ANNUAL FINANCIAL REPORT 2010/2011

CALCULATING

BALANCING

GOAL SETTING

INVESTING

BUDGETING

MEASURING

McMaster University

ANNUAL FINANCIAL REPORT 2010/2011

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YEAR IN REVIEW

McMaster University, home to some of the top globally renowned academic and research leaders, finished its 2010/11 year with a consolidated $22 million surplus. This surplus is mainly attributed to increased grants for specific purposes, student growth, positive investment returns, and continued expense management.

Over the last several years the University has been focused on financial stability, growing assets and diversifying revenues while managing our expenses and liabilities. These efforts are paramount; enabling us to focus on future strategic investments that deliver on our mission, create the best value offerings for our students and continue our mainstay as a hot bed for innovation and leadership.

Even though McMaster ended the year in a positive position there are still many challenges ahead that will require significant concerted effort in order to position the University as a responsible financial manager in the higher education sector. These challenges include additional work to control further growth associated with our pension and other post-retirement benefit plans that if left as is could harm our future growth and strategic investments. This challenge is difficult and will require striking the right balance between providing attractive compensation and benefit offerings to our faculty and staff, while ensuring our plans provided today are affordable tomorrow and in the many years that follow.

We must also manage our infrastructure such that our researchers have the caliber of facilities that allow them to conduct their research efficiently, and create a well maintained environment for our students to enjoy and that will create pride in our employees. This requires a collaborative effort prioritizing needs and planning across faculties, students and administration to ensure we do the right projects, at the right time, and at the best cost that will deliver a quality result. This year we have added a deferred maintenance chart to our key performance indicators to recognize the growing need to ensure our campus buildings are improved and can be among the best in Canada.

While these and other challenges exist, McMaster will stay on its present course toward long term financial stability and growth that will support a rich academic and research environment. This course includes our University-wide focus toward implementing new system foundations that will enable efficient operations and streamline decision making in the future, as well as, continued efforts toward redesigning our budget model to ensure transparency, accountability and introduce funding allocation drivers to incent quality and pan-University collaboration.

This year total spending was $838 million compared to $860 million in revenues. This 2.6% surplus relates to increased enrolment and additional specifically funded grants and programs. Maintaining balanced and occasionally surplus positions is critical to managing our financial stability during volatile global economic conditions. Surplus funds enable financial stability for academic and research programs when the economic environment fluctuates and further enhances the University's ability to make strategic investments while also managing our debt position. Managing the University's overall debt is essential and directly linked to our bond rating and being able to source future affordable financing.

The University's ability to invest in capital priorities remains difficult when considering financial stability and the need for innovative new sources of funding in a constrained marketplace. This year $90 million was invested into capital projects, including the Nuclear Research Building renovation and the Centre for Spinal Cord Education, Research

BY THE NUMBERS

$859,500,000
Total revenue vs. $828,400,000 last year

$837,600,000
Total expenditures vs. $816,700,000 last year

$33,800
Total revenue per FTE student vs. $33,100 last year

$179,500,000
Research revenue receipted vs. $185,300,000 last year

$513,100,000
Endowment funds vs. $460,700,000 last year

$90,200,000
Capital spending vs. $93,900,000 last year

$692,200,000
Total net assets vs. $629,300,000 last year

11.5%
Long term investment pool return vs. 17.1% last year

25,399
Enrolment (full time equivalent (FTE)) vs. 25,007 last year

$12,400,000
Excess of revenues over expenses operating fund only vs.$3,700,000 last year

$20,201
Endowment per FTE students vs. $18,425 last year

$22,000,000
Excess of revenues over expenses vs. $11,700,000 last year

$211,000,000
Employee future benefit unfunded obligation registered pension vs. $296,100,000 last year

$213,100,000
Available expendable resources vs. $170,000,000 last year

$192,400,000
Employee future benefit unfunded obligation non-pension vs. $203,700,000 last year

and Rehabilitation. Projects like these enhance our knowledge landscape and health environment and are made possible by important partnerships through government programs and our donors who are committed to McMaster's values.

This annual financial report provides us an opportunity to celebrate our last year of financial successes while highlighting our financial leadership vision and challenges. One of the most noteworthy changes this year relates to labour negotiations. We have benefited from collaborative discussions with our labour groups and MUFA aimed at addressing the University's financial challenges while ensuring competitive compensation programs and secure employment levels. The non-pension post-retirement benefit plans deficit decreased to $192 million (from $204 million in 2009/10). The decrease is primarily a result of plan amendments negotiated with faculty and staff, and a change in the trend rate assumption for health care costs. The registered pension plan's deficit decreased to $211 million largely due to plan amendments, contribution increases, assumption updates and earnings growth (compared to $296 million in 2009/10). These plan deficits remain a concern to the University's future economic strength and will require further consideration. In addition to these strategies toward managing the pension and post-retirement benefit costs, the University will work toward securing solvency relief for the salaried pension plan under the provincial government's solvency relief provisions.

Included in the financial results is $40 million of investment income and an additional $23 million added directly to endowments representing a return of 11.5% on the long term investment pool. The endowments increased to $513 million in the year or $20,201 per student reflecting a restoration of endowment capital to pre-global crisis levels.

The University's available expendable resources[1] increased to $213 million (up $43 million from 2009/10). This increase is critical to providing the financial stability and flexibility for strategic investments and tackling our $145.6 million backlog in deferred maintenance.

The information contained in this Annual Financial Report is intended to provide the reader with financial information for the fiscal year ended April 30, 2011 and was approved for publication by the Board in October 2011. While the focus of this document will be the consolidated operations of all funds on an accrual basis, information on the Operating Fund, which operates on a cash basis of accounting and accounts for almost 60% of expenditures, is also included.

Other documents that the reader can reference to provide a more in-depth discussion of the University are as follows:

- 2011-12 Consolidated Budget – June 2011
  http://www.mcmaster.ca/bms/pdf/consbud11.pdf
- State of the Academy – September 2011
  http://www.mcmaster.ca/vpacademic/documents/SOTA20110915.pdf
- 2009/2010 Tables & Chairs Research Report and Salute to our Canada Research Chairs – Spring 2011
  http://www.mcmaster.ca/research/documents/Tables_and_Chairs.pdf
- McMaster Fact Book – October 2011
  http://mcmaster.ca/avpira/documents/factbook/FactBook20102011.pdf

1 Available Expendable Resources (AER) is a key financial indicator recommended by the President's Advisory Committee on the Impact of the Current Economic Situation (PACICES). AER represents funds held that are not externally committed, such as unrestricted net assets, specific purpose reserves and appropriations and internally restricted endowments.

REVENUES

CONTINUING EDUCATION

SERVICES

STUDENTS

HOSPITALITY

At McMaster, we are committed to providing open public access to high quality education that actively engages students to learn and contribute to the prosperity of our society. We believe in actively managing our finances, looking at innovative ways to generate new sources of revenue, partnering with government granting agencies, and corporate and private donors. Our focus on revenues and cost containment enable us to create better access to all qualified students.

