re-filed as of January 1, 2020, reducing both required payments and annual filing requirements. The next required Hourly valuation is as of January 1, 2023.

Management continues to monitor the solvency funded status and future PfAD payments for both plans. The current benefit rate funding strategy continues to be effective, and the anticipated decrease in required payments for the Salaried Plans has enabled a reduction in the long-term smoothed benefit rate charged to faculties and departments.

Beyond the McMaster benefit plans, the province has initiated a jointly sponsored pension plan open to the Ontario higher-education sector. On July 1, 2021, the University Pension Plan (UPP) formally assumes responsibility for administering the pensions and investing the assets of the five existing pension plans in three universities, with the faculty plan with one additional university set to join in January 2022. The UPP as designed is more expensive than McMaster's current plans, however management is monitoring UPP design and transition planning in the event the UPP becomes more cost neutral while serving the benefit needs of existing plan members.

The change in the funded status of the defined benefit pension plans is summarized in Table 4.

Table 4: CHANGE IN FUNDED STATUS OF PENSION BENEFIT PLANS — $ Millions

	2016/17	2017/18	2018/19	2019/20	2020/21
Funded status, opening balance	**(169.3)**	**(3.5)**	**19.1**	**(82.6)**	**(171.2)**
Current service and finance cost	(43.3)	(33.3)	(32.3)	(38.8)	(48.9)
Remeasurements	143.8	(10.6)	(131.6)	(116.1)	274.0
University contributions	65.3	66.5	62.2	66.3	63.5
Funded status, closing balance, net	**(3.5)**	**19.1**	**(82.6)**	**(171.2)**	**117.4**

A $274.0 million positive pension remeasurement adjustment was made in the Statement of Net Assets (2019/20: -$116.1 million) primarily related to the positive return on plan assets. Since remeasurements are adjusted directly in reserves, the remeasurement adjustment had no impact on 2020/21 expenses.

NON-PENSION 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 increased by $10.1 million (3.6%) to $287.3 million (2019/20: $277.2 million). Management continues to actively work with eligible employee groups to reduce the deficit and ongoing liability. The long-term funding strategy for these obligations, explained earlier, includes annual contributions to an internally restricted reserve estimated annually by third-party actuaries. Due to strong investment returns, $45.0 million (2019/20: $15.0 million) was transferred to the post-retirement benefits reserve from the internally restricted specific purpose reserve established to supplement other funding requirements in the event of a prolonged economic downturn. The strong Investment Pool performance contributed to the post-retirement reserve funding in 2021, however the reserve remains insufficient to settle the obligation. The Board-approved funding strategy is projected to fully fund the post-retirement obligation by the internal post-retirement benefit reserve by 2035.

In 2020/21, non-pension employee benefit expenses decreased by $0.9 million (-4.0%) to $22.0 million (2019/20: $22.9 million) primarily due to a reduction in current service cost (Table 5). Payments by the University for claims from the plans were roughly equal to the prior year at $7.0 million due to continued shutdowns of some benefit providers as a result of the pandemic.

Table 5: CHANGE IN FUNDED STATUS OF NON-PENSION BENEFIT PLANS — $ Millions

	2016/17	2017/18	2018/19	2019/20	2020/21
Funded status, opening balance	**(208.0)**	**(220.3)**	**(247.7)**	**(274.7)**	**(277.2)**
Current service and finance cost	(19.7)	(20.4)	(21.4)	(22.9)	(22.0)
Remeasurements	0.2	(14.9)	(12.9)	13.3	4.9
University contributions	7.2	7.9	7.3	7.1	7.0
	(220.3)	(247.7)	(274.7)	(277.2)	(287.3)
Internally restricted reserve	73.6	83.2	93.8	116.2	193.5
Funded status, closing balance, net	**(146.7)**	**(164.5)**	**(180.9)**	**(161.0)**	**(93.8)**

EMPLOYEE FUTURE BENEFITS IN INTERNALLY RESTRICTED NET ASSETS

In order to promote innovation and accountability in departments, it is McMaster's policy to allow unspent surpluses to be carried forward from year to year, segregated as part of internally restricted net assets. In 2013, there was recognition that charging departments for the full cost of benefits (both current service costs and any unfunded past service costs) was constraining efforts to achieve strategic priorities and reducing McMaster's competitiveness for research funding. As a result, McMaster charges only current service costs to departments, and funds past service costs separately. Under this practice, fluctuations in the reserve for past employee future benefit costs do not impact the funding available to departments and are tracked separately within McMaster's internally restricted net assets.

In order to obtain a complete picture of the net operating department reserves including all related employee future benefits, the reserves for employee future benefits must be netted against the total departmental funds carried forward. Table 6 demonstrates the true net position of McMaster's department reserves after all employee benefit costs are applied.

Table 6: NET OPERATING FUND DEPARTMENTAL RESERVES — $ Millions

	2019/20			2020/21		
	Faculties	Support/Ancillary	Total	Faculties	Support/Ancillary	Total
Departmental reserves	128.1	78.8	206.9	113.3	80.8	194.1
Pensions	(154.9)	(43.4)	(198.3)	66.9	18.6	85.5
Other post-employment benefits	(117.7)	(43.3)	(161.0)	(69.0)	(24.8)	(93.8)
Employee benefit reserve	5.8	4.6	10.4	6.3	4.9	11.2
Net departmental reserves	**(138.7)**	**(3.3)**	**(142.0)**	**117.5**	**79.5**	**197.0**

Strategic Projects and Financing

McMaster's refreshed vision statement and strategic plan reflect the University's commitment to making a positive impact on the world, developing the partnerships and collaborations needed to support our scholars and ensure that we are well positioned to tackle major local and global issues, and build a clear sense of community and belonging for everyone. Underlying this strategy will be increased alignment and promotion of the United Nations' Sustainable Development Goals.

CAPITAL PROJECTS

McMaster is committed to a safe and sustainable campus, building spaces with an emphasis on both purpose and technology, while also renewing existing infrastructure to ensure its research-focused, student-centered identity is maintained to support an environment of excellence, and becoming a net zero carbon campus no later than 2050.

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. With the current amount of classroom space on campus close to 86% of the Council of Ontario Universities (COU) standard space requirements, McMaster will be taking advantage of opportunities for physical growth through increasing efficiencies in utilization of space on campus as well as off-campus expansion while managing new space design needs post-pandemic. In addition, the Net Zero Carbon Roadmap explores reducing greenhouse gas emissions through altering methods of power generation, energy conservation measures, electrification and heat recovery projects, and fleet transition to electric vehicles. Campus carbon reduction plans include consideration of net carbon impacts to alternative energy suppliers, such as increased hydro use impacting provincial energy production and carbon use in the supply of campus energy.

Construction of significant projects continued during 2020/21, albeit at a reduced pace due to the pandemic. Capital projects underway in 2020/21 included the Student Activity and Fitness Expansion (SAFE), the Peak Shaver project to reduce carbon emissions from 13,670 tonnes of CO2e annually to less than 1,000 tonnes, infrastructure projects that support research commercialization, and the McLean Centre for Collaborative Discovery.

In addition to these capital building projects, the University spent approximately $43.6 million on equipment, software, and furnishings. This represents an increase of $2.9 million (7.3%) over last year primarily due to an increase in research-related acquisitions.

The University's total capital expenditures totalled $109.3 million (2019/20: $127.9 million) and are summarized in Table 7. Expenditures on buildings and construction in process have decreased largely due to provincial restrictions surrounding construction as well as supply chain challenges, both caused by the pandemic.

Table 7: CAPITAL ASSET ADDITIONS — $ Thousands

	2016/17	2017/18	2018/19	2019/20	2020/21
Land, Completed Building Projects & Construction in Progress	76,317	102,446	110,835	77,150	54,018
Computers, Software, Furniture and Other Equipment	27,673	33,367	27,342	40,694	43,649
Library Materials	9,497	9,778	9,833	10,078	11,649
	113,487	**145,591**	**148,010**	**127,922**	**109,316**

OTHER STRATEGIC PROJECTS

New business growth in alignment with McMaster's mission and vision will be key to building financial sustainability and generating cash flows to support core academic needs. Through public-private partnerships, work has started on a graduate residence with 630 beds and 265 parking spaces in downtown Hamilton, and main campus has been expanded to support a new undergraduate residence with 1,373 beds. In addition, McMaster continues to make equity investments in research spin-offs and research infrastructure for lease in support of the Research Commercialization Strategy. Finally, demand for the radiopharmaceutical isotopes produced by the Nuclear Reactor is growing, allowing this facility to transition toward a 24/5 operational model.

FINANCING

Completed 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 2020/21, loans to some ancillaries were temporarily converted to interest-only payments as their operations were substantially impacted by the pandemic. All other scheduled loan repayments were received. The internal central bank capital loans decreased to $107.1 million in 2020/21 from $110.5 million last year as a result of scheduled loan repayments. The loans have varying repayment terms and interest rates, which reflect the date of issue and the project's income stream.

Debt is considered a perpetual component of McMaster's capital financing structure; as such, additional debt is contemplated annually in conjunction with Capital Plan updates, budgeted one-time permanent allocations of capital from faculties, and other strategic projects within the multi-year financial projections. The University has two long-term bonds outstanding, each for $120.0 million, one maturing in 2052 at 6.15% and the other maturing in 2065 at 4.105%. McMaster holds two sinking funds accumulating the required repayment of each bond.

During the first quarter of 2021/22, the University successfully issued two additional long-term bonds, $25.0 million maturing in 2051 at 3.225%, and $125.0 million maturing in 2071 at 3.405%, which represents the lowest 50-year coupon for a university in the Canadian debt capital markets. The issue was over-subscribed, reflecting McMaster's strong financial position. The $25.0 million bond is a "green" bond with net proceeds to support sustainability and/or green initiatives of the University. McMaster has utilized the proceeds to refinance the energy efficiency initiatives associated with the Peter George Centre for Living and Learning (PGCLL). PGCLL has achieved LEED Silver Certification and is estimated to have an energy saving of approximately 38% relative to the Model National Energy Code for Buildings. Sustainable features include energy-efficient lighting and thermal controls and a solar reflective roof.

The new financing replenishes the central bank and underpins McMaster's strategic plan, with sinking funds for future debt settlement. McMaster's weighted average cost of capital used for internal loans was 5.75% including administration costs, and is projected to be 5.00% beginning in 2021/22 due to the new financing at a lower rates.

In partnership with Nature at McMaster and Trees for Hamilton, students in the McMaster Academic Sustainability Program held two drop-in tree-planting sessions on campus in October 2019. These events followed another tree-planting session held in the summer which was a collaboration between Facility Services and a national student Meal Exchange summit held at McMaster. Students from across Canada planted six apple trees and six pear trees, adding to the campus crop of 46 diverse fruit trees which includes cherry, mulberry, pawpaw, pear and three heritage apple trees which are 27 years old as of 2021.

Financial Health and Sustainability Metrics

The MCU has incorporated financial health metrics into the Strategic Mandate Agreement (SMA) and its annual reporting requirements. The inclusion of financial health metrics recognizes that financial health and sustainability are critical to achieving institutional mandates. In addition to the MCU metrics, the University's Debt Policy ratios provide a framework for monitoring the ability to undertake additional external or internal debt to carry out strategic investments. McMaster's strong financial health, as indicated also by its strong credit rating, is supported by the metrics outlined in Table 8.

Table 8: FINANCIAL HEALTH AND SUSTAINABILITY METRICS

	2016/17	2017/18	2018/19	2019/20	2020/21
Debt Management Policy Ratios					
Expendable Net Assets to Debt (Target > 1.0x)	1.9x	2.0x	2.2x	2.2x	2.7x
Interest Burden (Target < 4.0%)	1.5%	1.4%	1.4%	1.3%	1.3%
Debt per FTE (Target < $12,000)	$9,575	$9,321	$8,898	$8,525	$7,826
Debt Management Monitoring Ratios					
Net Income/(Loss) Ratio (McMaster Target > 1.0%)	10.4%	9.6%	13.2%	7.9%	17.8%
Net Operating Revenues (McMaster Target > 2.0%)[1]	14.3%	12.0%	15.7%	8.5%	29.7%
Primary Reserves Ratio (McMaster Target > 91 days)[2]	200	205	214	204	247
Viability Ratio (McMaster Target > 1.0)[3]	2.0	2.1	2.3	2.2	2.7

[1] Measures cash flow from operating activities as a proportion of revenues.
[2] Measures the number of days University reserves can cover operating expenses.
[3] Measures the proportion of long-term debt that could be settled using unrestricted assets.

Trees@Mac is an interactive website designed to present accessible information about the wealth and diversity of trees on campus. It was created by Dr. Alison McQueen's Arts & Science Program students.

Enterprise Risk Management

During 2020/21, the University initiated an external review of the Enterprise Risk Management Program. The external review will conclude into 2021/22 with a final report to be presented to the University's senior leadership, followed by implementation of identified recommendations.

The Enterprise Risk Steering Committee, involving the President and Vice-Presidents, conducts an annual risk review and updates McMaster's risk register to reflect current and emerging risks scan. The annual risk assessment is used to collect key risk mitigation strategies from assigned key risk leaders.

Key risks for 2021 are listed in Table 9. Modifications were made to various key risk rankings from the previous year based on factors including pandemic response actions taken, the higher education strategic and operational environment, current government initiatives and priorities, as well as the impact that various ongoing risk mitigation strategies and other strategic and operational initiatives have had on the University.

In addition to the above risk management approach, opportunities are incorporated into discussions with priorities established and aligned with strategic plans.

Table 9: 2021 KEY RISKS

1. Geopolitical	6. Partnership	11. Change Readiness	16. Financial
2. Government Policy	7. Information Security	12. UG Student Enrolment	17. Attract Graduate Students
3. Mental Wellness	8. People	13. Physical Infrastructure	18. Student Experience, Retention & Satisfaction
4. Research	9. Reputation and Brand	14. Leadership	19. Information Availability & Quality
5. Research Infrastructure	10. Pandemic	15. Technology	

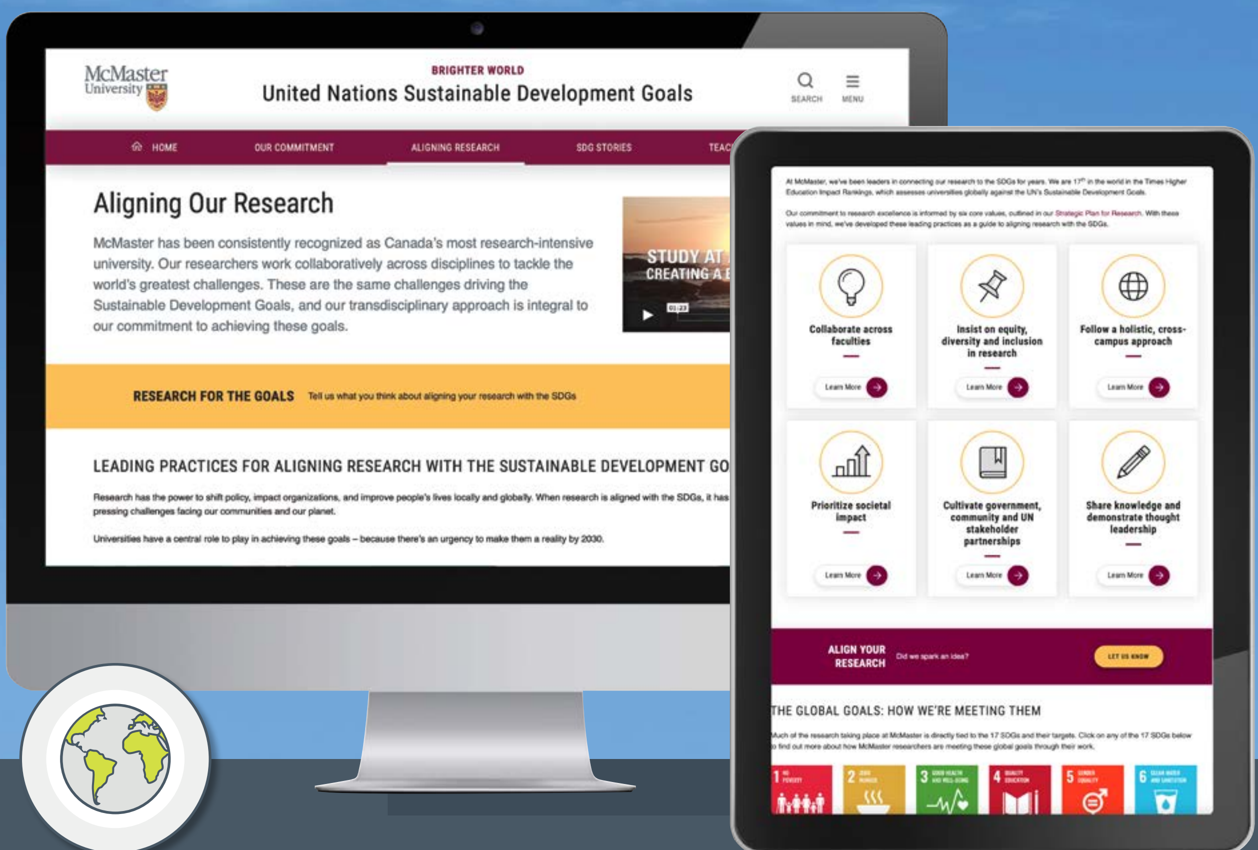
As well as the above key risks, the consideration of climate-related risks is included in a number of these areas, such as physical infrastructure, research infrastructure, and financial (invested assets). Risks considered potentially material to the financials are considered in McMaster's multi-year financial projections and annual debt strategy, along with scenario modelling, to inform senior leadership risk mitigation planning.

The McMaster Teaching & Community Garden (MTCG) is a University sustainability initiative with the objective of facilitating local food production while providing teaching and learning opportunities and engaging the McMaster and greater Hamilton community. The MTCG is the product of collaboration between McMaster's Integrated Science (iSci) Program and the Office of Sustainability. The ongoing success of the MTCG is a result of the outstanding contributions from countless students, faculty, staff, and members of the broader community who have supported its growth and development.

“The true meaning of life is to plant trees, under whose shade you do not expect to sit.”

– Nelson Henderson

Climate-Related Financial Disclosures



ALIGNING OUR RESEARCH

When research is aligned with the Sustainable Development Goals (SDGs), it has the potential to combat the most pressing challenges facing our communities and our planet. McMaster ranks 17th in the world in the Times Higher Education Impact Rankings, which assesses universities globally against the UN's Sustainable Development Goals. Our commitment to research excellence is informed by six core values, outlined in our *Strategic Plan for Research*.

Climate-Related Financial Disclosures

McMaster is committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) across all invested portfolios. TCFD recommendations were issued in June 2017 providing an outline for disclosing clear, comparable, and consistent reporting of financial information related to climate change with an initial focus on carbon-related measures. McMaster's phased-in TCFD adoption enables consistent measurement and reporting applying the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard that converts climate emissions into a single carbon dioxide (CO_2) measure using globally aligned reporting standards, measurement, and target-setting to promote understandability and comparability with other TCFD-adopting organizations. In 2019, the Government of Canada issued the Final Report of the Expert Panel on Sustainable Finance: Mobilizing Finance for Sustainable Growth endorsing TCFD for voluntary adoption over two timeline phases linked to investment portfolio size with phases ending in 2026. McMaster is committed to early full TCFD adoption by 2023 across all invested assets, enhancing public reporting, and working with other TCFD universities internationally on refining practice comparability.

McMaster's invested assets include three separate investment pools: the Investment Pool, the Salaried Pension Plans (Plan 2000 and Original Plan) pooled assets, and the Hourly Pension Plan assets. The phased implementation plan is shown in Table 10.

Table 10: TCFD IMPLEMENTATION PHASES

Investment Portfolio	Phase 1 Adoption	Phase 2 Adoption
Investment Pool (consisting of both endowed and non-endowed assets)	April 30, 2020	April 30, 2021
Pension Trust (consisting of defined benefit pension plan assets of the Salaried Plans – Plan 2000 (open to new entrants) and Original Plan (closed to new entrants))	April 30, 2021	April 30, 2022
Hourly Pension Trust (consisting of defined benefit pension plan assets of the closed Hourly Plan)	April 30, 2022	April 30, 2023

TCFD Phase 2 reporting follows below, including identification of McMaster's baseline year for setting and measuring further carbon reduction goals.

PhD candidate Alanna Bodo stands amongst tree sensors at Turkey Point. Bodo's research aims to shed light on how the changing climate is affecting forests.

Governance

BOARD OVERSIGHT ROLE

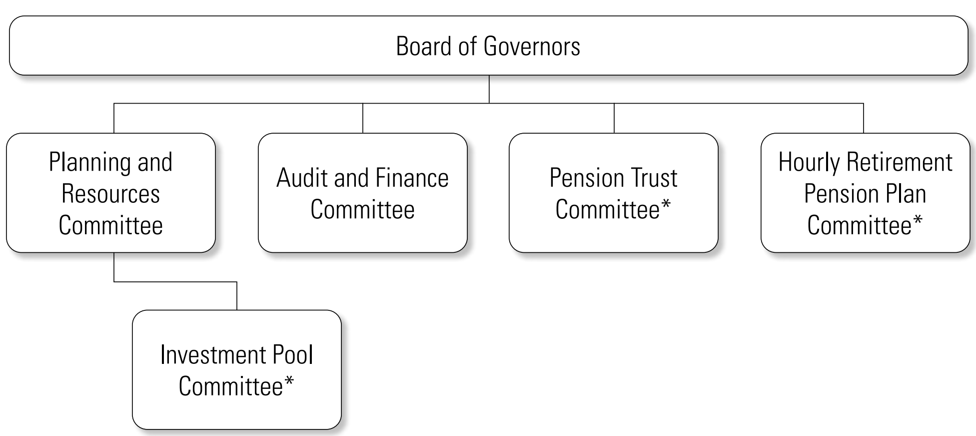
Climate-related risks are incorporated into McMaster's enterprise financial scenario modelling and annual multi-year financial projection analysis used to summarize an annual Debt Strategy Report for the Planning and Resources Committee and Board of Governors. Beginning in 2021, investment and pension sub-committees* will additionally be provided these reports for disclosure and discussion. Refer below to the abbreviated Board of Governors structure (not intended to capture all Board-related sub-committees).

In addition to annual multi-year financial projections, a more fulsome Financial Risk Report is produced annually incorporating consideration of material climate-related risks. This risk report is provided to the Audit and Risk Committee, the Planning and Resources Committee and the Board of Governors, accompanying the Annual Financial Report.

Further to this report, in 2020/21 carbon reduction targets were set using 2018 as McMaster's original baseline measure year, reflecting the inception of McMaster's decarbonization strategy, and are reported publicly on McMaster's website. McMaster's carbon reduction goals are incorporated into the performance objectives of the University Chief Financial Officer and Treasurer.

The Investment Pool and Salaried Pension Plan represent approximately $1.4 billion and $2.5 billion in assets under management, respectively. The investments for both the Investment Pool and Salaried Pension Plan are diversified across asset classes, investment managers, and geography whereby environmental, societal, and governance (ESG) issues are routinely discussed with investment managers and the Investment Pool consultant. Additional analysis to support climate risks and opportunities is obtained through a third-party service (MSCI), which provides climate-related emissions converted to a single CO2 measure by holding. MSCI reporting identifies the top ten contributors to McMaster's portfolio carbon intensity and provides analysis on whether these contributors are leaders or laggards on climate mitigation efforts. The MSCI information is used to engage in climate discussions with investment managers to ensure the investment rationale is acceptable and aligned to McMaster's responsible investing philosophy.

Other information where available – from MSCI, investment consultants, and/or in some cases the investment managers – examines additional broader issues of watershed, energy consumption, waste tonnage, land repatriation in partnership with Indigenous peoples, diversity, equity and more.



PhD candidate Alana Tedeschi collects a water sample from McKenzie Creek of the Grand River as part of Six Nations Water Research.

MANAGEMENT ROLE

The University is the administrator of the Investment Pool and the Board of Governors is responsible for the overall direction-setting and management delegation. The Board of Governors has delegated certain duties and responsibilities (including the power to sub-delegate) to the Planning and Resources Committee which, in turn, has delegated certain duties and responsibilities to the Investment Pool Committee, the Treasury Department within Financial Affairs, and to various third-party agents it has retained to assist in carrying out its duties in respect to the Investment Pool.

Pension-related assets are governed by two committees, one overseeing the Salaried Plans and another for the Hourly Plan. The pension committees have shared membership between University administrators and pension plan members. The Salaried Plans are in Phase 1 TCFD adoption with the governance, strategy, and measure disclosure for April 30, 2021. The Salaried Plans' oversight committee will determine whether it will maintain its current carbon levels as its target or set a reduction target against an initial 2021 baseline year during fiscal 2021/22. The Hourly Plan will adopt Phase 1 disclosure in 2021/22 with a target assessment in 2022/23.

Proxy voting across all asset pools is delegated to investment managers hired with approaches aligned to McMaster's investment statement of beliefs. Annual summary level disclosures of proxy votes are organized by environmental, social, and governance matters. Proxy summaries are provided to the oversight committees for disclosure and discussion.

Management assesses climate-related risks and opportunities for the overall portfolios using investment manager, investment consultant and other third-party service reports. Management assesses investment manager performance against traditional performance benchmarks set by the applicable investment policy, along with ESG scores assigned by the investment consultant. Management actively discusses climate-related risks related to regulatory risks (such as carbon tax regimes), physical risks (including stranded assets), and transitionary risks (such as innovations in renewable and solar technology disrupting traditional fuel). Management's role with the Investment Pool Committee is to actively monitor investment manager approaches, review any specific holdings along with justification and rationale for any Carbon Underground 200™ (CU200) holdings, and assess routinely whether both the investment managers' performance and investment beliefs are aligned with McMaster's applicable investment policy. Management is required to make recommendations for replacement of underperforming or misaligned investment managers during routine meetings (occurring at minimum quarterly).

Strategy and Risk Management

STRATEGY – PROCESSES FOR IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

Annual multi-year projections are prepared holistically incorporating all capital and strategic plans. Key potentially material risks, including climate- and pandemic/epidemic-related risks, are factored into financial scenario modelling. Scenarios are formed based on consultation with University stakeholders and reviewed with the President and Vice-Presidents to discuss the effectiveness of mitigation strategies and refine further before finalizing for the Board of Governors and its sub-committees. Results of scenario modelling define the University's annual Debt Strategy Report that consolidates all findings.

RISK MANAGEMENT – PROCESSES FOR IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

For invested assets, climate-related risks are factored into reporting updates by investment managers and discussed during Investment Committee presentations to ensure valuations used by managers in the investment decision process consider climate-related risks where appropriate. Annual scenario modelling includes both invested assets exposure to climate-related risks as well as physical campus infrastructure and operations.

Dr. M. Altaf Arain is a Professor in the School of Earth, Environment & Society at McMaster University and the founding Director of the McMaster Centre for Climate Change. Dr. Arain holds a Bachelor's degree in Civil Engineering and completed his M.Sc. and Ph.D. in Hydrology at the University of Arizona. He has extensively studied forest ecosystems and their restoration using field measurements and ecosystem and hydrologic models. Dr. Arain has established Turkey Point Observatory comprising of four flux tower stations in Southern Ontario to examine the impacts of climate change and extreme weather events on different-age and different species forest ecosystems. Turkey Point Observatory is part of Global Water Futures (GWF), global Fluxnet, Canadian FloodNet and North American Carbon Program. Dr. Arain has been involved in the development of the coupled Canadian Land Surface Scheme and the Canadian Terrestrial Ecosystem Model (CLASS-CTEM), used in the Canadian Earth System Model (CanESM) for climate predictions. He has also focused on investigating the effects of air pollution and electric mobility adoption on the environment and human health in urban areas in Canada.

Metrics and Targets

METRICS – SCOPE 1 AND 2 GREENHOUSE GAS (GHG) EMISSIONS

McMaster completes a third-party measurement of its weighted average carbon intensity (WACI) relative to its policy benchmark annually. This measure translates GHG emissions into a single carbon dioxide (CO2) measure and is reported as tonnes of CO2 emitted per million dollars in sales (written as tCO2e/$1MS[2]). As of April 30, 2020, the Investment Pool public equities WACI was 198.1 tCO2e/$1MS (2018/19: 215.1 tCO2e/$1MS) relative to the fund policy benchmark of 206.0 tCO2e/$1MS (2018/19: 266.9 tCO2e/$1MS). This WACI measure is 28.9% lower than the 2018 baseline measurement year of 278.5 tCO2e/$1MS (Figure 5).

The primary measure used to track McMaster's Investment Pool is WACI or tCO2e/$1MS for public equity investments which has measurement data availability of more than 90%. Total Investment Pool carbon measurements, which include both public equity and fixed income, have lower data availability ranging between 72% and 82% and are therefore less reliable. McMaster's total pool WACI at April 30, 2020 is 197.4 tCO2e/$1MS, down 32.7% from the 2018 baseline year (Figure 6). McMaster will continue to incorporate the best available measures to track and monitor its carbon footprint.