REVENUES

Students gather in the food court of the McMaster University Student Centre

	$ millions	
RESEARCH REVENUE RECOGNIZED	2011	2010
Federal Government	100.5	111.8
Province of Ontario	21.2	24.6
Other sources	57.8	48.9
Total research funds received	179.5	185.3
Less: amount deferred to future	(23.2)	(34.6)
	156.3	**150.7**

In 2010/11, total revenue increased by 3.8% representing revenue per FTE[2] enrolment of $33,800 across a larger student FTE base than in 2009/10 where revenue per FTE represented $33,100. This $31 million increase predominantly relates to greater enrolment and additional programs and services.

2 FTE enrolment is calculated as the number of full time students plus part time enrolment/3.5

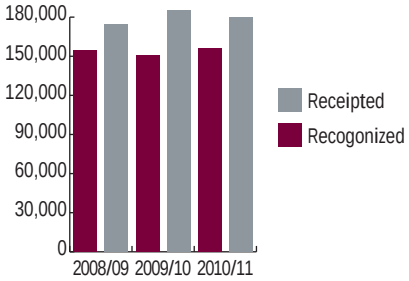
Operating Grants Income

Government operating grants of $232.9 million increased by $10 million or 4.5% over 2009/10 grants of $222.9 million. Increases from MTCU continue to be tied to specific performance outcomes such as increasing enrolment. In addition, Quality grants totaling $3 million were also received tied to multi-year accountability agreements. Funding for undergraduate accessibility and graduate expansion are received based on each University's share of the year-over-year growth and represent increases of $2 million and $2.8 million respectively. Expanded and enhanced MD and Post Graduate medical education funding was provided to increase the number of physicians in the province. This funding increased by $3.2 million and represented 32% of the overall grant increase.

Research Grants and Contracts

Research revenue is recognized as income in the year in which the expense occurs. Unspent research revenue and revenue spent on capital projects is deferred and recorded as Deferred Contributions on the Statement of Financial Position. Before allowing for deferrals, $179.5 million (2009/10 - $185.3 million) was received for future use. After deferrals, research revenue recognized over the past year increased by 3.7% to $156.3 million (2009/10 - $150.7 million) reflecting an increased level of research activity.

Research Revenue: Receipted vs Recognized in Income – $ thousands



The revenue recognized by the University does not include hospital research or funding for Networks of Centres of Excellence such as the Centre for Probe Development and Commercialization hosted by McMaster University. As illustrated in the table on the left, research receipts were down slightly from the prior year.

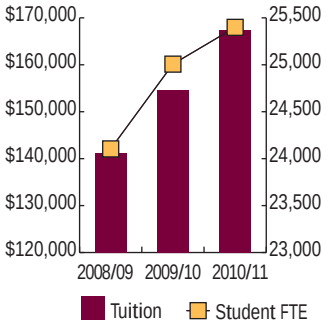
Research Overhead Grants

Research overhead grants assist the University in partially offsetting the indirect costs associated with research. In 2010/11, $14.0 million was received (2009/10 - $14.2 million). The Province and the Federal Government fund a portion of the total overhead costs associated with the federal research granting councils and eligible provincial research programs.

Tuition Fees

Revenue from tuition fees increased by 8.3% in 2010/11 as a result of a 1.6% growth in students and an increase in tuition fees as allowed by the Province. In March 2010 the Province extended the previous tuition fee setting policy, which permitted the University to increase tuition fees for regulated programs by an overall maximum of 5% per year. In 2010/11, the University increased fees by the maximum allowable increase for each regulated program and remained within the overall cap of 5%. Contributing to tuition revenue is a higher number of international students (an increase of 10.1%). International fees are higher than domestic student fees. International students now account for approximately 6.9% (2009/10 – 6.4%) of the total student population. The average tuition per student FTE increased by marginally more than 5% as a result of the rate increase and also as a result of more graduate students with higher fees.

Total Tuition – $ thousands and Number of FTE Students



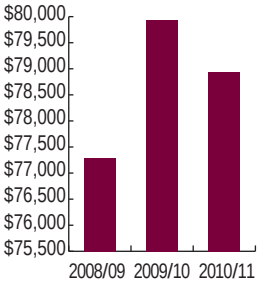
Ancillary Operations

Ancillary operations have a mandate to provide excellent services and operate in a business manner. They are required to cover all operating and expansion related costs while offering services at affordable and competitive prices. Cost containment is critical to maximizing profits targeted for reinvestment and provision of student services.

A detailed breakdown of Ancillary revenues follows. Revenues declined by 1.2% in 2010/11 primarily related to a decline in Bookstore sales (by 3.7%). This sales decline follows a declining trend in sales of textbooks and custom courseware. As well, fewer conferences held this year reduced revenues for both Hospitality Services (-0.2%) and Housing and Conference Services (-1.3%). The 8.6% decline in Media Production Services relates to a decrease in internal sales. Continuing Education sales increased by 15.3% due to a combination of greater demand

	$ thousands	
SALES BY ANCILLARY OPERATIONS	2010/11	2009/10
Bookstore	21,621	22,459
Hospitality Services	19,560	19,610
Housing and Conference Services	20,164	20,429
Media Production Services	3,365	3,680
Parking	4,813	4,887
Continuing Education	4,856	4,212
Telecommunications	2,750	2,794
Student Health Services	1,623	1,680
Miscellaneous	187	180
	78,939	79,931
Less: internal sales	(11,017)	(11,175)
	67,922	**68,756**

Historical Perspective: Ancillary Sales – $ thousands



Students learning about finances and markets in the Michael G. DeGroote School of Business, Allen H. Gould Trading Floor

		$ thousands
INVESTMENT INCOME	2010/11	2009/10
Recognized in income	40,306	48,748
Posted directly to External Endowments	23,036	33,107
	63,342	**81,855**

for existing programs and the introduction of new programs and partnerships. Telecommunications revenue decreased by 1.6% due to reduced internal demand for telephone equipment. Student Health Services revenue decreased 3.4% due to reduced demand for non-OHIP services.

Investment Income

The capital markets recovery continued but slowed in 2010/11. The fiscal year rate of return (after expenses) for the long term investment pool was 11.5% compared to 17.1% in 2009/10. The endowment fund investment policy requires diversification between fixed income (40%) and equity securities (60%) and generated an annual rate of return, measured at March 31, 2011, of 10.7% (2009/10 - 22.2%) which was equivalent to the benchmark return. Total investment income including both short-term and long term investment earnings are allocated between direct contributions to external endowments and income that is recognized in the Statement of Operations as summarized in the table above.

Investment returns on total endowed funds are used in accordance with the purposes set out by donors or the Board of Governors. The amount of annual income budgeted for expenditure on designated uses was set at a maximum of 4% of the three-year average market value of endowment capital. In 2010/11, approximately $10.4 million (2009/10 - $9.7 million) of expenses were funded from the external endowment, a significant proportion of which was directed towards student scholarships and bursaries and funding of chairs and professorships.