Figure 5: INVESTMENT POOL – PUBLIC EQUITIES AND INFRASTRUCTURE WEIGHTED AVERAGE CARBON INTENSITY

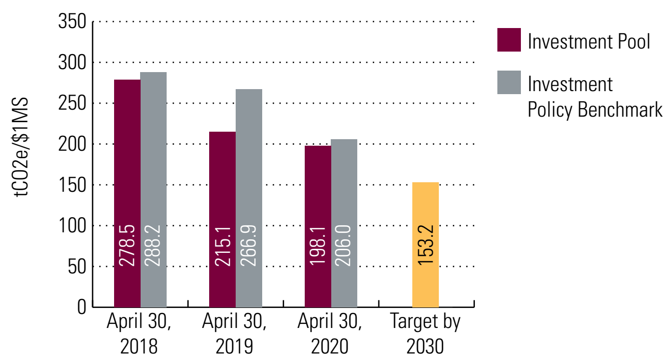
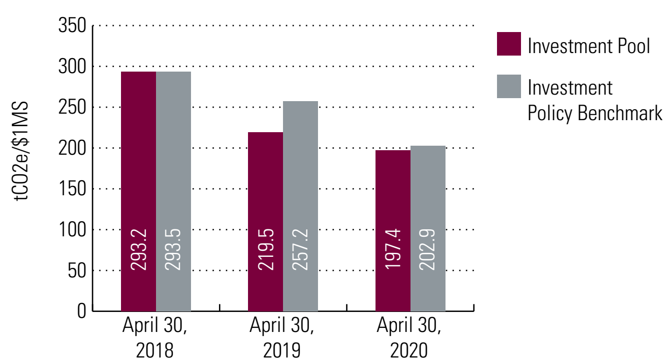


Figure 6: INVESTMENT POOL – EQUITY AND FIXED INCOME WEIGHTED AVERAGE CARBON INTENSITY



[2]Carbon Intensity = tCO2e/$1million USD Sales.

McMaster monitors and reports Scope 1 and Scope 2 GHG carbon emissions.[3] McMaster's WACI measure incorporates only Scope 1 and 2 GHG emissions due to the lack of complete and reliable data availability for Scope 3 greenhouse gas emissions. Table 11 demonstrates Scope 1 and 2 data availability for the total investment pool. Inclusion and use of Scope 3 by McMaster would require assumption-driven assessments for at least 50% of the invested asset holdings. As more reliable, comparable, and complete data becomes available, McMaster will consider adding Scope 3 greenhouse gas emissions as appropriate.

Table 11: PROPORTION OF SCOPE 1 AND 2 DATA AVAILABILITY (TOTAL PORTFOLIO)

	2017/18	2018/19	2019/20
Investment Pool	81.5%	78.1%	78.6%
Investment Policy Benchmark	72.3%	76.4%	75.5%

McMaster further specifically monitors its investment holdings in the Carbon Underground 200™ (CU200). Table 12 summarizes the investments in the CU200 expressed as a percentage of total investments in the Investment Pool.

Additionally, McMaster has been tracking the clean technology companies invested in the endowment portfolio.

Table 12: McMASTER CARBON UNDERGROUND 200™ TOP 5 EXPOSURE

2020	Company	Market Value ($Millions)	Investment Pool (%)
1	Glencore plc	3.7	0.3%
2	Canadian Natural Resources Ltd.	3.0	0.3%
3	Suncore Energy Inc.	2.9	0.3%
4	Teck Resources Ltd.	1.5	0.1%
5	Imperial Oil Ltd.	1.4	0.1%
	Subtotal – Top 5 CU200 Exposure	12.4	1.2%
	Total CU200 Exposure	**22.2**	**2.1%**

2019	Company	Market Value ($Millions)	Investment Pool (%)
1	Canadian Natural Resources Ltd.	7.7	0.7%
2	Suncor Energy Inc.	7.4	0.7%
3	Husky Energy Inc.	3.8	0.3%
4	Imperial Oil Ltd.	3.3	0.3%
5	Glencore plc	3.0	0.3%
	Subtotal – Top 5 CU200 Exposure	25.2	2.2%
	Total CU200 Exposure	**37.6**	**3.3%**

The Salaried Plans' WACI has been measured as at June 30, 2020 as part of McMaster's initial Phase 1 reporting. The Salaried Plans' WACI for publicly listed assets is 138.0 tCO2e/$1MS compared to the portfolio's benchmark WACI of 195.8 tCO2e/$1MS. The Salaried Plans' WACI at the total pool level is 169.1 tCO2e/$1MS compared to the portfolio's benchmark WACI of 208.5 tCO2e/$1MS. The oversight committee for the Salaried Plans have received these measures for initial review and discussions will occur over 2021/22 to establish Phase 2 GHG emission targets.

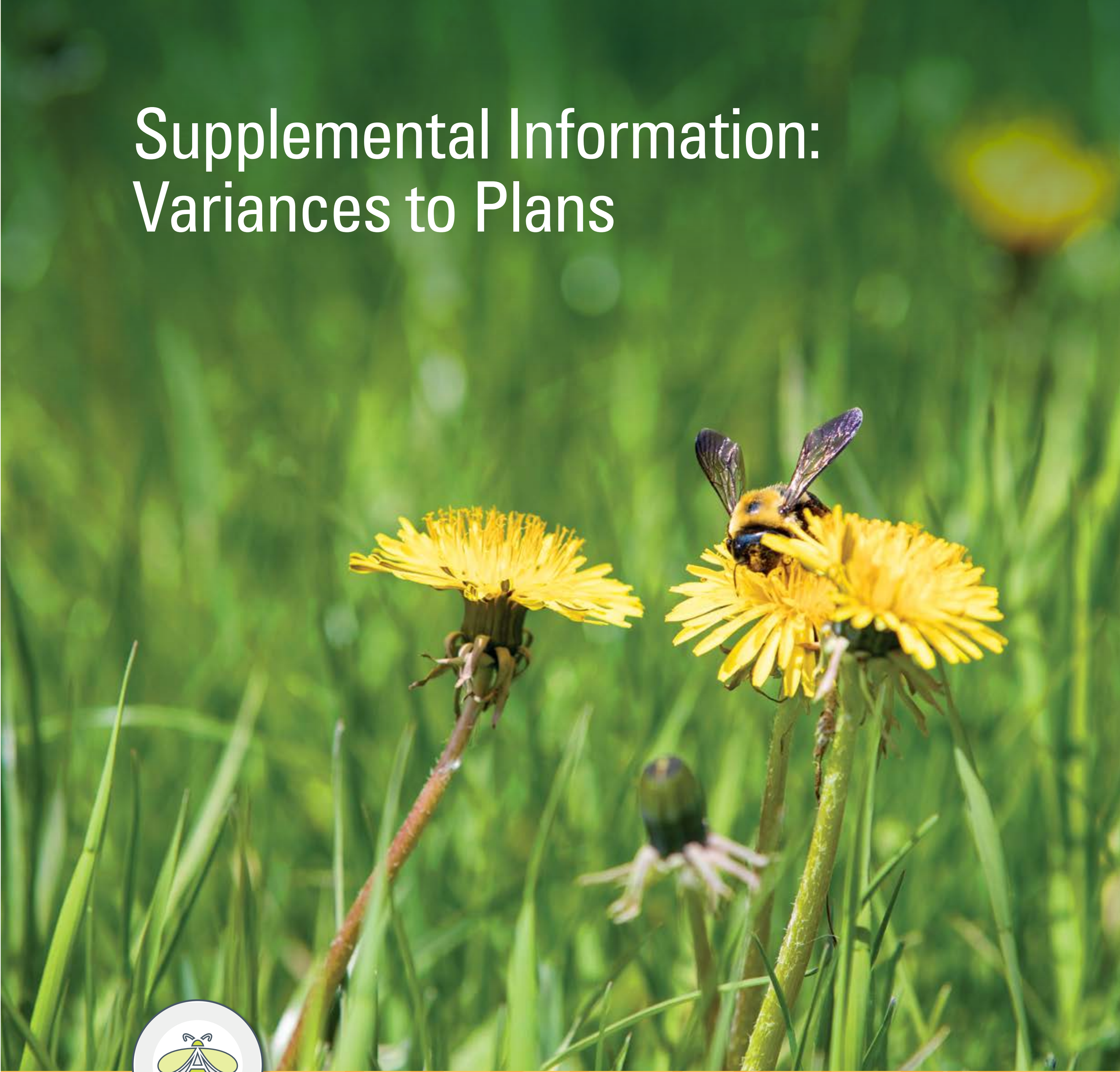
[3]Scope 1 refers to all direct GHG emissions of a company. Scope 2 refers to indirect GHG emissions from a company from its consumption of purchased energy. Scope 3 includes all other indirect GHG emissions that occur in a company's value chain.

TARGETS

McMaster has set the investment pool carbon reduction target based on weighted average carbon intensity of Scope 1 and 2 GHG emissions, aligned to the optimal measure recognized by over 1,100 companies worldwide replying to TCFD recommendations. McMaster's investment pool carbon reduction target is to reduce carbon from the 2018 baseline measure by 45% by 2030 and ambitiously aim for net zero by 2050. McMaster's primary target is focused on publicly listed equities and infrastructure (Figure 5) where data availability is more than 90%. McMaster also tracks the carbon reduction objective against a secondary target covering the total investment pool where data availability is more than 70%.

Karen Kidd, Professor, jointly of School of Earth, Environment & Society and Department of Biology and Stephen A. Jarislowsky Chair in Environment and Health, is seen here performing water research in Desjardins Canal, Dundas, Ontario. The main focus of her research is on understanding the effects of human activities – food production, natural resource extraction, urban environments – on the health of freshwater and marine ecosystems. These field studies assess how industrial, agricultural, aquacultural and municipal effluents and runoff affect the diversity, abundance and health of aquatic organisms and the structure of food webs, and why fish and other aquatic life from some areas are higher in contaminants than others.

Supplemental Information: Variances to Plans



BEE CITY CAMPUS

Through the teamwork of students, staff and faculty, McMaster has been designated a Bee City Campus. Students participating in The Solitary Bee Project, offered through the Academic Sustainability Programs Office, partnered with the facilities services team and academic bee experts at McMaster to plan a virtual native species planting. More than 100 native trees and shrubs were planted close to bee houses installed on campus. *Read the article Meet the bee team: Mac students protect solitary bees on the Daily News website.*

Supplemental Information: Variances to Plans

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 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 daily 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 2020/21 Operating Fund financial results compared to the approved budget on a modified cash basis are presented in this section as well as a comparison to the consolidated results on a full accrual basis.

As a signatory to the Okanagan Charter, being a Bee City Campus is one way McMaster is committed to prioritizing optimal health and well-being in our community. Bees are essential to human life.

Operating Fund Summary

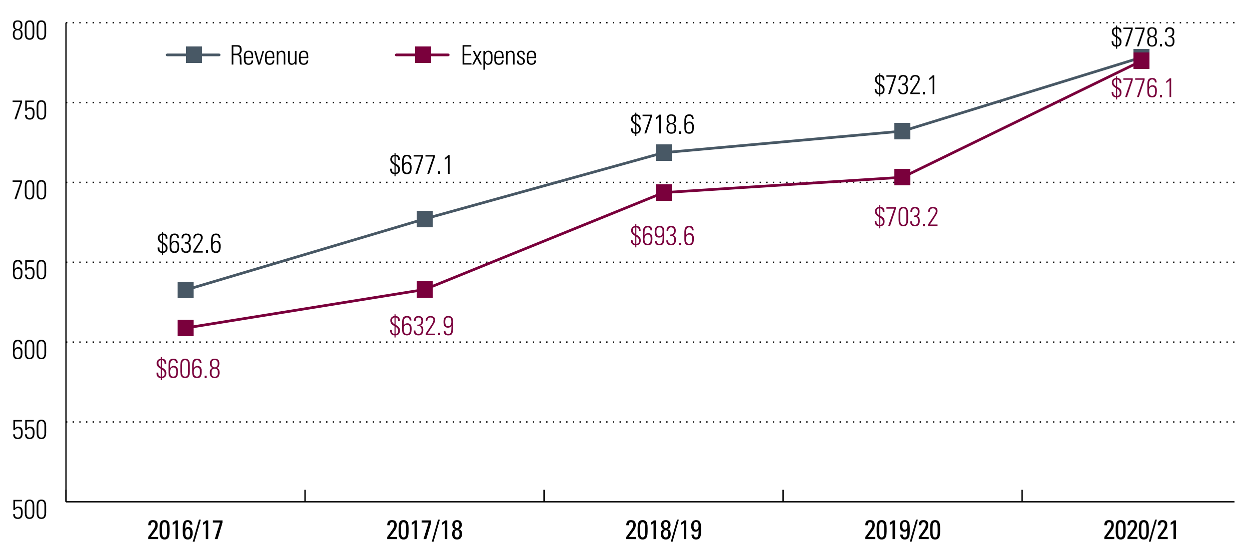
The Operating Fund represents approximately 72.6% of the consolidated budget and includes all revenue and expenses for faculties and support departments, such as offices of the President and Provost, student affairs, libraries, financial affairs, human resources, facilities, and information technology. The 2020/21 Operating Fund budget included several strategic funding priorities, such as continued wireless network expansion, inflationary journal costs, digital audio-visual classroom upgrades, teaching and learning supports, research operations support, and the Archway student mentorship program. Overall, the budget supported McMaster's Strategic Mandate Agreement objectives, including key differentiation goals, enrolment targets, and other targeted program outcomes. The Operating Fund ended 2020/21 in a more favourable position compared to the budget due to greater revenues as well as a more favourable closing appropriation balance from the prior year, and more favourable than projection due to both greater revenues and lower expenditures (Table 13). Tuition revenue is materially greater than budget due to extraordinary circumstances of issuing increased offers of admission and translated acceptances surpassing expected deferrals associated with the pandemic. Further, campus closures led to an opportunity to increase renovations beyond original budget, as well as additional pandemic-related equipment and renovation expenditures required for social distancing and operational safety.

Table 13: OPERATING FUND SUMMARY $ Thousands

	2020/21 Budget	2020/21 Projection	2020/21 Actual	Variance: Actual vs. Budget		Variance: Actual vs. Projection	
Revenues							
Provincial grants	235,540	236,355	239,572	4,032	1.7%	3,217	1.4%
Tuition	337,244	398,233	398,355	61,111	18.1%	122	0.0%
Research Overhead income	28,993	28,032	24,475	(4,518)	-15.6%	(3,557)	-12.7%
Investment income	9,467	10,467	10,467	1,000	10.6%	-	0.0%
Other income	109,508	95,813	105,389	(4,120)	-3.8%	9,575	10.0%
Total revenues	**720,753**	**768,900**	**778,258**	**57,505**	**8.0%**	**9,358**	**1.2%**
Expenses							
Salaries, wages and benefits	522,608	509,688	498,485	24,123	4.6%	11,204	2.2%
Utilities and maintenance	43,051	39,716	38,753	4,297	10.0%	963	2.4%
Equipment and renovations	62,021	122,872	120,044	(58,023)	-93.6%	2,828	2.3%
Scholarships, bursaries and work study	34,737	32,536	32,723	2,014	5.8%	(186)	-0.6%
Library acquisitions	14,253	15,116	15,414	(1,161)	-8.1%	(298)	-2.0%
Debt and financing charges	18,448	18,410	18,446	2	0.0%	(36)	-0.2%
All other expenses	79,495	67,944	52,221	27,274	34.3%	15,723	23.1%
Total expenses	**774,612**	**806,283**	**776,085**	**(1,473)**	**-0.2%**	**30,198**	**3.7%**
Excess (deficiency) of revenues over expenses	**(53,859)**	**(37,383)**	**2,173**	**56,032**	**104.0%**	**39,556**	**105.8%**
Fund balance, beginning of year	157,672	196,580	196,580	38,908	24.7%	-	0.0%
Fund balance, end of year	**103,812**	**159,197**	**198,753**	**94,941**	**91.5%**	**39,556**	**24.8%**

The Operating Fund surplus highlights McMaster's continuing strong academic reputation and resulting enrolment growth as well as impacts on the expenses related to the campus closures and remote teaching and working environments due to the pandemic (Figure 7).