COMPENSATION AND BENEFITS

BENEFITS

SUPPORT

RETIREMENT

COMPENSATION

"At McMaster, our purpose is the discovery, communication, and preservation of knowledge. In our teaching, research, and scholarship, we are committed to creativity, innovation, and excellence. We value integrity, quality, and teamwork in everything we do. We inspire critical thinking, personal growth, and a passion for learning. **We serve the social, cultural, and economic needs of our community and our society."** – McMaster University Mission

COMPENSATION AND BENEFITS

Salaries and wage expenses are reflected in the Statement of Operations. Employee benefit costs incurred in the fiscal year are identified as a separate line. The employee benefit expenses include accruals for pension and other non-pension or post-retirement benefits (primarily medical benefits and dental care) that are earned in relation to current year service. In accordance with generally accepted accounting policies, only a portion of the total pension and non-pension liability is recognized in the liability section of the Statement of Financial Position. The difference between the recorded balance sheet liability and the total pension and non-pension liabilities are referred to as the unfunded deficit and is reflected in the Notes to the Financial Statements. Additional information related to the current year expenses, total pension and non-pension liabilities and the unfunded deficit are included in this section.

Faculty and Staff as at October 2010 – 7,054

- Academic *(includes Faculty, Sessional Lecturers, Post Doctoral Fellows, Librarians, Teaching Assistants)* (3,861) 55%
- Administrative Support (2,266) 32%
- Research Support (927) 13%

Expense

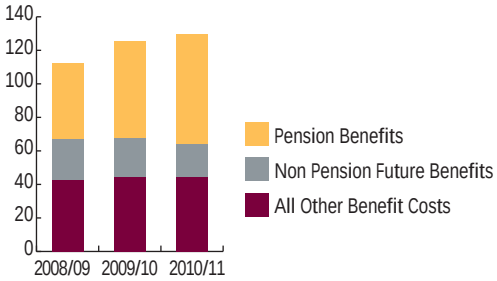
Total compensation related expenses account for over 62% of total expenditures. A total of 7,054 faculty and staff members were employed as of October 2010 (October 2009 - 6,781).

The total number of faculty members and staff increased by 4.0% (compared to 1.2% growth for the prior year) while total salaries and wage expense increased by 3.5% (versus 4.6% growth last year). The staff increase largely relates to increased Teaching Assistants hours needed to support undergraduate enrolment growth. Total compensation related expenses continue to grow disproportionately to other expenditures amounting to $524.9 million this year compared to $507.7 million and $477.3 million in 2009/10 and 2008/09 respectively.

Employee Future Benefit Obligations (Pension and Other)

Included in total compensation expenses are both defined benefit pension and non-pension benefit costs. The non-pension benefit costs include extended health, dental and life insurance for most of our employees. The annual earned benefit costs are expensed in addition to a portion of the unfunded deficit balance, which is amortized into expenses over the average remaining service

Employee benefit expense $129.5 million



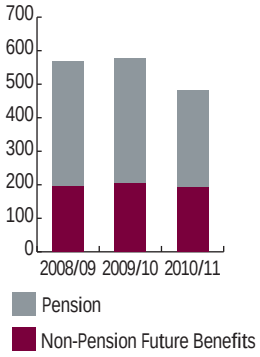
life of active employees. The pension and non-pension plan obligations continue to be one of the University's greatest challenges causing a significant draw on University resources. Compounding the growth of pension and non-pension costs is that any increase to plan enrolment numbers for eligible employee groups further proportionately increases the liabilities.

Pension

Several positive steps have been taken over the last few years to manage the pension liability such as revised eligibility rules for some groups, increased employee contributions, and introduction of a group RRSP for non-eligible (new) employees. The impact of the steps taken and required assumption changes can be seen in the next chart which shows total pension and non-pension obligations declining over the prior year. However, there is still

a large unfunded deficit indicating additional strategies will be necessary. Additional expense required to address the plan shortfalls will continue to put significant pressure on all programs for many years to come.

Pension and non-pension future benefits unfunded obligations



The pension expense increased by 13.4% from 2009/10 primarily due to the unfavourable impact of a required decrease in the discount rate used to calculate the future costs of pension benefit expenses, and the increased actuarial loss being amortized into expense. The expense in 2010/11 increases the total recorded accrued liability. As well, the last of three annual special pension deficit amortization payments of $9.4 million has been included in 2010/11 benefit expenses ($9.9 million in 2009/10). The pension expense for 2010/11 of $66.2 million increased from 2009/10 ($58.4 million) and includes amortization of actuarial losses of $20.0 million (2009/10 - $14.4 million).

CHANGE IN FUNDED STATUS OF PENSION BENEFIT PLANS

	APRIL 30, 2011 $ millions	APRIL 30, 2010 $ millions
Funded status, opening balance	(375.4)	(373.0)
Costs in the period:		
Current service cost	(39.1)	(27.6)
Interest on liabilities	(86.3)	(94.7)
Actual gain on plan assets	103.8	154.5
	21.6	32.2
Actuarial loss related to changes in discount rate	(13.7)	(96.9)
Actuarial gain related to salary assumptions and other	72.2	15.0
Plus: University contributions	49.9	47.3
Funded status, closing balance	**(288.6)**	**(375.4)**

The funded status of the defined benefit hourly and salary pension plans for each of the last two years is summarized in the chart on page 14.

Better than expected investment returns of 10.6% for the one year period ending April 30, 2011, offset by the current service cost and interest on liabilities, generated a net increase of $21.6 million in the deficit position in 2010/11. This increase was more than offset by the impact of slightly lower assumptions for the rate of increase in salaries. A decrease in the discount rate to 5.75% from 6% had a negative impact on the funded position due to the long (17 year) duration of the liabilities. In total the deficit has declined by $86.8 million. There was no change for the expected long-term rate of return on plan assets at 7.0%.

The University is required to submit the next funding valuation for the salaried plan (over 96% of the assets) as of July 1, 2011. Based on the expected results of this valuation significant increases in deficit payments will be required. The provincial government has approved solvency relief for universities which will allow for these deficit payments to be spread over a longer period. The Hourly Pension Plan has already qualified for this solvency relief. Relief for the Salaried Pension Plan will be applied for during 2011/12 and if awarded will reduce the


Alumni socialize in the Westdale Village

CHANGE IN FUNDED STATUS OF NON-PENSION BENEFIT PLANS

	APRIL 30, 2011 $ millions	APRIL 30, 2010 $ millions
Funded status, opening balance	(203.8)	(195.0)
Costs in the period:		
Current service cost	(7.7)	(7.8)
Interest on liabilities	(12.0)	(14.4)
	19.7	(22.2)
Actuarial loss related to changes in assumptions for discount rate	(8.6)	(41.8)
Plan amendments	15.9	4.3
Gain due to updated utilization data	n/a	58.0
Gain/(loss) due to change in trend assumption for health costs	17.8	(7.1)
Other	0.6	(5.0)
University contributions	5.4	5.0
Funded status, closing balance	**(192.4)**	**(203.8)**

magnitude of the payments required over the next several years; however, it is not reasonable for the size of the deficit to be eliminated without future contributions or further changes in plan design.

Other - Post-Retirement and Post-Employment Benefit Plans

Non-pension future employee benefit expense in 2010/11 of $19.5 million decreased by $3.5 million from 2009/10 due to reduced interest and deficit amortization charges.

The deficit status of the non-pension post-retirement benefit plan as at April 30, 2011 amounted to $192.4 million, a decrease of $11 million from April 30, 2010. The significant changes in each of the last two years are outlined in the chart above.

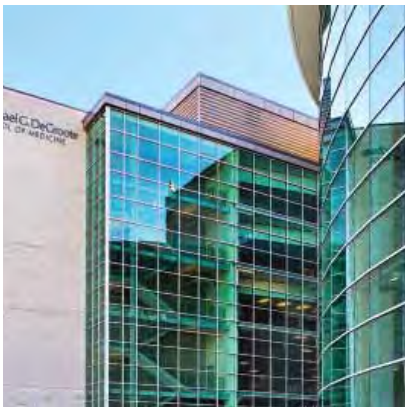
The University's three year valuation was completed in May 2010. For the fiscal year 2010/11 roll forward update, the decrease in the obligation is primarily a result of plan amendments negotiated with faculty and staff, and a change in the trend assumption for the rate of increase in future health costs. The significant gain resulting from these changes was partially offset by the decline in the discount rate ($8.6 million). The discount rate is based on high quality corporate bond yields as at April 30, 2011, which decreased by 0.25 % year-over-year from 6% to 5.75%.

CAPITAL PROJECTS AND FINANCING

INVESTING

EXPANSION

INNOVATION



FINANCING

At McMaster, our vision is to achieve international distinction for creativity, innovation and excellence.

Many people work behind the scenes at the University ensuring that it fulfills all of the mandates set down by McMaster's mission and the vision.

CAPITAL PROJECTS AND FINANCING

The 2002 McMaster Campus Plan provides a comprehensive framework to guide campus capital development. The plan is reviewed annually and was formally updated and re-issued in 2008. The plan ensures that the physical infrastructure is an appropriate reflection of McMaster's academic excellence and university priorities.

Capital Projects

In 2010/11 several building projects were underway. The chart below outlines the major new building projects along with the funding sources for each.

KIP (Knowledge Infrastructure Program) projects were undertaken as part of a two-year $2 billion government economic stimulus measure to support infrastructure enhancement at postsecondary institutions across Canada. In 2010/11, McMaster worked to complete the two KIP projects (listed below). Both of these projects were critical to the University's ability to support its current students and researchers and to develop the infrastructure needed to capture the value created from innovation. The completion date for these projects is Fall 2011.

The construction of the Farncombe Family Institute for Digestive Diseases on the third floor of the McMaster University Medical Centre was made possible through a gift to the University in 2008 from the Farncombe family. The space provides laboratories, teaching and research facilities for work focusing on digestive health issues. The focal point is an atrium that was created in an interior courtyard in order to maximize available space. The atrium, over 1,600 square feet with a height of more than three storeys, is a research hub for presentations, seminars, small meetings, and large functions for the Farncombe Institute and the broader University. The Niagara Regional Campus for the Degroote Medical School will be located in the BioSciences Research Complex at Brock University.

The University's total capital expenditure for 2010/11 was $90.2 million (2009/10 $93.9 million) and is summarized in the table below.

	$ thousands
CAPITAL ASSET ADDITIONS	2010/11
Completed Building Projects and Construction in Process	54,597
Computers, Furnishings and Other Equipment	30,367
Library Materials	5,225
	90,189

MAJOR BUILDING PROJECTS – as of April 30, 2011

PROJECT	BUDGET	FUNDING SOURCES	EXPECTED COMPLETION
KIP – Nuclear Research Building Renovations	$22 million	Federal and Provincial Governments	2011
KIP – Centre for Spinal Cord Education, Research and Rehabilitation	$20 million	Federal and Provincial Governments and Donors	2011
Farncombe Institute for Health	$5.6 million	Grants, Donors and University	2011
Niagara Regional Campus of the DeGroote Medical School	$4 million	Grants, Donors and University	2011

The backlog of Deferred Maintenance currently stands at $145.6 million (2009/10 - $147.2 million). In relation to replacement value, Deferred Maintenance has declined slightly with a Facilities Condition Index of 7.9% (2009/10 - 8.1%).

Capital Financing

The long term Campus Plan, along with the December 2007 Debt Policy, and the November 2008 Senate policy on Project Priorization continue to guide the University on project priorities against available funds and borrowing capacity. New building projects with long term funding sources such as user fees, parking levies, and future fundraising have been financed through internal central bank loans. In 2010/11 the internal loan was finalized for the completed Ron Joyce Centre in Burlington, and additional repayments were made on the Engineering Building loan. The net internal central bank capital loans declined slightly from $74.0 million in 2009/10 to $72.1 million in 2010/11. The loans have varying repayment terms and interest rates which reflect the date of issue and the project income stream. In 2010/11 no new external borrowing was undertaken.

Subsequent to year end the University received approval for three new capital projects: the McMaster Automotive Research Centre (MARC), the Wilson Building, and the Downtown Health Campus. MARC is a $21 million building, which has qualified for up to $11.5 million in capital grants from the Federal Economic Development Agency. Other funding sources, including an $8.5 million loan from the central bank will finance the balance. The Wilson building, with an expected total cost of $65 million, has qualified for $45.5 million in building specific MTCU funding. This funding along with a $10 million donation from Dr. Wilson, a $1 million contribution from the McMaster Association of Part-time Students, and an internal central bank loan of $8.5 million will finance construction over a number of years. McMaster's plan for the Downtown Health Campus took a significant step forward when Hamilton counsellors approved a $20 million investment in the project and agreed to locate some of the City's Public Health services and clinics at the site. Final details of the project are yet to be confirmed, however it will be fully funded from McMaster, Faculty, and donor contributions.

Guiding capital investment decisions are two financial statement ratios included in the Debt Policy. These ratios measure University balance sheet resources and annual cash flow. They provide guidelines to ensure the University's capacity and affordability for additional debt. In addition, they assist the University in maintaining financial equilibrium.

The chart below outlines these ratios as well as an additional ratio recommended by the President's Committee on the Impact of the Economic Crisis (PACICES). Available Expendable Resources (AER) as a % of revenues provides a measure of operating flexibility.

Two years of positive financial results have improved the ratios so that the three year average for each ratio is approaching or above each guideline amount.