Figure 7: OPERATING FUND REVENUE AND EXPENSES TREND $ Millions

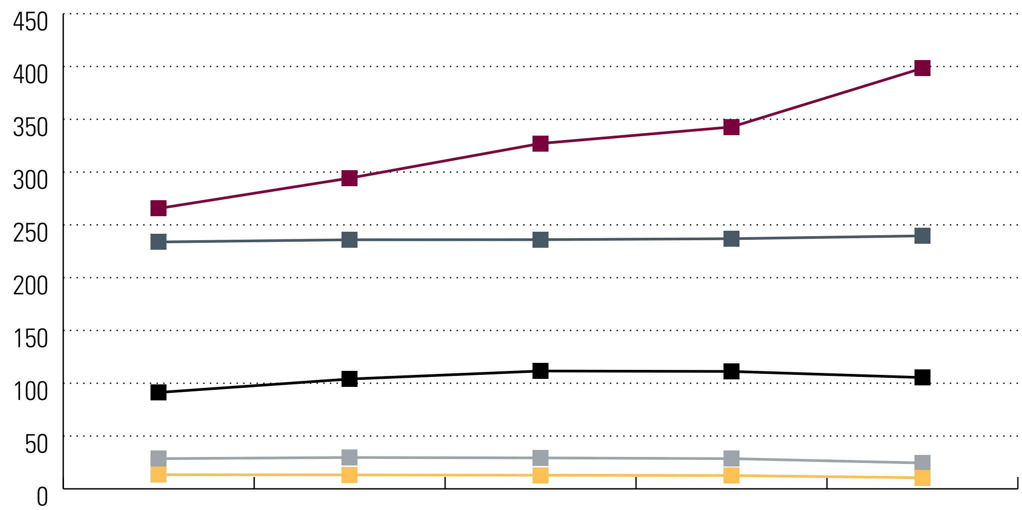


Surplus (deficit)	$25.8	$44.2	$25.0	$28.9	$2.2

SOURCES OF FUNDING

Total Operating Fund revenues were $778.3 million as compared to the budgeted funding of $720.8 million or to the projected funding of $768.9 million. Growth in overall revenue continues to come from tuition through increased enrolment and international tuition rate increases, while other sources of revenue remain relatively flat with a slight drop due to the pandemic (Figure 8).

Figure 8: OPERATING FUND REVENUE TREND BY TYPE $ Millions



	2016/17	2017/18	2018/19	2019/20	2020/21
Provincial Grants	$233.8	$235.9	$236.0	$236.9	$239.6
Tuition	$265.6	$294.3	$327.1	$342.7	$398.4
Research Overhead Income	$28.6	$29.7	$31.0	$28.6	$24.5
Investment Income	$13.4	$13.2	$12.9	$12.6	$10.5
Other Income	$91.3	$104.0	$111.6	$111.2	$105.4

Solitary bees, who do not live in hives, can be found laying eggs in over 50 bee homes that students and facilities services team members installed throughout campus in 2019.

PROVINCIAL GRANTS

In 2017/18, the MCU introduced a corridor funding model, which limits enrolment-based funding to the 2016/17 grant level, while allowing universities to be plus or minus 3.0% (corridor) of the funding mid-point. MCU funding is now flowed to universities via funding envelopes defined as follows:

- 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; and
- Special Purpose Envelope: grants based on government priorities such as improving access for Indigenous learners and students with disabilities.

McMaster's Graduate Expansion Grant previously funded growth in graduate students over 2016/17 levels; this funding has been rolled into a new graduate funding level based on 2019/20 enrolment. In addition, MCU began shifting funding previously included in the Enrolment Envelope to the Differentiation Envelope or performance-based category during 2021, however MCU has delayed implementing performance-based metrics affecting 2022/23 funding due to the pandemic (Table 14).

In 2020/21, the total provincial grant (all envelopes) was favourable to projection by $3.2 million (1.4%) due to the Research Overhead Infrastructure Envelope (ROIE) grant previously captured as Research Overhead income being rolled into the performance-based funding. The International Student Reduction is a $750 per international student reduction in provincial funding. This levy continues to grow with associated enrolment growth, increasing to $3.5 million in 2020/21 from $2.9 million the prior year.

Table 14: PROVINCIAL GRANTS — $ Thousands

	2020/21 Budget	2020/21 Projection	2020/21 Actual
Enrolment Envelope			
Core Operating Grant	215,371	219,480	178,366
Graduate Expansion Grant	3,498	-	-
	218,869	219,480	178,366
Differentiation Envelope			
Performance/Student Success Grant	19,169	19,787	64,247
Graduate Expansion – Performance	315	-	-
	19,484	19,787	64,247
Special Purpose Envelope			
Grant for Clinical Programs	457	457	458
International Student Recovery	(3,270)	(3,369)	(3,499)
Total Provincial Grants	**235,540**	**236,355**	**239,572**

TUITION

Actual tuition increased compared to budget due to higher enrolment from both domestic and international students (Table 15).

Table 15: UNDERGRADUATE AND GRADUATE ENROLMENT

				Variance			
	2020/21 Budget	2020/21 Projection	2020/21 Actual	Actual vs. Budget		Actual vs. Projection	
Undergraduate FFTEs							
Domestic	23,759	25,882	26,062	2,303	9.7%	180	0.7%
International	3,296	4,200	4,326	1,030	31.3%	126	3.0%
Total	**27,055**	**30,082**	**30,388**	**3,333**	**12.3%**	**306**	**1.0%**
Graduate FTEs							
Domestic	3,061	3,218	3,218	157	5.1%	-	0.0%
International	1,087	1,114	1,114	27	2.4%	-	0.0%
Total	**4,148**	**4,332**	**4,332**	**184**	**4.4%**	**-**	**0.0%**
Total UG & G Combined							
Domestic	26,820	29,100	29,280	2,460	9.2%	180	0.6%
International	4,383	5,314	5,440	1,057	24.1%	126	2.4%
Total	**31,203**	**34,414**	**34,720**	**3,517**	**11.3%**	**306**	**0.9%**

The Adam Chiaravalle bee sanctuary is located adjacent to parking lot P on main campus. Only surplus honey is harvested: that is, excess honey the bees themselves will not consume before the next season. All the honey produced on campus is sold on campus with a McMaster label. The proceeds go towards the ongoing maintenance of the hives.

Overall enrolment in 2020/21 rose above the SMA-funded levels and enrolment management targets (Figure 9 and Table 16) because anticipated impacts of the pandemic on acceptances did not materialize. Further, the provincial tuition rate cut of 10% in 2019/20 followed by domestic tuition held flat for 2020/21 was mitigated by planned increases to international enrolment, as well as transparent increases to international tuition rates incorporated into offers, required to cover inflationary costs of support.

Figure 9: TUITION AND FTE ENROLMENT

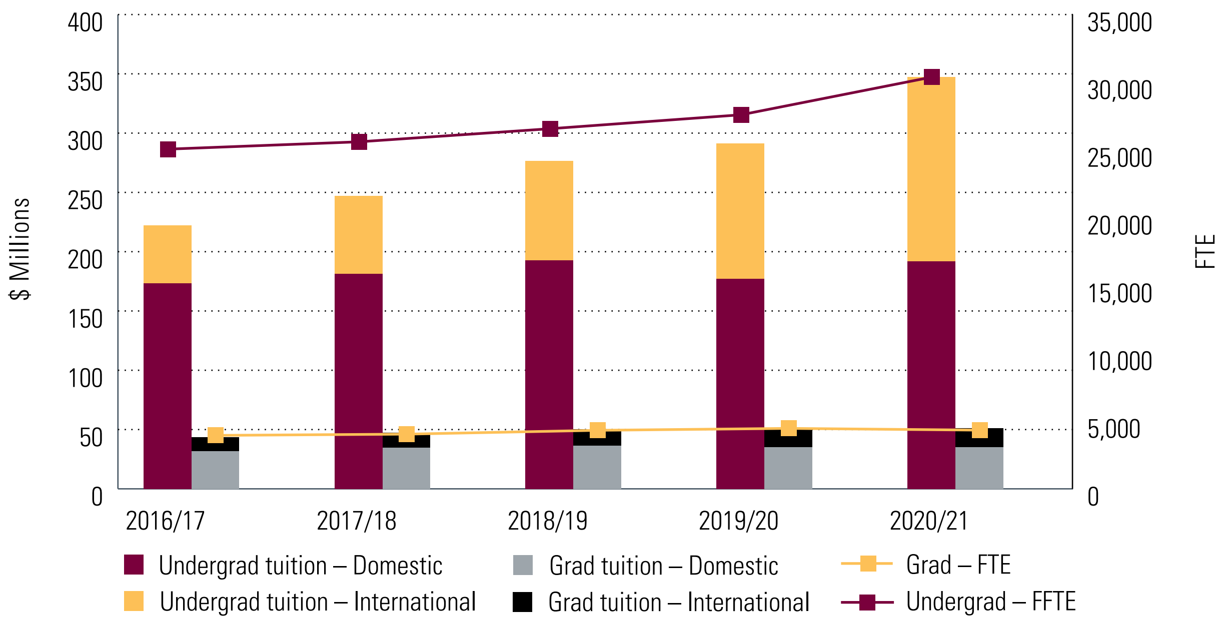


Table 16: TUITION AND FTE ENROLMENT

	Tuition ($ Millions)					FTE Enrolment				
	2016/17	2017/18	2018/19	2019/20	2020/21	2016/17	2017/18	2018/19	2019/20	2020/21
Undergraduate										
Domestic	173.4	181.2	192.6	177.1	192.0	23,265	23,265	23,760	24,070	26,062
International	48.6	65.9	84.1	114.3	155.4	1,803	2,344	2,815	3,533	4,326
Total	**222.1**	**247.1**	**276.7**	**291.4**	**347.4**	**25,068**	**25,609**	**26,575**	**27,603**	**30,388**
Graduate										
Domestic	31.8	34.6	36.6	35.1	35.0	2,980	2,928	3,080	3,140	3,218
International	11.7	12.6	13.8	16.3	16.0	964	1,108	1,239	1,320	1,114
Total	**43.5**	**47.3**	**50.3**	**51.3**	**51.0**	**3,944**	**4,036**	**4,319**	**4,460**	**4,332**
Total UG & G Combined										
Domestic	205.2	215.8	229.1	212.1	227.0	26,245	26,193	26,840	27,210	29,280
International	60.4	78.5	97.9	130.6	171.4	2,767	3,452	4,054	4,853	5,440
Total	**265.6**	**294.3**	**327.1**	**342.7**	**398.4**	**29,012**	**29,645**	**30,894**	**32,063**	**34,720**

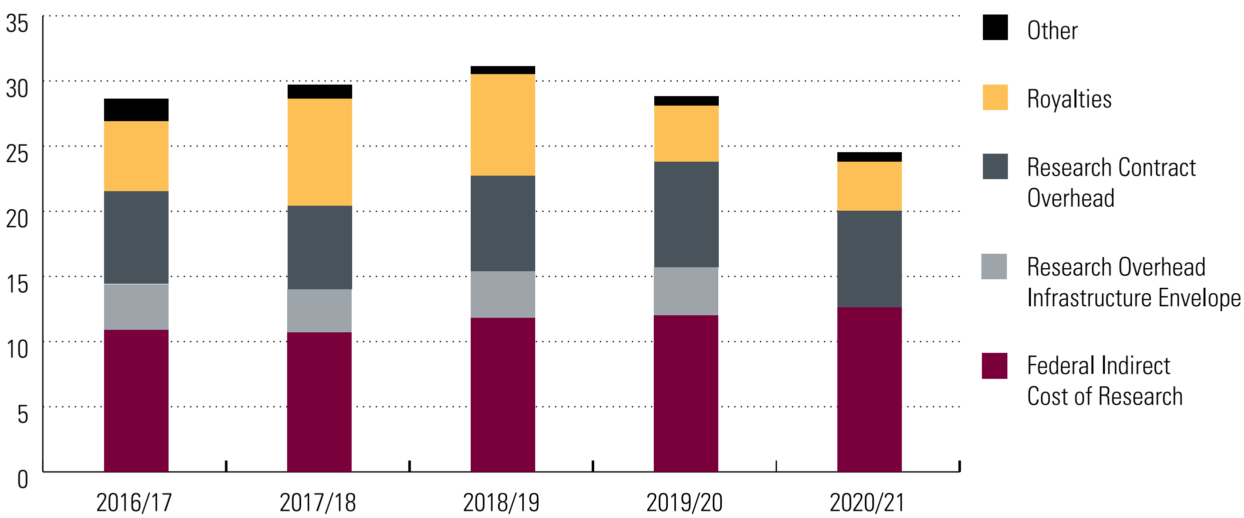
RESEARCH OVERHEAD

Research overhead income was $4.5 million (-15.6%) unfavourable to budget in part due to reduced royalty revenues associated with pandemic-delayed activities, and $3.6 million (-12.7%) unfavourable to projection due to the Research Overhead Infrastructure Envelope (ROIE) grant previously captured in Research Overhead income rolled into the performance-based grant funding in 2020/21 by the MCU.

Research contract overhead was in line with budget and projection. Research contract overhead is levied as a percentage of research grants and contracts where allowed, with the objective of recovering the full amount of indirect costs.

Royalty income is payment for commercial use of intellectual property owned by McMaster as a result of research discoveries. Both contract overhead and royalties fluctuate depending on activity (Figure 10).

Figure 10: RESEARCH OVERHEAD INCOME $ Millions



INVESTMENT INCOME

The investment income attributed to the Operating Fund is fixed at a predetermined amount. Any differences between the budgeted investment income and actual returns are absorbed by McMaster's specific purpose reserve, disclosed in note 11 to the audited financial statements.

The specific purpose reserve is used primarily to provide an internal insurance fund to support annual expenditure requirements associated with trust-related scholarships, bursaries, and chair salaries in the event of prolonged economic downturns. Additionally, this reserve provides funding stability to the Operating Fund, enabling a fixed allocation of $9.5 million in investment income each year regardless of investment returns in the year. In 2020/21, a one-time additional investment income contribution of $1.0 million was made to the Operating Fund to support the President's Strategic Support Fund from this reserve. Finally, the specific purpose reserve will also support supplemental funding to long-term obligations, such as the post-retirement benefits the employer has committed to fund beyond employee contributions, and toward capital priorities through transfers into the McMaster capital reserve.