RATIO	GOAL	GUIDELINE	2008/09	2009/10	2010/11	3-YR AVG.
Expendable resources to debt	Capacity	Greater than 0.8	0.7	0.7	0.8	0.7
Interest coverage ratio	Affordability	Greater than 2.75	-1.8	4.8	5.9	2.9
AER as % of revenue	Flexibility	*Greater than 15%	20%	21%	25%	23%

*guideline under review

FINANCIAL ANALYSIS

Total Revenue

- Revenues increased from $828.4 million to $859.5 million resulting in an overall increase of 3.8%. Most notable increases were in operating grants (4.5%), other revenue (12.5% mostly for specifically funded programs) and tuition (8.3% related to increased enrolment and fee increases in accordance with legislation).
- Investment revenue decreased by 17.3% compared to 2009/10 results, which included market rebounds from lows experienced in 2008/09.

Total Expenditures

- Expenditures grew more modestly than revenues in the year by 2.6% to $838 million.
- Employment related expenses grew by 3.4% over the prior year, representing salary and wage growth of 3.5% and employee benefits expense growth of 3.1%.

Total Assets

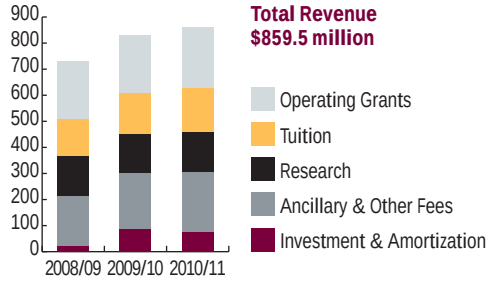
- Assets grew by 5.8% mainly attributed to investment asset growth of 14.7%.
- Capital assets grew by a net of $29.1 million as a result of $90.2 million in capital expenditures, offset by amortization of $61.1 million.

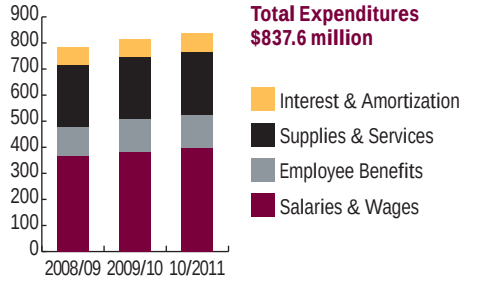
Total Liabilities

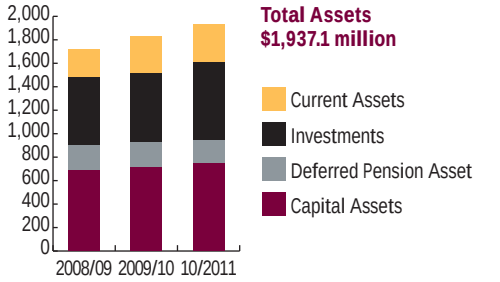
- Liabilities grew by 3.6% with the highest growth experienced in employee future benefits (6.5%) and deferred contributions (5.6%).
- Long term obligations decreased by 6.3% primarily related to the maturity of long term debt associated with the residence mortgage liability.

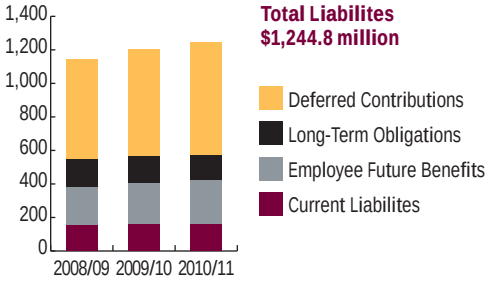
Net Assets

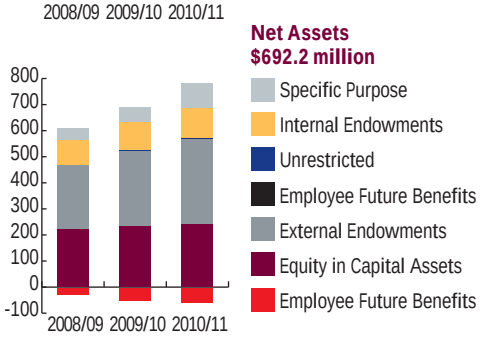
- Net assets grew by 10.0% mainly as a result of the increase in the external endowment (14.4%) and reserves, offset by the increase in the deficiency resulting from employee future benefit costs.
- The external endowment grew as a result of new endowed donations of $18.4 million, and investment income of $23.0 million.











Long Term Debt

- External long term debt decreased by $1.1 million.
- The debt service coverage ratio improved due to a positive net income and lower debt.
- Capital borrowing in the year was completed using internal loans (net $72 million versus $74 million in 2009/10).

Available Expendable Resources (AER)

- AER represents funds held that are not externally committed, such as unrestricted net assets, specific purpose reserves and appropriations and internally restricted endowments.
- AER increased to 25% of revenue (2009/10: 21%).

Endowment Funds

- McMaster's internal and external endowments grew by 11.7%.
- Endowment per student increased from $18,425 to $20,201 year over year.
- As of December 31, 2010, McMaster had the 7th largest endowment in Canada.

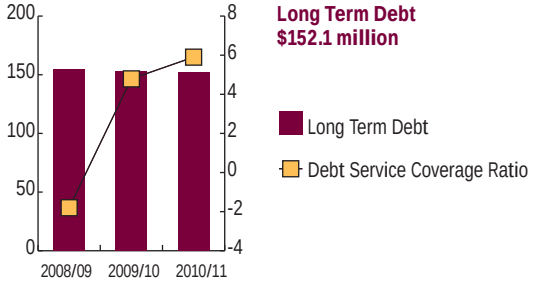
Deferred Maintenance

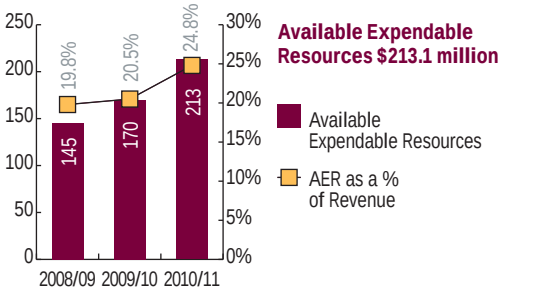
- McMaster's deferred maintenance backlog decreased slightly from $147.2 million to $145.6 million.
- McMaster's Facilities Condition Index (FCI) is 7.9% (2009/10: 8.1%) compared to a lower G6[3] average of 7.0%.

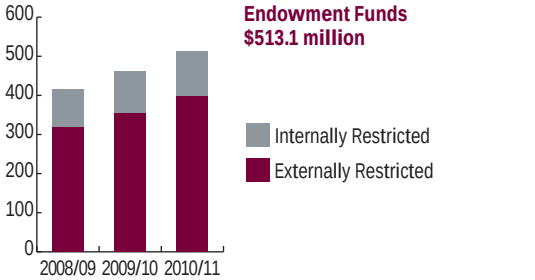
Operating Fund – expenditures by envelope

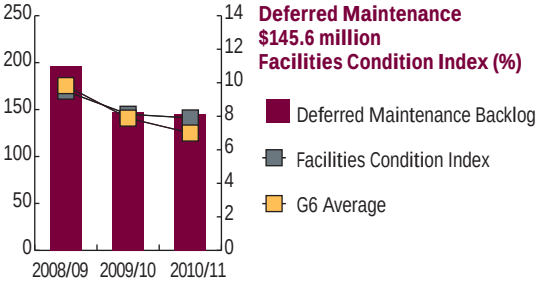
- Operating fund net expenditures increased by 3.9%.
- Academic and student support areas increased by 3.8%.
- Institutional support includes a total increase of 15% in strategic investments in technology, advancement, and leadership, while administration decreased by 3%.

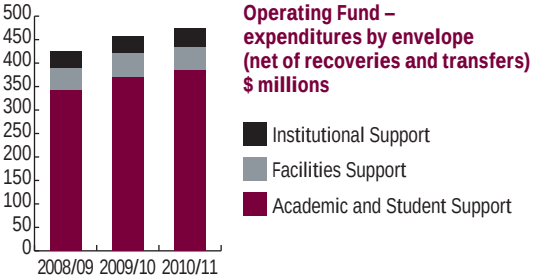
[3] G6 refers to the six Ontario research-intensive universities.











SUPPLEMENTAL INFORMATION: OPERATING FUND AND OPERATING BUDGET

The audited financial statements are prepared as required by statute in accordance with generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants under the Deferral Method of accounting ("deferral method") and with consolidation of all activity. For external reporting under the deferral method, all funds are consolidated in a single column on the Statement of Operations.

In contrast, the University's internal reports and budgets are prepared on a cash basis and pursuant to the concepts of fund accounting. Under this method, separate budgets and funds are set up for funds' activities, with each fund comprised of its own assets, liabilities, revenues and expenses.

Fund accounting enhances accountability and budgetary control of resources by ensuring that restricted grants and contributions are spent only for the purposes intended. To maintain control, the following segregated funds have been developed: General Operating, Research, Capital, Externally Restricted Trusts and Endowments, Internally Restricted Endowments and Ancillary Operations. The Operating Fund includes all revenue and expenses related to annual activities for academic program delivery and accounts for almost 60% of all spending. The 2010/2011 Operating Fund Budget included the full cost of pension plan contributions and deficit payments and a portion of the accrued costs of post-retirement benefits.

In recent years, considerable attention and effort focused significant resources on addressing the operating budget deficit and the University finished the year with a $12.4 million (2.5%) surplus as shown in the chart below.

Total operating fund revenues were $486.8 million as compared to the projected funding of $483.5 million. The favourable variance of $3.3 million (0.7%) is primarily due to additional grants for undergraduate scholarships, increased income from research royalties, specifically funded initiatives in Athletics & Recreation, and interest on student accounts.

	2010/11 OPERATING FUND ($ millions)				
				Variance	
	Budget	Projection	Actual	Budget vs. Actual	Projection vs. Actual
Sources of revenue	$ 471.3	$ 483.5	$ 486.8	$ 15.5	$ 3.2
Less net expenditures	486.9	486.8	466.6	20.2	20.1
Excess (deficiency) of revenue over net expenditures	(15.6)	(3.2)	20.1	35.7	23.3
Add amount funded by (transferred to) unrestricted net assets	(0.5)	(0.5)	(0.5)	–	–
Transfers from (to) other funds	7.7	0.4	(7.2)	(14.9)	7.6
Net surplus (deficit)	(8.4)	(3.3)	12.4	20.8	15.7
Fund balance, beginning of year*	71.1	71.1	71.1	–	–
Fund balance, end of year	$ 62.7	$ 67.8	$ 83.5	$ 20.8	$ 15.7

*adjusted to actual

The favourable revenue variance of $15.5 million (3.3%) compared to original budget is primarily due to:

- increased Provincial funding ($5.5 million) including Accessibility funding ($2.0 million), graduate expansion funding ($0.4 million), and Quality funding ($3.0 million);
- greater than expected tuition ($3.7 million);
- research overhead income ($2.5 million); and
- other income ($3.8 million).

Operating fund expenditures net of transfers and recoveries were $466.6 million as compared to projected net expenditures of $486.8 million. The favourable variance of $20.2 million (4.2%) is the result of McMaster's conservative budgeting philosophy, and is primarily due to delayed or reduced spending on equipment and renovations as departments seek to align their operations with available resources, as well as lower than anticipated spending on specifically funded accounts.

Transfers to other funds represent operating funds earmarked for research and capital projects, offset by contributions to operations from ancillary operations and income from trust accounts. The unfavourable variance compared to projection of $7.6 million was due to increased transfers to capital and research. These transfers were not separately identified in the original budget and partially offset the favourable expense variance.

The remaining surplus of $12.4 million has been transferred to internally restricted net assets (department appropriations) which results in closing appropriations of $83.5 million, up from $71.1 million at April 30, 2010. Appropriations are available to provide funds to offset one-time spending and investments in deficit-reducing strategies.

Students rally at a Marauders football game

FINANCIAL STATEMENTS, APRIL 30, 2011

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McMaster University

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McMaster University

Statement of Management Responsibility

Management of the University is responsible for the preparation of the financial statements, the notes thereto and all other financial information contained in this Annual Financial Report.

Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles developed by The Canadian Institute of Chartered Accountants. Management believes the financial statements present fairly the University's financial position as at April 30, 2011 and the results of its operations, changes in net assets and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgements were employed. Additionally, management has ensured that financial information presented elsewhere in this Annual Financial Report has been prepared in a manner consistent with that in the financial statements.

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

Mercer (Canada) Limited has been retained by the University in order to provide an estimate of the University's current year position for pension and other employee future benefits. Management has provided the valuation actuary with the information necessary for the completion of the University's report and retains ultimate responsibility for the determination and estimation of the pension and other employee future benefits liabilities reported.

The Board of Governors carries out its responsibility for review of the financial statements and this Annual Financial Report principally through the Finance Committee and its Audit Committee. All of the members of the Audit Committee are not officers or employees of the University. The Audit Committee meets regularly with management, as well as the internal auditors and the external auditors, to discuss the results of the audit examinations and financial reporting matters, and to satisfy itself that each party is properly discharging its responsibilities. The auditors have full access to the Audit Committee with and without the presence of management.