OTHER INCOME

Pandemic-related changes to activities had an impact on the other income in the Operating Fund. The unfavourable variance of $4.1 million (-3.8%) compared to budget was primarily due to reduced student services fees, suspension of summer study abroad programs, and cancellation of alumni events and other fee-generating campus activities. This was partially offset by higher external recoveries and application fees. The favourable variance of $9.6 million (10.0%) compared to projection was due to higher external recoveries, application fees, special purpose grants, and higher than expected revenues for the Nuclear Reactor, and research institutes and centres.

EXPENDITURES

Total Operating Fund expenditures were $776.1 million (Figure 11 and Figure 12) compared to budget and projected expenditures of $774.6 million and $806.3 million, respectively. The variances are small as a percentage of both the original budget (-0.2%) and projection (3.7%) and are caused by the impacts of the pandemic on spending plans and the normally observed effect of 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 2021/22 and beyond.

Figure 11: 2020/21 TOTAL OPERATING FUND ACTUAL EXPENSE BY TYPE $ Millions

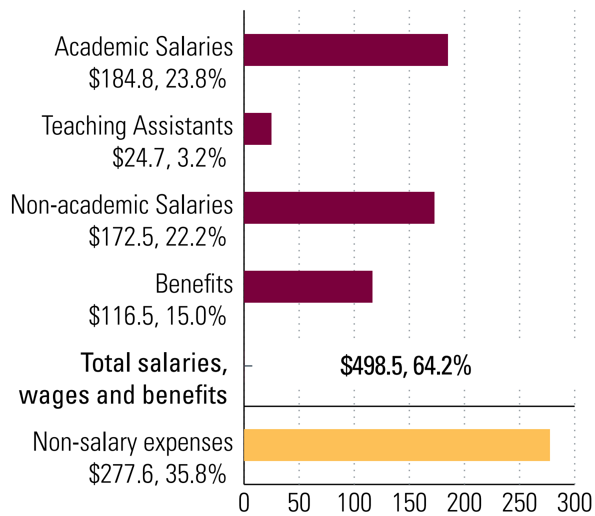
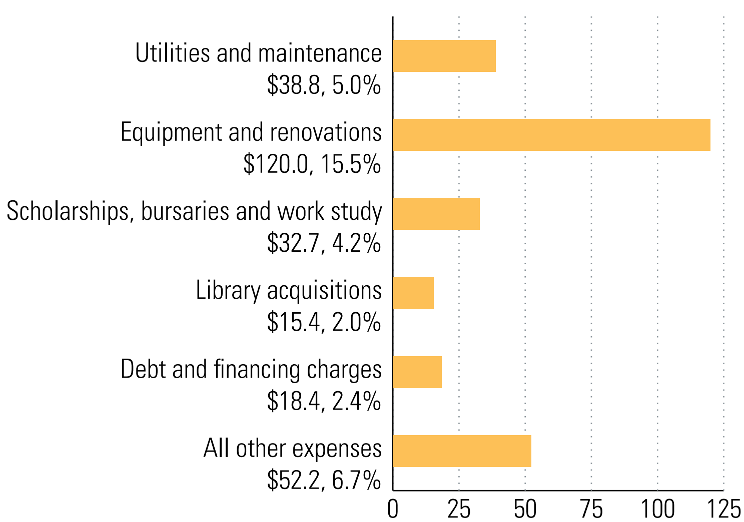


Figure 12: 2020/21 OPERATING FUND ACTUAL NON-SALARY EXPENSE BY TYPE $ Millions



Total expenses were unfavourable by $1.5 million (-0.2%) compared to budget:

- Salaries, wages, and benefits were favourable by $24.1 million (4.6%) primarily due to reductions in part-time staff as a result of the pandemic, delayed hiring, and unfilled staff vacancies.
- Utilities and maintenance were favourable by $4.3 million (10.0%) primarily due to savings in utilities costs due to the campus closure and limited campus activities.
- Equipment and renovations were unfavourable by $58.0 million (-93.6%) due to increased investments in strategic projects such as the McLean Centre for Collaborative Discovery, and future Faculty of Engineering and Faculty of Science capital priorities. Increased investments in equipment and software to facilitate online teaching, lab delivery, and student advising and engagement, and staff working from home also drove the unfavourable variance. Additional equipment purchases have also been made to enable social distancing protocols for lab delivery, and for classroom audio-visual equipment.
- Scholarships, bursaries, and work study were favourable by $2.0 million (5.8%) due to lower Student Access Guarantee (SAG) obligations.
- Library acquisitions were unfavourable by $1.1 million (-8.1%) due to slightly higher acquisitions costs than budget.
- All other expenses were favourable by $27.3 million (34.3%) primarily due to lower than anticipated expenses related to the shutdown of campus and remote working including materials and supplies, office expenses, travel, meeting expenses, special events and delayed projects. This was partially offset by lower internal recoveries, increased consulting and professional services fees and pandemic-related expenses.
- Variances in debt and financing charges were insignificant.

Total expenses were favourable by $30.2 million (3.7%) compared to projection:

- Salaries, wages, and benefits were favourable by $11.2 million (2.2%) primarily due to unfilled staff vacancies.
- Utilities and maintenance were favourable by $1.0 million (2.4%) due to lower utility rates and consumption for gas, fuel, and cooling than projected, partially offset by higher hydro costs as a result of increased air circulation.
- Equipment and renovations were favourable by $2.8 million (2.3%) primarily due to lower renovation costs than projected.
- All other expenses were favourable by $15.7 million (23.1%) primarily due to lower than budget expenses related to subcontractors, special events and delayed projects.
- Variances in scholarships, bursaries and work study, library acquisitions, and debt and financing charges were insignificant.

APPROPRIATIONS

The favourable results increase the Operating Fund appropriations balance by $2.2 million (1.1%) to $198.8 million (Figure 13), which represents an improvement of $56.0 million on budget and $39.6 million on projection. Appropriations are carried forward for expenditure in 2021/22 and future years by activity or support units. Appropriation balances are used for capital renovations and/or Strategic Mandate Agreement initiatives. Of the $198.8 million held in appropriations, $113.3 million is held by faculties and another $36.5 million is held for academic priorities (Table 17). Further, some faculty appropriation balances have been transferred to a capital projects holding account, until approved, to support long-term infrastructure growth and support needs of the faculty based on student enrolment growth and changing space use needs post-pandemic.

Support unit appropriations improved in 2020/21 (mainly linked to academic, student, and institutional support) due to pandemic-related expenditure delays. These balances are anticipated to be drawn down to normalized values when operations fully re-open.

Figure 13: OPERATING FUND APPROPRIATIONS $ Millions

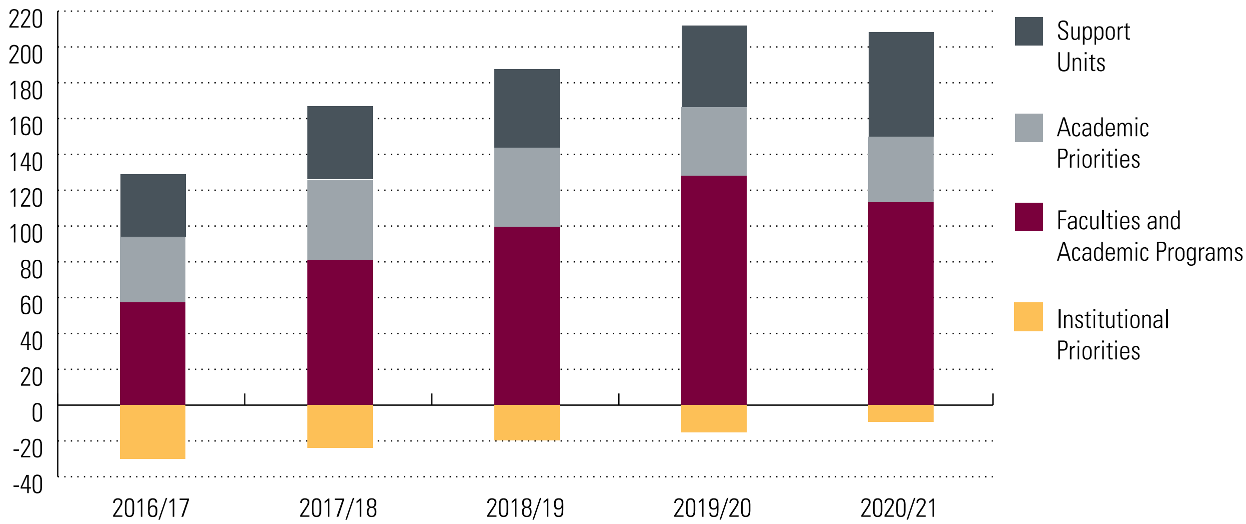


Table 17: APPROPRIATIONS/ENVELOPE ANALYSIS, YEAR ENDED APRIL 30, 2021 $ Thousands

	Appropriations May 1, 2020	Net Surplus (Deficit)	Appropriations April 30, 2021	Net Surplus (Deficit) Variance
Faculties and Academic Programs				
Business	9,627	(6,145)	3,482	2,469
Engineering	33,272	(17,364)	15,907	3,946
Health Sciences	47,110	(1,476)	45,634	3,033
Humanities	5,879	4,948	10,827	1,278
Science	21,591	50	21,641	6,242
Medical Radiation – Mohawk Share	1	-	1	1
Social Sciences	9,191	5,097	14,288	1,160
Arts & Science	1,386	102	1,488	80
Sub-total	**128,056**	**(14,788)**	**113,268**	**18,209**
Academic Priorities	38,340	(1,832)	36,507	1,595
Academic Support	12,365	3,027	15,392	5,470
Research Support	5,064	5,842	10,906	3,821
Student Support	9,940	3,587	13,527	6,075
Facilities Support	1,235	67	1,302	(991)
Institutional Support	16,781	387	17,169	5,525
Institutional Priorities*	(15,201)	5,882	(9,319)	(148)
Total Operating Fund	**196,580**	**2,173**	**198,753**	**39,556**

*Includes the approved funding for the Mosaic project, which will be repaid by 2023/24

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 modified cash basis budgeting approach to accrual accounting involve the following key changes (Table 18):

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

Table 18: RECONCILIATION OF OPERATING FUND SURPLUS TO CONSOLIDATED STATEMENT OF OPERATIONS $ Thousands

				Variances Favourable (Unfavourable)	
	2020/21 Budget	2020/21 Projection	2020/21 Actual	Actual vs. Budget	Actual vs. Projection
Excess (deficiency) of Operating Fund revenues over expenses	(53,859)	(37,383)	2,173	56,032	39,556
Capital expenditures net of amortization	96,215	14,951	37,779	(58,436)	22,827
Investment income (loss) on internal endowments	(1,318)	1,637	30,481	31,799	28,843
Pension and non-pension adjustments	13,638	11,676	72,083	58,445	60,407
Changes in other reserves	(67,664)	52,516	89,494	157,158	36,978
Total accrual adjustment	**40,871**	**80,781**	**229,836**	**188,965**	**149,055**
Excess (deficiency) of revenues over expenses	**(12,988)**	**43,398**	**232,009**	**244,997**	**188,611**

The 2020/21 budget was completed at the beginning of the pandemic and employed a conservative approach as the situation was evolving daily. The situation was clearer at the time of the projection but was still conservative, not anticipating the exceptionally favourable investment returns, which produced material positive variances in endowments, pension and non-pension adjustments, and other reserves. The total 2020/21 positive accrual adjustment of $229.8 million compared to the projected $80.8 million results in a $149.1 million favourable variance, explained by:

- Better investment returns of 26.1% net of expenses compared to the projected long-term average gain of 5.6%; producing a $127.1 million positive variance to projection.
- Lower adjustment for capital expenditures due to continuing delays on construction.

The McMaster Community Bee Project tackles bee declines by providing both habitat and managed native and honey bee colonies without the use of pesticides, antibiotics, or other harmful chemicals. Local organic beekeeping business Humble Bee is working with Hospitality Services and Facility Services to manage native blue orchard bee and honey bee colonies located in the Adam Chiaravalle Bee Sanctuary adjacent to parking Lot P.

STATEMENT OF OPERATIONS

Table 19: CONSOLIDATED STATEMENT OF OPERATIONS (ACCRUAL BASIS)					$ Thousands
				Variances Favourable (Unfavourable)	
	2020/21 Budget	2020/21 Projection	2020/21 Actual	Actual vs. Budget	Actual vs. Projection
Revenues					
Operating grants	273,794	278,603	278,446	4,652	(157)
Research grants and contracts	183,403	176,326	168,585	(14,818)	(7,741)
Tuition fees	349,130	416,153	416,510	67,380	356
Ancillary sales and services	55,172	19,309	17,767	(37,404)	(1,542)
Other revenues	211,017	182,504	177,481	(33,536)	(5,023)
Investment income, net	48,131	60,891	199,111	150,981	138,221
Amortization of deferred capital contributions	45,033	39,650	42,761	(2,272)	3,111
Total revenues	**1,165,679**	**1,173,436**	**1,300,662**	**134,983**	**127,226**
Expenses					
Salaries and wages	558,181	546,106	551,060	7,121	(4,954)
Employee benefits	129,187	133,106	142,809	(13,622)	(9,703)
Supplies and services	384,703	357,022	278,985	105,717	78,037
Interest on long-term obligations	13,155	13,151	13,211	(56)	(60)
Amortization of capital assets	93,441	80,652	82,587	10,855	(1,934)
Total expenses	**1,178,667**	**1,130,038**	**1,068,652**	**110,015**	**61,386**
Excess (deficiency) of revenues over expenses	(12,988)	43,398	232,009	244,997	188,611

With the conservative approach to the budget and projection, both revenues and expenses experienced favourable variances. Budgets were prepared using the assumption that on-campus operations would resume as usual in January 2021. The updated projection took into account new information of a full year closure without complete knowledge of how the pandemic might impact each area.

Total revenues were favourable primarily due to higher investment income. Further, enrolment deferrals and withdrawals that were anticipated due to the pandemic did not materialize, resulting in over-enrolled domestic participation and overall higher domestic and international tuition revenue. A negative offset to net favourable revenues were greater than expected ancillary sales declines due to an extended full year campus closure versus an originally planned re-opening in January 2021. Campus closures also reduced research activity, affecting research revenue recognition and other campus use and athletics revenues.

Total expenses were favourable primarily due to conservative estimates for unknown impacts of the pandemic. Less spending on supplies and services relate to extended campus closures and remote work, which further limited travel, conference expenditures, and contributed to decisions to delay some previously planned projects more suitable to on-campus working conditions.