The financial statements for the year ended April 30, 2011 have been reported on by KPMG LLP, Chartered Accountants, the auditors appointed by the Board of Governors. The Auditors' Report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

Vice-President, Administration
October 20, 2011

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of McMaster University

We have audited the accompanying financial statements of McMaster University ("the University"), which comprise the statement of financial position as at April 30, 2011, the statement of operations, statement of changes in net assets, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of McMaster University as at April 30, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada
October 20, 2011

McMASTER UNIVERSITY
Statement of Financial Position
April 30, 2011, with comparative figures for 2010
(thousands of dollars)

	2011	2010
Assets		
Current assets:		
Cash and equivalents	$ 167,916	$ 170,506
Government grants and other accounts receivable	64,925	58,237
Research grants receivable	79,531	76,933
Inventories	4,956	5,405
Prepaid expenses	5,041	5,378
	322,369	316,459
Investments (note 2)	658,020	573,779
Investment in McMaster Innovation Park (note 3)	13,436	13,318
Capital assets (note 4)	744,235	715,161
Deferred pension asset (note 5)	198,995	212,108
	$ 1,937,055	$ 1,830,825
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 117,784	$ 127,507
Deferred revenue	28,648	28,461
Current portion of long-term obligations (note 6)	12,744	1,128
	159,176	157,096
Accrued employee future benefits (note 5)	261,142	245,250
Long-term obligations (note 6)	152,804	163,134
Deferred contributions (note 7):		
Deferred for future expenses	316,737	303,423
Deferred capital contributions	354,979	332,668
	671,716	636,091
Net assets:		
Unrestricted	2,268	2,174
Internally restricted (note 8):		
Employee future benefits	(89,640)	(61,692)
Specific purpose	96,056	59,952
Equity in capital assets (note 9)	239,428	233,149
Endowments (note 10):		
Internal	114,833	107,817
External	329,272	287,854
	692,217	629,254
Commitments and contingencies (note 11)		
	$ 1,937,055	$ 1,830,825

On behalf of the Board of Governors:

Chair, Board of Governors

Chair, Audit Committee

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statement of Operations
Year ended April 30, 2011, with comparative figures for 2010
(thousands of dollars)

	2011	2010
Revenues:		
Operating grants	$ 232,938	$ 222,865
Research grants and contracts	156,266	150,719
Tuition fees	167,474	154,696
Other (note 12)	110,417	98,187
Ancillary sales and services	67,922	68,756
Investment income, net	40,306	48,748
Donations and other grants	35,527	33,817
Research overhead grants	13,969	14,199
Amortization of deferred capital contributions	34,688	36,386
	859,507	828,373
Expenses:		
Salaries and wages	395,458	381,926
Employee benefits	129,471	125,761
Supplies and services	241,612	236,593
Interest on long-term obligations	9,900	9,969
Amortization of capital assets	61,115	62,474
	837,556	816,723
Excess of revenues over expenses	$ 21,951	$ 11,650

McMASTER UNIVERSITY
Statement of Changes in Net Assets
Year ended April 30, 2011, with comparative figures for 2010
(thousands of dollars)

		Internally restricted						
		Employee		Equity in				
		future	Specific	capital	Endowments		2011	2010
	Unrestricted	benefits	purposes	assets	Internal	External	Total	Total
Net assets, beginning of year:	$ 2,174	(61,692)	59,952	233,149	107,817	287,854	629,254	574,071
Excess (deficiency) of revenues over expenses	48,378	-	-	(26,427)	-	-	21,951	11,650
External endowment contributions:								
Contributions	-	-	-	-	-	18,382	18,382	8,608
Protection of capital	-	-	-	-	-	23,036	23,036	33,107
Transfers and adjustments:								
Transfers for specific purposes	(8,156)	(27,948)	36,104	-	-	-	-	-
Capital transactions from operating (note 9)	(32,706)	-	-	32,706	-	-	-	-
Transfer to internal endowments	(7,016)	-	-	-	7,016	-	-	-
Net change in unrealized losses on interest rate swap agreements (note 6)	(406)	-	-	-	-	-	(406)	1,818
	94	(27,948)	36,104	6,279	7,016	41,418	62,963	55,183
Net assets, end of year	$ 2,268	(89,640)	96,056	239,428	114,833	329,272	692,217	629,254

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statement of Cash Flows
Year ended April 30, 2011, with comparative figures for 2010
(thousands of dollars)

	2011	2010
Cash flows from operating activities:		
Excess of revenues over expenses	$ 21,951	$ 11,650
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(34,688)	(36,386)
Amortization of capital assets	61,115	62,474
Increase in accrued employee future benefits	15,892	20,359
Equity earnings of McMaster Innovation Park	(118)	-
Increase in decommissioning obligation	2,007	306
Decrease in deferred pension asset	13,113	8,703
	79,272	67,106
Net change in contributions deferred for future expenses	13,314	20,744
Loan receivable	-	15,963
Net change in other non-cash working capital	(18,036)	(438)
	74,550	103,375
Cash flows from financing and investing activities:		
Purchase of capital assets	(90,189)	(93,858)
Net change in investments	(84,241)	(10,568)
Net change in external endowments	41,418	41,715
Deferred capital contributions	56,999	54,721
Principal repayments on long-term obligations	(1,127)	(1,061)
	(77,140)	(9,051)
Net (decrease) increase in cash	(2,590)	94,324
Cash and equivalents, beginning of year	170,506	76,182
Cash and equivalents, end of year	$ 167,916	$ 170,506

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

1. Significant accounting policies:

(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 Student Centre Incorporated
- McMaster Children's Centre, Inc.

Other entities:
- The McMaster University Trust
- The McMaster University Foundation
- The McMaster University Hong Kong Foundation
- Friends of McMaster Incorporated
- Directors College (50% joint venture)
- Adiga Life Sciences Inc. (50% joint venture)

The investment in the related entity, McMaster Innovation Park ("Park") is accounted for by the equity method (note 3). Since the Trusts which form the Park have fiscal year ends of December 31st, the University records its share of the operating results effective on that date.

(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 pertaining to future periods are deferred and recognized as revenue in the year in which the related expenses are recognized.
- 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 restricted for capital asset purchases are deferred and amortized to operations on the same basis as the related capital asset.
- External endowment contributions and income preserved under the endowment capital protection policy (note 1(l) are recognized as a direct increase in endowment net assets. Income earned from the investment thereof, to the extent it is allocated, is recorded as deferred contributions and recorded as revenue in the periods in which the related expenses are incurred.

Tuition fees which relate to academic terms or parts thereof occurring after April 30th are recorded as deferred revenue. Gifts-in-kind are recorded at their fair market value on receipt, or at nominal value when fair market value cannot be reasonably determined. Pledges from fundraising and other donations are recorded in the period in which they are collected. Sales and services revenue is recognized at point of sale or when the service has been provided.

1. Significant accounting policies (continued):

(c) Financial instruments:

Financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method.

The University has classified its financial instruments as follows:

- Cash and cash equivalents and all investments other than the strip bonds held for the Hedden residence sinking fund are classified as held-for-trading.
- The strip bonds in investments held for the Hedden residence sinking fund are classified as held-to-maturity.
- Government grants and other accounts receivable and research grants receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities, and current and long-term obligations are classified as other liabilities.

The University has elected to expense transaction costs related to financial instruments classified as other than held-for-trading. The University has elected to use trade date accounting for regular-way purchases and sales of financial assets. The University has elected not to separately account for derivatives embedded in contracts to buy or sell non financial items in accordance with the University's expected purchase, sale or usage requirements.

Derivative instruments are recorded on the statement of financial position at fair value, with changes in fair value of derivative instruments recognized in the statement of operations, with the exception of derivatives that the University has designated as an effective cash flow hedge.

The University’s interest rate swap agreements have been designated as effective and are measured at fair value at the year end date and included on the statement of financial position. The effective portion of the gain or loss is recorded as a direct increase or decrease in net assets, and the ineffective portion, if any, is recognized in the statement of operations.