Salaries were 1.2% favourable to budget because of the extended layoffs due to the extended campus closure, while salaries were close to projection with a 0.9% unfavourable variance. Increased employee benefits expense reflects the increased costs for pensions.

STATEMENT OF FINANCIAL POSITION

Table 20: CONSOLIDATED STATEMENT OF FINANCIAL POSITION				$ Thousands	
				Variances Increase (Decrease)	
	2020/21 Budget	2020/21 Projection	2020/21 Actual	Actual vs. Budget	Actual vs. Projection
Assets					
Cash	33,224	17,223	19,406	(13,818)	2,183
Short-term investments	166,118	195,100	284,351	118,233	89,251
Investments	990,848	1,317,138	1,614,783	623,935	297,645
Capital assets	1,354,513	1,235,399	1,231,476	(123,036)	(3,922)
Other assets	164,689	232,127	207,334	42,645	(24,793)
Total assets	**2,709,391**	**2,996,987**	**3,357,350**	**647,959**	**360,363**
Liabilities and deferred contributions					
Current liabilities	197,207	176,373	196,383	(824)	20,010
Deferred contributions for future expenses	854,336	859,308	918,726	64,390	59,418
Long-term debt	267,654	267,201	267,635	(20)	434
Employee future benefits and pension	346,214	457,415	169,928	(176,286)	(287,487)
Total liabilities and deferred contributions	**1,665,412**	**1,760,296**	**1,552,671**	**(112,740)**	**(207,625)**
Net assets					
Unrestricted	10,755	-	-	(10,755)	-
Internally restricted	(91,900)	102,350	543,693	635,592	441,342
Equity in capital assets	619,119	502,893	504,770	(114,349)	1,876
Endowments					
Internal	115,505	142,970	171,813	56,308	28,843
External	390,501	488,477	584,403	193,903	95,927
Total net assets	**1,043,979**	**1,236,691**	**1,804,679**	**760,699**	**567,988**
Total liabilities and net assets	**2,709,391**	**2,996,987**	**3,357,350**	**647,959**	**360,363**

The Statement of Financial Position is the University's consolidated balance sheet. Larger than usual variances to budget and projection are primarily due to the two main causes already described:

- Significantly better returns increased the value of investment asset holdings, which in turn increased the value of internal and external endowments, as well as allocations to internally restricted reserves for employee future benefits and capital. Higher investment returns also increased the value of pension plan assets, reducing the liability for employee future benefits.

- Capital projects continued to experience delays due to lockdowns and material shortages, resulting in lower than expected capital assets and increased deferred contributions as projects have not been completed as originally scheduled.

STATEMENT OF CASH FLOWS

Table 21: CONSOLIDATED STATEMENT OF CASH FLOWS					$ Thousands
				Variances Favourable (Unfavourable)	
	2020/21 Budget	2020/21 Projection	2020/21 Actual	Actual vs. Budget	Actual vs. Projection
Excess of revenues over expenses	(12,888)	43,398	232,009	244,897	188,611
Adjustments for non-cash items					
Amortization of deferred capital contributions	(45,033)	(39,650)	(42,761)	2,272	(3,111)
Amortization of capital assets	93,441	80,652	82,587	(10,855)	1,934
Increase in decommissioning obligation	1,138	1,107	694	(443)	(413)
Net change in deferred contributions	19,180	30,684	66,890	47,710	36,206
Net change in other non-cash items	(1,998)	(5,600)	62,435	64,433	68,035
Financing and investing activities					
Purchase of capital assets, net	(200,149)	(107,596)	(105,607)	94,542	1,989
Net change in investments	152,978	(15,030)	(401,925)	(554,904)	(386,895)
Net change in external endowments	(4,020)	12,559	108,385	112,405	95,827
Principal repayments on long-term obligations	(654)	(709)	(709)	(55)	-
Increase/(decrease) in cash	**1,996**	**(184)**	**1,998**	**2**	**2,182**
Cash, beginning of year	31,228	17,408	17,408	(13,820)	-
Cash, end of year	**33,224**	**17,224**	**19,406**	**(13,818)**	**2,182**

The impacts of the pandemic as discussed above reflected in the variances on the Statement of Cash Flows, with the net change in cash balance close to budget and projection.

Solitary bees are some of the most important pollinators, are non-aggressive, and lay their eggs in these homes. As a designated Bee City Campus, McMaster is committed to creating healthy, biodiverse habitats for pollinators and fostering awareness about the importance of bees to our ecosystem. These homes were designed, built and installed by Facility Services and the Academic Sustainability Programs Office, and are monitored by SUSTAIN students each year.

"Protecting pollinators like solitary bees also aligns with the United Nation's Sustainable Development Goals related to zero hunger, life on the land, and sustainable cities."

– Callum Hales, student and participant in The Solitary Bee Project.

Financial Statements

Table of Contents

GREEN VEHICLES

A cutting-edge partnership between Ali Emadi and his research group at the McMaster Automotive Resource Centre (MARC) and Fiat Chrysler Automobiles (FCA) continues to push electric and hybrid vehicles to new heights in Canada.The collaboration is driven by a commitment to make electrified vehicles more efficient and cost-effective to decrease harmful emissions, protect automotive manufacturing jobs in North America and advance technological innovations in the field. *Read the article **Ali Emadi receives NSERC award with Fiat Chrysler Automobiles for developing the electrified car of the future** on the Daily News website.*

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, 2021 and the results of its operations, changes in net assets and its cash flows for the year ended April 30, 2021. 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 and Risk Committee. No members of the Audit and Risk Committee are officers or employees of the University. The Audit and Risk 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 and Risk Committee with and without the presence of management.

The financial statements for the year ended April 30, 2021 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, Operations and Finance
October 28, 2021

President

AVP (Administration) & CFO

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton ON L8P 4W7
Canada
Tel 905-523-8200
Fax 905-523-2222

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of McMaster University

Opinion

We have audited the accompanying financial statements of McMaster University (the "University"), which comprise:

- the statement of financial position as at April 30, 2021
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2021, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *"Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Financial Report document.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Annual Financial Report document as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
October 28, 2021

McMASTER UNIVERSITY
Statement of Financial Position
April 30, 2021, with comparative figures for 2020
(thousands of dollars)

	2021	2020
Assets		
Current assets:		
Cash	$ 19,406	$ 17,408
Short-term investments (note 2)	284,351	183,222
Accounts receivable (note 3)	124,481	138,067
Loans receivable (note 4)	22,989	12,892
Inventories	6,357	6,379
Prepaid expenses and deposits	16,967	26,154
	474,551	384,122
Investments (note 2)	1,614,783	1,313,986
Other investments (note 4)	34,405	30,012
Other assets (note 5)	2,135	697
Capital assets (note 6)	1,231,476	1,208,455
	$ 3,357,350	$ 2,937,272
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 170,342	$ 150,058
Deferred revenue	25,285	22,192
Current portion of long-term obligations (note 8)	756	709
	196,383	172,959
Long-term obligations (note 8)	267,635	267,697
Accrued employee future benefits (note 9)	169,928	448,446
Deferred contributions (note 10):		
Deferred for future expenses	437,990	371,100
Deferred capital contributions	480,736	491,662
	918,726	862,762
Net assets:		
Unrestricted	-	-
Internally restricted (note 11)	543,692	97,679
Equity in capital assets (note 12)	504,770	470,378
Endowments (note 13):		
Internal	171,813	141,333
External	584,403	476,018
	1,804,678	1,185,408
Commitments and contingencies (note 14)		
	$ 3,357,350	$ 2,937,272

On behalf of the Board of Governors:

Chair, Board of Governors

Chair, Audit and Risk Committee

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Operations

Year ended April 30, 2021, with comparative figures for 2020

(thousands of dollars)

	2021	2020
Revenues:		
Operating grants	$ 278,446	$ 275,906
Research grants and contracts	168,585	173,720
Tuition fees	416,510	360,665
Other (note 15)	113,377	122,183
Ancillary sales and services	17,767	75,959
Investment income, net	199,111	26,392
Donations and other grants	51,543	69,809
Research overhead grants	12,561	15,563
Amortization of deferred capital contributions	42,761	40,773
	1,300,661	1,160,970
Expenses:		
Salaries and wages	551,060	543,930
Employee benefits	142,809	132,576
Supplies and services	278,985	300,877
Interest on long-term obligations	13,211	13,257
Amortization of capital assets	82,587	78,260
	1,068,652	1,068,900
Excess of revenues over expenses	$ 232,009	$ 92,070

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Changes in Net Assets

Year ended April 30, 2021, with comparative figures for 2020

(thousands of dollars)

	Unrestricted	Internally restricted	Equity in capital assets	Endowments Internal	Endowments External	2021 Total	2020 Total
Net assets, beginning of year	$ -	$ 97,679	$ 470,378	$ 141,333	$ 476,018	$ 1,185,408	$ 1,220,873
Excess (deficiency) of revenues over expenses	271,835	-	(39,826)	-	-	232,009	92,070
External endowment contributions:							
Contributions (note 13)	-	-	-	-	11,453	11,453	8,501
Protection of capital (note 13)	-	-	-	-	96,932	96,932	(33,302)
Transfers and adjustments:							
Transfers for specific purposes	(163,429)	167,137	(3,708)	-	-	-	-
Capital transactions from operating (note 12)	(77,926)	-	77,926	-	-	-	-
Transfer to internal endowments (note 13)	(30,480)	-	-	30,480	-	-	-
Remeasurements and other items (note 9)	-	278,876	-	-	-	278,876	(102,734)
	-	446,013	34,392	30,480	108,385	619,270	(35,465)
Net assets, end of year	$ -	$ 543,692	$ 504,770	$ 171,813	$ 584,403	$ 1,804,678	$ 1,185,408

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statement of Cash Flows
Year ended April 30, 2021, with comparative figures for 2020
(thousands of dollars)

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	$ 232,009	$ 92,070
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(42,761)	(40,773)
Amortization of capital assets	82,587	78,260
Employee future benefits	358	(11,578)
Equity loss (earnings) of other investments	883	(5,548)
Increase in decommissioning obligation	694	665
	273,770	113,096
Net change in contributions deferred for future expenses	66,890	7,932
Net change in other non-cash working capital	46,172	(22,065)
	386,832	98,963
Financing and investing activities:		
Purchase of capital assets	(109,316)	(127,922)
Proceeds on recovery of capital expenditures	3,708	-
Net change in loans receivable	(10,097)	(12,892)
Net change in investments	(401,926)	36,235
Net change in other investments	(5,276)	(353)
Net change in other assets	(1,438)	55
Net change in external endowments	108,385	(24,801)
Deferred capital contributions	31,835	26,844
Principal repayments on long-term obligations	(709)	(665)
	(384,834)	(103,499)
Net increase (decrease) in cash	1,998	(4,536)
Cash, beginning of year	17,408	21,944
Cash, end of year	$ 19,406	$ 17,408

See accompanying notes to financial statements

McMaster University (the "University"), which operates by authority of The McMaster University Act, 1976, is governed by a Board of Governors (the "Board") and Senate, the powers and responsibility of which are set out in the Act. The University is a comprehensive research institution offering a broad range of undergraduate, graduate and continuing education programs and degrees. The University is exempt from income taxes.

1. Significant accounting policies:

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

(a) Basis of presentation:

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

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

Other entities:
The McMaster University Trust
Friends of McMaster Incorporated

The Gore District Land Trust:

The Gore District Land Trust (GORE) is controlled by the University based on Board composition. The investment is accounted for by the equity method (note 4) as permitted by accounting standards for not-for-profit organizations. Since GORE has a fiscal year end of December 31st, the University records its share of the operating results effective on that date.

The First Longwood Innovation Trust (FLIT):

The First Longwood Innovation Trust (FLIT) is not controlled by the University. The investment is accounted for by the equity method (note 4) as permitted by accounting standards for not-for-profit organizations. Since FLIT has a fiscal year end of December 31st, the University records its share of the operating results effective on that date.

Other investments in for-profit entities subject to significant influence are accounted for using the equity method, whereby the investment is initially recorded at cost, net of any impairment and adjusted thereafter for the University's share of the entity's net surplus or deficit and any further impairments. Any distributions received are accounted for as a reduction in the investment.

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.

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, income preserved and activity under the endowment capital protection policy (note 1(m)) are recognized as a direct increase (decrease) 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.

Investments in publicly traded research entities not subject to significant influence are carried in investments at fair values. Changes in fair values are included in other income. Investments in private research entities are carried in other assets at cost, net of any impairment.

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:

Campus stores, scientific stores, and the 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 and building components	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

1. Significant accounting policies (continued):

(g) Capital assets (continued):

Capital assets in progress are carried at cost, with no amortization recorded until such time as the assets are available for their intended use. The carrying amount of capital assets is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the Statement of Operations when the asset's carrying amount is not recoverable and exceeds its fair value.

(h) Collections and works of art:

The value of collections has been excluded from the statement of financial position except for a nominal value of $1. Donations of works of art are recorded as revenue at values based on appraisals and are expensed in the year received. Purchased collections are expensed in the year of acquisition.

(i) Contributed services:

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

(j) Ancillary enterprises:

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

(k) 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 method of determining the accrued benefit obligations for the defined benefit plans uses the funding valuation method, which reflects the long-term nature of the plan and reflects management's estimates of investment yields, salary inflation, benefit cost trends 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 expensed in the year made.

1. Significant accounting policies (continued):

(l) Net assets:

Net assets are classified as follows:

Unrestricted: excess of revenues over expenses 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.
Other internal reserves: as approved by the Board, amounts include unexpended departmental carry forward amounts for future expenditures or amounts set aside to settle future oriented obligations.

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

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

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

(m) Endowment capital protection policy:

In order to protect the capital value of endowment investments, an endowment capital protection policy limits the amount of investment income allocated for spending to 4%, plus 1% administration spending, and requires the reinvestment of excess income earned (interest, dividends, realized and unrealized capital gains, net of investment expenses).

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

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

(n) Decommissioning obligation:

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

(o) Foreign currency translation:

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

(p) Use of estimates:

The preparation of 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, 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)	2021		2020	
	Fair value	Cost	Fair value	Cost
Equities:				
Canadian	$ 169,960	$ 142,075	$ 127,871	$ 136,824
United States	406,541	184,807	297,946	159,434
Non-North American	288,690	191,065	212,248	192,286
	865,191	517,947	638,065	488,544
Fixed income	686,570	690,762	616,174	597,230
Other	63,022	47,108	59,747	47,279
	1,614,783	1,255,817	1,313,986	1,133,053
Short-term investments	284,351	285,084	183,222	183,195
	$ 1,899,134	$ 1,540,901	$ 1,497,208	$ 1,316,248

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. Accounts receivable:

(thousands of dollars)	2021	2020
Research grants	$ 86,466	$ 94,680
Students	13,738	14,223
Government grants	5,182	7,938
Other	25,058	27,357
	130,444	144,198
Less allowance for doubtful accounts	5,963	6,131
Balance, end of year	$ 124,481	$ 138,067

4. Other investments:

Details of other investments are as follows:

(thousands of dollars)	2021	2020
The Gore District Land Trust (a)	$ 13,598	$ 13,598
The First Longwood Innovation Trust (b)	9,073	10,269
Halton McMaster Family Health Centre (c)	4,720	4,720
KCAP McMaster Grad GP Inc. (d)	6,464	750
Other investments (e)	550	675
	$ 34,405	$ 30,012

(a) The Gore District Land Trust:

The Gore District Land Trust (Gore) was 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)	2021	2020
Balance, beginning of year	$ 13,598	$ 12,552
Equity earnings	313	2,089
Distribution	(313)	(1,043)
Balance, end of year	$ 13,598	$ 13,598

Included in loans receivable for Gore are the following items:

(thousands of dollars)	2021	2020
Gore Hamilton Spectator building acquisition loan	$ 11,533	$ 11,549
Gore demand loan	1,356	1,043
Gore demand loan operations	10,100	-
	22,989	12,592

During the year, the University extended the $11,500,000 (2020 - $11,500,000) loan to Gore for an additional year. The loan has been extended to February 28, 2022. The loan bears a new fixed interest rate of 1.65% (2020 - 2.54% fixed rate).

The University has a demand loan in the amount of $1,355,999 (2020 - $1,042,809) representing distribution of net earnings for 2019 and 2020 declared by the trust. The $1,042,809 demand loan is interest free and is payable at any time at the sole discretion of the lender. During the year, the University provided an additional loan of $313,190. The demand loan bears interest at a fixed rate of 3% and is payable at any time at the sole discretion of the lender.

During the year, the University approved a $13,000,000 (2020 - $nil) non-revolving demand loan to Gore. The loan proceeds are being provided in 2 separate draws. As of April 30, 2021, McMaster has provided $10,000,000. The remaining $3,000,000 will be drawn by December 31, 2021. The loan bears interest at a fixed rate of 3%. The demand loan is payable at any time at the sole discretion of the lender.

4. Other investments (continued):

(a) The Gore District Land Trust (continued):

Pertinent information from The Gore District Land Trust's financial statements are as follows:

(thousands of dollars)	December 31, 2020	December 31, 2019
Total assets	$ 40,089	$ 14,641
Total liabilities	$ 26,491	$ 1,043
Total trusts' equity	13,598	13,598
	$ 40,089	$ 14,641
Results of operations:		
Total revenues	$ 619	$ -
Total expenses	306	-
Earnings before the undernoted item	$ 313	$ -
Gain on exchange of land	-	2,089
Net earnings	$ 313	$ 2,089
Cash flows:		
Provided by operating activities	$ (3,824)	$ (38)
Used in financing and investing activities	3,824	38
Increase in cash	$ -	$ -

(b) The First Longwood Innovation Trust

The First Longwood Innovation (FLIT) was 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)	2021	2020
Balance, beginning of year	$ 10,269	$ 6,690
Equity earnings	(1,196)	3,579
Balance, end of year	$ 9,073	$ 10,269

4. Other investments (continued):

(b) The First Longwood Innovation Trust (continued):

Included in Other assets in note 5 are two loans receivable from FLIT at April 30, 2021. One loan receivable in the amount of $454,954 (2020 - $482,219) and another loan receivable in the amount of $1,458,682 (2020 - $300,619 included in short term loan receivable).

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, 2021, $94,355 (2020 - $99,731) in income was recorded by the University.

Included in rent expense for the University for the year ended April 30, 2021 is $4,066,069 (2020 - $2,966,570). Included in accounts receivable at April 30, 2021 is $1,672,499 (2019 - $820,495) receivable from FLIT. Included in note 14(f) are $28,879,117 (2019 - $11,387,268) in operating lease commitments with FLIT.

During the year the University provided payroll services at a fee which amounted to $13,200 (2020 - $13,200) and earned interest income of $6,606 (2020 - $28,950) on the accounts receivable balance.

Pertinent information from the First Longwood Innovation Trust's financial statements are as follows:

(thousands of dollars)	December 31, 2020	December 31, 2019
Total assets	$ 116,659	$ 99,144
Total liabilities	$ 107,586	$ 87,276
Total deferred capital grants	-	1,599
Total trusts' equity	9,073	10,269
	$ 116,659	$ 99,144
Results of operations:		
Total revenues	$ 14,696	$ 14,034
Total expenses	15,892	12,260
Earnings before the undernoted item	$ (1,196)	$ 1,774
Other revenue	-	1,805
Net earnings	$ (1,196)	$ 3,579
Cash flows:		
Provided by operating activities	$ (10,086)	$ 1,683
Used in financing and investing activities	11,117	(1,569)
Increase in cash	$ 1,031	$ 114

(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.

4. Other investments (continued):

(d) KCAP McMaster Grad GP Inc.:

The $6,464,000 (2020 - $750,000) is McMaster's equity contribution in a partnership for two developments in downtown Hamilton. $2,564,000 has been contributed to the McMaster Graduate Student Residence which will be located at 10 Bay Street, Hamilton. The contribution is to fund various pre-construction development costs of the project that have been incurred for the mutual benefit of the partnership. $3,900,000 is McMaster's equity contribution to facilitate the initial acquisition of a property located at 22 Bay Street, Hamilton. 22 Bay Street is located on the corner of Bay Street North & George Street.

(e) Other investments:

Other investments consist of shares in privately held companies in which McMaster does not have significant control or influence, recorded at cost.

5. Other assets:

Details of other assets are as follows:

(thousands of dollars)	2021	2020
Loans receivable (a)	$ 2,135	$ 697
Collections (b)	-	-
	$ 2,135	$ 697

(a) Loans receivable:

The University has a loan receivable from a lessee in the amount of $221,052 (2020 - $214,912) for lease fit out costs as of April 30, 2021 (2020 - $214,912). The loan bears interest at a rate of 0% per annum and is payable over 10 years beginning in February 2016.

The University has a loan receivable from First Longwood Innovation Trust (FLIT) in the amount of $454,954 (2020 - $482,219). The loan bears interest at a fixed rate of 5.75% and is repayable in monthly payments of $4,113 over 15 years, beginning in May 2019.

During the year, the University converted the short-term non-revolving demand grid loan to FLIT, operating as McMaster Innovation Park in the amount of $1,500,000 to a long-term loan. The balance at April 30, 2021 was $1,458,682 (2020 - $300,619). The loan now has a 15-year amortization period and bears a new interest at a fixed rate of 3%.

(b) Collections:

The McMaster Museum of Art has significant collections of works of art and coins. Donations of works of art during the year amounted to $nil (2020 - $5,000).

6. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	2021 Net
Land	$ 88,741	$ -	$ 88,741
Buildings and building components	1,437,149	516,672	920,477
Decommissioning retirement costs	3,238	1,077	2,161
Site improvements	30,128	16,855	13,273
Leasehold improvements	80,768	27,043	53,725
Library materials	211,067	184,653	26,414
Equipment, furnishings and vehicles	423,001	350,195	72,806
Computing systems and computing equipment	148,612	94,733	53,879
	$ 2,422,704	$ 1,191,228	$ 1,231,476

(thousands of dollars)	Cost	Accumulated amortization	2020 Net
Land	$ 87,040	$ -	$ 87,040
Buildings building components	1,407,219	486,154	921,065
Decommissioning retirement costs	3,214	968	2,246
Site improvements	30,128	15,632	14,496
Leasehold improvements	62,500	21,364	41,136
Library materials	199,418	174,874	24,544
Equipment, furnishings and vehicles	414,500	351,484	63,016
Computing systems and computing equipment	145,510	90,598	54,912
	$ 2,349,529	$ 1,141,074	$ 1,208,455

Included in buildings is $87,353,000 (2020 - $62,576,000) representing buildings currently under construction 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 $4,913,000 (2020 - $3,257,000).

8. Long-term obligations:

Details of long-term obligations are as follows:

(thousands of dollars)					2021	2020
	Maturity	Interest rate	Current portion	Non-current portion	Total outstanding	Total outstanding
Long term debt:						
Bank term loan (a)	May 2033	floating	756	12,558	13,314	14,023
Debentures (b)	Oct 2052	6.15%	-	120,000	120,000	120,000
Debentures (c)	Nov 2065	4.105%	-	120,000	120,000	120,000
			756	252,558	253,314	254,023
Decommissioning obligations (d)			-	15,077	15,077	14,383
			$ 756	$ 267,635	$ 268,391	$ 268,406

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

2022	$ 756
2023	805
2024	858
2025	915
2026	975

(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 in internally restricted net assets, under other internal reserves (note 11(k)), has been established to provide funds to repay the debenture principal upon maturity. An annual increase to the sinking fund is charged to operations and other annual increases represent interest income of the fund. The value of the fund at April 30, 2021 amounted to $27,218,000 (2020 - $21,531,000).

(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 in internally restricted net assets, under other internal reserves (note 11(k)), has been established to provide funds to repay the debenture principal upon maturity. An annual increase to the sinking fund is charged to operations and other annual increases represent interest income of the fund. The value of the fund at April 30, 2021 amounted to $15,710,000 (2020 - $12,421,000).

8. Long-term obligations (continued):

(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, 2021, the fair value of the trust funds amounted to $15,026,000 (2020 - $11,701,000). The net present value of the estimated cost for decommissioning at April 30, 2021 is $14,264,000 (2020 - $13,594,000) 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, 2021, the amount of the obligation was $813,000 (2020 - $789,000), an increase of $24,000 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, however, an internal reserve to offset this obligation is included in Other internal reserves.

(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)	2021		2020	
	Notional value	Fair value	Notional value	Fair value
30-year interest rate swap	$ 13,314	$ (3,957)	$ 14,023	$ (5,468)

The change in fair value of the swap for the year ended April 30, 2021 is $1,511,000 (2020 - ($859,000)).

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 (Plan 2000 and Original Plan). The plan for hourly employees was closed to new members on March 15, 2010. The Original Plan was closed to new members on January 14, 2003 and Plan 2000 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 defined contribution and non-contributory defined benefit supplementary non-registered pension plans, a retirement incentive program and a group RRSP.

9. Employee future benefits (continued):

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. In order to satisfy its funding commitment to plan members and determine the level of required funding contributions, the University must prepare actuarial funding valuations on an ongoing and periodic basis.

The accrued benefit obligations are 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)	2021			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 2,389,107	$ 70,448	$ 287,287	$ 2,746,842
Fair value of plan assets	2,576,914	-	-	2,576,914
Funded status - surplus (deficiency)	$ 187,807	$ (70,448)	$ (287,287)	$ (169,928)

(thousands of dollars)	2020			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 2,317,672	$ 72,237	$ 277,215	$ 2,667,124
Fair value of plan assets	2,218,678	-	-	2,218,678
Funded status - deficiency	$ (98,994)	$ (72,237)	$ (277,215)	$ (448,446)

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

(thousands of dollars)	2021			
	Pension			
	Registered	Supplemental	Other	Total
Current service cost	$ 39,400	$ 37	$ 6,672	$ 46,109
Interest cost, net	5,559	3,934	15,348	24,841
	$ 44,959	$ 3,971	$ 22,020	$ 70,950

(thousands of dollars)	2020			
	Pension			
	Registered	Supplemental	Other	Total
Current service cost	$ 34,104	$ 35	$ 7,675	$ 41,814
Interest cost, net	886	3,816	15,274	19,976
	$ 34,990	$ 3,851	$ 22,949	$ 61,790

9. Employee future benefits (continued):

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

(thousands of dollars)	2021			
	Pension			
	Registered	Supplemental	Other	Total
Investment gain	$ 262,758	$ -	$ -	$ 262,758
Valuation allowance	(5,675)	-	-	(5,675)
Actuarial gain (loss) on accrued benefit obligation	17,700	(777)	4,870	21,793
	$ 274,783	$ (777)	$ 4,870	$ 278,876

(thousands of dollars)	2020			
	Pension			
	Registered	Supplemental	Other	Total
Investment loss	$ (112,877)	$ -	$ -	$ (112,877)
Actuarial loss on accrued benefit obligation	3,399	(6,590)	13,334	10,143
	$ (109,478)	$ (6,590)	$ 13,334	$ (102,734)

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

	Percentage of fair value of total plan	Target allocation percentage
Equity securities	67.7%	65.0%
Debt securities	32.0%	35.0%
Other	0.3%	0.0%

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

	Pension	Other
Discount rate	5.58%	5.55%
Rate of compensation increase	3.98%	-

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

	Pension	Other
Discount rate	5.58%	5.54%
Rate of compensation increase	3.98%	-

9. Employee future benefits (continued):

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

(thousands of dollars)	2021		2020	
	Pension	Other	Pension	Other
Employer contributions	$ 63,514	$ 7,078	$ 66,306	$ 7,081
Employee contributions	29,292	-	28,286	-
Benefits paid	115,573	7,078	115,221	7,081

(h) For measurement purposes, a 5.22% annual increase in per capita drug costs was assumed for 2019, grading down to 4.00% in and after 2031. For all other health care costs, an annual rate of increase of 4.00% 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 January 1, 2020, the next required filing date is January 1, 2023.
salaried employees' pensions: completed as at July 1, 2018, the next required filing date is July 1, 2021.
other (post-retirement benefit): completed as at March 31, 2019; the next valuation date is March 31, 2022.
other (post-employment and retirement allowance): completed as at April 30, 2021.

The results of valuations not completed as of April 30, 2021, have been extrapolated to April 30, 2021, which is the measurement date used to determine the accrued benefit obligation for all employee future benefit plans.

The July 1, 2018 valuation of salaried plans was completed using the Pension Benefit Act definition of closed plan. The definition of closed plan was amended under the Act in 2019 such that Plan 2000 no longer meets the closed plan definition and will be filed as an open plan at July 1, 2021. This change is expected to reduce the plan liabilities and the funding requirements for the Provision for Adverse Deviation upon filing the next actuarial valuation.

(j) In 2008, the University created a group RRSP for certain types of new employees. University and employees' contributions in 2021 amounted to $4,779,000 (2020 - $4,144,000).

(k) The University has internal reserves set aside in the amount of $193,519,000 (2020 - $116,252,000) for the accrued benefit obligation of the non-pension post-retirement benefit plan included in (note 11(b)).

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)	2021	2020
Balance, beginning of year	$ 371,100	$ 363,168
Deferred contributions received	377,541	334,774
	748,641	697,942
Less:		
Amounts recognized as revenue	(287,876)	(304,637)
Deferred capital contributions transfer	(22,775)	(22,205)
Balance, end of year	$ 437,990	$ 371,100

Deferred contributions consist of the following:

(thousands of dollars)	2021	2020
Research grants and contracts	$ 277,177	$ 233,612
Donations, other grants and investment income	138,782	114,511
Other restricted funds	22,031	22,977
	$ 437,990	$ 371,100

(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 recorded as amounts not subject to amortization until such time as the capital expenditures are incurred. Details of the change in the unamortized deferred capital contributions are as follows:

(thousands of dollars)	2021	2020
Balance, beginning of year	$ 491,662	$ 505,591
Add: contribution received and transfers	31,835	26,844
Less: amount amortized to revenue	(42,761)	(40,773)
Balance, end of year	$ 480,736	$ 491,662

Deferred capital contributions consist of the following:

(thousands of dollars)	2021	2020
Amounts subject to amortization	$ 474,310	$ 484,980
Amounts not subject to amortization	6,426	6,682
	$ 480,736	$ 491,662

11. Internally restricted net assets:

Details of internally restricted net assets are as follows:

(thousands of dollars)	2021	2020
Pensions (a)	$ 85,460	$ (198,301)
Other retirement and post employment benefit plans (net) (b)	(93,768)	(160,963)
Employee future benefits	(8,308)	(359,264)
Unexpended departmental carryforwards (c)	198,753	196,580
Unexpended research funds (d)	55,334	44,836
Employee benefit (e)	11,200	10,360
Ancillaries (f)	(4,677)	10,300
Specific purpose (g)	99,664	82,787
Research investments (h)	2,353	1,769
MIP investment (i)	4,082	4,965
Other (j)	14,814	14,834
Sinking funds (k)	42,928	33,952
Internally financed capital projects (l)	(107,147)	(110,535)
Capital reserves (m)	100,215	64,495
Facilities services projects (n)	134,481	102,600
Other internal reserves	552,000	456,943
	$ 543,692	$ 97,679

(a) Pensions: the net pension funding position, determined by a third party actuary, using the funding methodology.

(b) Other retirement and post employment benefit plans (net): unfunded portion of health, dental and life insurance benefits for retirees and employees on long term disability of $287,287,000 (2020 - $277,215,000), net of employer committed funding held in internal reserves of $193,519,000 (2020 - $116,252,000) for the accrued benefit obligation of the non-pension post-retirement benefit plan (note 9(k)).

(c) Unexpended departmental carryforwards: departmental operating reserves available for spending by faculties to protect against possible adverse circumstances such as changes in student enrolment (tuition fee impacts) and/or operating grant reductions.

Departmental and ancillary carryforwards in (c) and (f) do not reflect the share of future obligations to the related employees for settlement of pensions and other post-employment benefits costs as outlined in items (a) and (b). Allocation of these obligations to the related carryforward would reduce the available balances as follows:

(thousands of dollars)	2021	2020
Unexpended departmental carryforwards (c)	$ 198,753	$ 196,580
Ancillaries (f)	(4,677)	10,300
Employee benefit (e)	11,200	10,360
Pensions (a)	85,460	(198,301)
Other retirement and post employment benefit plans (b)	(93,768)	(160,963)
	$ 196,968	$ (142,024)

(d) Unexpended research funds: represent research residual funds and other research contributions specifically to fund research operations, facilities and projects.

(e) Employee benefit: funds collected from departments toward benefit related pension and non-pension payments not yet due in the fiscal period.

(f) Ancillaries: funds accumulated to maintain existing infrastructure and/or invest in new infrastructure or projects associated with ancillary operations.

11. Internally restricted net assets (continued):

(g) Specific purpose: funds to mitigate the risks associated primarily with volatility in income from equity investments, representing accumulated realized and unrealized investment earnings (losses) after commitments to the operating fund. The primary use of this reserve is to supplement endowment funding to support student bursaries, scholarships, and other expenditures when investment income is insufficient. It may also be used to fund other strategic reserves such as the post-retirement benefits and capital reserves. In fiscal 2021, $45 million was transferred to the post-retirement benefit reserve and $25 million to the capital reserve as part of the long term funding strategy for these commitments.

(h) Research investments: represents the fair value of publicly held research entities, including accumulated realized and unrealized investment earnings, as well as the cost of privately held research entities.

(i) MIP investment: represents accumulated investment earnings from the investment in The Gore District Land Trust and The First Longwood Innovation Trust.

(j) Other: non-cash reserve which primarily represents timing differences between cash accounting and accrual accounting.

(k) Sinking funds: funds set aside to settle debt bullet repayments of $120 million due in each of 2052 and 2065.

(l) Internally financed capital projects: long term loans for capital projects which have been internally financed by capital reserves as outlined in note 11(m).

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, 2021 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (12,407)
Les Prince Residence	Ancillary operations	(12,644)
David Braley Athletic Centre	Student levies, pledges, fundraising	(2,093)
Peter George Centre for Living and Learning	Ancillary operations	(46,094)
McMaster Automotive Resource Centre (MARC)	Various	(5,197)
McMaster University Medical Centre (MUMC)	Various	(2,438)
Comprehensive Energy Reduction Program	Various	(23,837)
Biomedical Engineering and Advanced Manufacturing (BEAM)	Various	(672)
Other	Various	(1,765)
		$ (107,147)

(thousands of dollars) Project	Funding source	April 30, 2020 balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (12,931)
Les Prince Residence	Ancillary operations	(12,644)
David Braley Athletic Centre	Student levies, pledges, fundraising	(3,473)
Peter George Centre for Living and Learning	Ancillary operations	(46,094)
McMaster Automotive Resource Centre (MARC)	Various	(5,647)
McMaster University Medical Centre (MUMC)	Various	(2,938)
Comprehensive Energy Reduction Program	Various	(24,482)
Biomedical Engineering and Advanced Manufacturing (BEAM)	Various	(889)
Other	Various	(1,437)
		$ (110,535)

11. Internally restricted net assets (continued):

(m) Capital reserves: funds for planned capital projects committed and confirmed by governance approvals, as outlined in note 14(d).

(n) Facilities services projects: holding accounts for temporarily unspent funds for construction projects in progress.

12. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	2021	2020
Capital assets	$ 1,231,476	$ 1,208,455
Less amounts financed by:		
Net long-term obligations	(252,396)	(253,097)
Deferred capital contributions subject to amortization	(474,310)	(484,980)
	$ 504,770	$ 470,378

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	2021	2020
Repayment of long-term debt	$ 709	$ 665
Capital asset purchases from operating, net of disposals	77,217	107,737
	$ 77,926	$ 108,402

13. Endowments:

(a) Internal:

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

(thousands of dollars)	2021	2020
Balance, beginning of year	$ 141,333	$ 150,410
Donations	59	248
Investment (loss) income	36,030	(3,840)
Net transfers and expenses	(5,609)	(5,485)
Balance, end of year	$ 171,813	$ 141,333

Included in internal endowments is an amount of $78,003,000 (2020 - $64,392,000) reflecting the legacy of Dr. H. L. Hooker and $73,716,000 (2020 - $60,435,000) related to the Salaried Pension Plan surplus withdrawal from 2003. A portion of annual investment income generated from this capital is used to fund programs that enrich the academic achievements of the University as approved annually by the Board.

13. Endowments (continued):

(b) External:

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

(thousands of dollars)	2021	2020
Balance, beginning of year	$ 476,018	$ 500,819
External contributions	11,453	8,501
Income (withdrawn) retained - capital protection policy	96,932	(33,302)
Balance, end of year	$ 584,403	$ 476,018

Investment income on external endowments amounted to $116,321,000 (2020 - $14,671,000 loss). In accordance with the endowment capital protection policy, this income/loss is added/withdrawn to/from net endowment assets, together with reduction of the amount made available for spending of 19,394,000 (2020 - $18,759,000), plus net transfers of $5,000 (2020 - $129,000). The amount made available for spending is recorded as investment income in the statement of operations.

14. Commitments and contingencies:

(a) Canadian Universities Reciprocal Insurance Exchange:

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

(b) Legal claims:

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

(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, 2021 was $18.4 million (2020 - $19.3 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2021, 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 $339.1 million at April 30, 2021 (2020 - $294.4 million). The major commitments are as follows: DeGroote School of Business expansion ($125.1 million), PeakShavers and Boilers project ($31.2 million) and Commercialization of Research ($45.8 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, 2021, the University's remaining share of the costs are estimated to be $7.6 million (2020 - $8.6 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)	
2022	$ 5,749
2023	6,753
2024	6,631
2025	4,876
2026	4,871

(g) McMaster Main Street Student Residence:

The University is working with a private developer to provide an approximately 1,400 bed undergraduate residence that includes learning, research and additional ancillary university spaces along Main Street West on lands McMaster owns. The project land once developed will be an extension of main campus. At April 30, 2021, $16.3 million (2020 - $16.3 million) is recorded in land. The project is expected to be completed by 2023/24. The residence will be managed, operated and used by the University to support its mission.

(h) Grad Residence and Parking Garage:

The University is working with a private developer to provide a new graduate residence with approximately 630 beds and a 265 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 project is expected to be completed by 2023/24. To support this project the University has entered into a 99 year land lease effective October 1, 2019, with four 25 year renewal options.

(i) 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. The Board approved additional investments of up to $25 million in June 2018 and up to $13 million in June 2020. In June 2021 an additional investment of up to $7 million was approved. These facilities investments are in support of research commercialization opportunities for early stage commercialization and established businesses. Construction on this space has begun and third party tenants moved in into the space in fiscal 2021. $22 million of the total $70 million approved investment has been spent as of April 30, 2021 (2020 - $17.3 million).

(j) Issuance of Debentures:

In June 2021 the Board approved the issuance of up to $125 million in Senior Unsecured Series B Debentures ("Series B Debentures") and up to $25 million in Senior Unsecured Series C Debentures ("Series C Debentures"). Series B Debentures of $125 million were issued at 3.405% per annum with a maturity date of June 2071. The $125 million proceeds will be used to fund capital projects and for general corporate purposes of the University as directed or approved by the Board of Governors. Series C Debentures of $25 million were issued at 3.255% per annum with a maturity date of June 2051. The $25 million proceeds with be used to finance and/or refinance eligible green projects as directed or approved by the Board of Governors. As a result, Long-term obligations will increase by $150 million for the fiscal year ended April 30, 2022. Voluntary sinking funds were established in June 2021 to provide funds to repay the debentures' principal upon maturity. A sinking fund of $12.5 million was established for the Series B Debentures debentures and a sinking fund of $2.5 million for the Series C debentures. Annual increases to the sinking funds will be charged to operations and other annual increases represent interest income of the fund. The sinking funds will be reflected in internally restricted net assets for the year ended April 30, 2022.

15. Other income:

Details of other income are as follows:

(thousands of dollars)	Major Sources		2021		2020
Faculty of Health Sciences	Non-degree educational fees, specifically funded programs, international postgraduates stipends, space/equipment rentals, other student fees	$	57,955	$	57,821
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees		7,862		10,218
Academic Services	Contracts and patent royalties, registrar administration fees		10,475		10,724
Student Services	Athletics and Recreation memberships and user fees		15,553		20,237
Miscellaneous	Nuclear reactor sales, application fees, late payment fees, sales of utilities and other departmental sales		21,242		19,800
Other Investment Income	Gore, FLIT, Adiga Life Sciences Inc. and all private or publicly traded entities.		290		3,383
		$	113,377	$	122,183

16. Related party transactions:

In addition to certain transactions and balances disclosed in note 4, the University received funds of approximately $186,000 (2020 - $2,142,000) 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 has a $75 million line of credit. The credit facility can be used for general corporate purposes including shorter term funding in the event of a short-term deficiency in cash flow. The line of credit was not used in 2021. 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 material change to the risk exposure from 2020.

(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 denominated in foreign currency are exposed to currency risk as the price in local terms in foreign markets 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 2020.

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)	2021	2020
Endowment balance, beginning of year	$ 32,271	$ 32,163
Investment income retained for protection of capital	(854)	540
Investment income transferred to expendable income	(238)	(432)
Endowment balance, end of year	31,179	32,271
Funds available for awards, beginning of year	-	-
Investment income	1,669	1,583
Bursaries awarded (2021 - 1,622 awards; 2020 - 1,993 awards)	(1,907)	(2,015)
Investment income transferred from endowment balance	238	432
Funds available for awards, end of year	-	-
Total funds at book value	$ 31,179	$ 32,271

The market value of the endowment as at April 30, 2021 was $44,878,000 (2020 - $37,157,000).

(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)	2021	2020
Endowment balance, beginning of year	$ 6,018	$ 6,178
Investment income (transferred to) retained for protection of capital	164	(160)
Endowment balance, end of year	6,182	6,018
Funds available for awards, beginning of year	56	72
Investment income for expenditures	294	289
Bursaries awarded (2021 - 374 awards; 2020 - 377 awards)	(271)	(305)
Funds available for awards, end of year	79	56
Total funds at book value	$ 6,261	$ 6,074

The market value of the endowment as at April 30, 2021 was $8,282,000 (2020 - $6,894,000).

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)	2021	2020
Endowment balance, beginning of year	$ 39,022	$ 39,915
Investment income (transferred to) retained for protection of capital	1,285	(893)
Endowment balance, end of year	40,307	39,022
Funds available for awards, beginning of year	841	935
Investment income for expenditures	1,720	1,746
Bursaries awarded (2021 - 690 awards; 2020 - 774 awards)	(1,808)	(1,840)
Funds available for awards, end of year	753	841
Total funds at book value	$ 41,060	$ 39,863

The market value of the endowment as at April 30, 2021 was $60,142,000 (2020 - $49,994,000).

20. Pledges:

Outstanding but unrecorded pledges for donations and other fund raising amounted to approximately $86,333,000 (2020 - $79,062,000) (Unaudited).

21. Impact of COVID-19 pandemic:

In March 2020, the World Health Organization declared the spread of coronavirus (“COVID19”) to constitute a global pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of and within Canada, barring gathering of people and requirements to stay at home. These restrictions impacted the operations of the University and resulted in the closure of physical premises of all post-secondary institutions. The entire 2020-21 academic year remained mostly in an online format with some exceptions where access to campus facilities were required.

As a result of the reduced on-campus activity, campus services such as residences, food, and parking were particularly hard hit and experienced significant reductions in revenues. However, due to high demand enrolment targets were exceeded and increased over 2020 levels. In addition, volatility and declines in the global public equity markets towards the end of fiscal 2020 recovered their losses and generated strong returns in fiscal 2021. It is uncertain whether market volatility relating to COVID-19 will occur again in the near future.

The University is currently planning for a phased return to campus with significant online and hybrid elements with some on-campus instruction in the fall of 2021, and mostly on-campus teaching, learning and work, with online and hybrid elements as needed in the winter of 2022. Enrolment targets are expected to be achieved. As a result, as at April 30, 2021, the University did not have significant adjustments to reflect the possible future impact of COVID-19. Management has assessed the going concern assumptions and believes there are no issues, given the University has a strong working capital base and access to liquid resources to support operations in the coming year. Given the outcome and timeframe to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect on future operations at this time.

The Office of Financial Affairs supports and promotes sustainability. To download a pdf version of this report please visit financial-affairs.mcmaster.ca

McMaster University

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

Designed and produced by Media Production Services