(d) Investments:

Investments with a term to maturity of 90 days or less on acquisition are included with cash and equivalents and are recorded at cost plus accrued income.

Long-term investments are carried at fair values. Changes in fair values are included in investment income.

Externally restricted investment income to the extent it is allocated is included with deferred contributions and recognized as revenue when the related expenses are incurred.

Unrestricted investment income is recognized as revenue during the period in which it is earned. Investment income from internal endowments is recorded as unrestricted revenue and transferred to internal endowments.

(e) Inventories:

Bookstore and nuclear reactor inventories are recorded at the lower of cost and net realizable value. Other inventories are recorded at cost which is a reasonable estimate of net realizable value.

1. Significant accounting policies (continued):

(f) Capital assets:

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

Buildings	2.5% to 10%
Decommissioning retirement costs	4%
Site improvements	5%
Library materials	10%
Computing systems	10%
Equipment, furnishings and vehicles	20%
Computing equipment	33.3%
Leasehold improvements	term of lease

(g) Collections and works of art:

The McMaster Museum of Art has significant collections of works of art and coins. Donations of works of art amounted to $804,000 (2010 - $269,000) and are charged to operations in the year of acquisition.

(h) Contributed services:

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

(i) Ancillary enterprises:

Ancillary enterprises are self-sustaining operations which fund their own replacements and renovations of equipment and facilities. Operating results are transferred annually from unrestricted net assets to specific purposes net assets.

(j) Employee future benefits:

The University maintains separate defined benefit registered plans providing pension benefits for most of its salaried and hourly full-time employees. Additional pension benefits are provided through non-registered defined benefit plans. Other defined benefit plans provide non-pension, retirement and post-employment benefits for substantially all full-time employees.

! For purposes of calculating expected returns on plan assets, registered pension plan assets are valued at a market related value (smoothed for the difference between actual and expected investment income over five years). The other pension and other post retirement and post-employment benefit plans are unfunded.

! The costs of pension and other post retirement and post-employment benefits (primarily medical benefits and dental care) related to current service are charged to income. The current service cost and the accrued benefit obligation are actuarially determined for each plan using the projected benefit method prorated on service, and management's estimates of investment yields, salary escalation, health care trend rates and other factors.

1. Significant accounting policies (continued):

(j) Employee future benefits (continued):

- The corridor method is used to amortize actuarial gains or losses over the average remaining service life of active employees. Under this method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the beginning of year accrued benefit obligation and the actuarial value of the plan assets. Any past service costs arising from plan amendments are amortized on a straight-line basis over the expected average remaining service life of active employees.

- A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs of the current active employees.

The University also makes regular contributions to its Group Registered Retirement Savings Plan ("RRSP"), administered by a third party, on behalf of each eligible employee. Group RRSP contributions are charged to operations in the year made.

(k) Net assets:

Net assets are classified as follows:

Unrestricted: operating funds available without specific restrictions.

Internally restricted:

- Employee future benefits: unfunded portion of pension and other non-pension retirement and post-employment benefits, net of funds set set aside to meet estimated future obligations.
- Specific purposes: as approved by the Board, unexpended departmental budgets carried forward for subsequent expenditures and other portions of net assets reserved for specific purposes.

Equity in capital assets: funds invested in capital assets, exclusive of capital assets financed through long-term debt 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.

(l) Endowment capital protection policy:

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

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

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

1. Significant accounting policies (continued):

(m) Derivative financial instruments:

The University is party to certain interest rate swap agreements which are used to manage the exposure to fluctuations in interest rates. Payments and receipts under the agreements are recognized as adjustments to interest expense on long-term obligations.

(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 returns.

(p) Use of estimates:

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

Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, valuation of derivative financial instruments, assets and obligations related to employee future benefits and the decommissioning obligation. Actual results could differ from those estimates.

2. Investments:

Details of investments are as follows:

(thousands of dollars)	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Equities:				
Canadian	$ 135,547	$ 116,692	$ 121,891	$ 105,564
United States	122,865	115,309	104,136	107,922
Non-North American	108,635	118,432	80,365	100,920
	367,047	350,433	306,392	314,406
Fixed income	$ 284,612	$ 282,276	$ 260,172	$ 256,675
Other	6,361	8,549	7,215	10,078
	$ 658,020	$ 641,258	$ 573,779	$ 581,159

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. McMaster Innovation Park:

The First Longwood Innovation Trust and The Gore District Land Trust ("Park") were created by the University in 2006 to develop an entity for research, education, training, innovation and commercialization.

Details of the investment are as follows:

(thousands of dollars)	2011	2010
Balance, beginning of year	$ 13,318	$ 13,318
Equity earnings	118	-
Balance, end of year	$ 13,436	$ 13,318

The University is party to a Debt Service Deficiency Agreement as disclosed in Note 11(c). As part of the agreement, the University receives a fee of 0.5% on the monthly outstanding balance. At April 30, 2011, $106,630 (2010 - $0) in income was recorded by the University.

Included in rent expense for the University at April 30, 2011 is $434,773 (2010 - $0). Included in accounts receivable at April 30, 2011 is $216,809 (2010 - $118,226) receivable from the Park. Included in accounts payable is $776,000 (2010 - $0) owing to the Park.

During the year the University provided payroll services at a fee (1% of total salaries paid) which amounted to $10,725 (2010 - $7,676). The parties are negotiating the terms of an additional rental agreement for fiscal 2011.

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

(thousands of dollars)	December 31 2010	December 31 2009
Total assets	$ 102,963	$ 72,711
Total liabilities	$ 78,280	$ 35,030
Total deferred operating and capital grants	11,247	24,363
Total trusts' equity	13,436	13,318
	$ 102,963	$ 72,711
Results of operations:		
Total revenue	$ 4,443	$ 2,268
Total expenses	4,325	2,268
Net earnings	$ 118	$ -
Cash flows:		
From operating activities	$ 1,877	$ 2,188
From financing and investing activities	(1,136)	(5,589)
Increase (decrease) in cash	$ 741	$ (3,401)

In August 2011, the University entered into a project agreement with the Park which will result in the Park constructing approximately 88,000 square feet of space for the construction of the McMaster Automotive Resource Centre. Total construction costs are estimated at approximately $21 million.

4. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	2011 Net
Land	$ 3,440	$ -	$ 3,440
Buildings	842,014	276,638	565,376
Decommissioning retirement costs	1,826	114	1,712
Site improvements	18,063	6,522	11,541
Leasehold improvements	541	153	387
Library materials	130,558	101,826	28,732
Equipment, furnishings and vehicles	360,056	298,566	61,490
Computing systems and computing equipment	110,406	91,950	18,456
Construction in progress	53,101	-	53,101
	$ 1,520,004	$ 775,769	$ 744,235

(thousands of dollars)	Cost	Accumulated amortization	2010 Net
Land	$ 3,494	$ -	$ 3,494
Buildings	789,191	256,814	532,377
Decommissioning retirement costs	213	43	170
Site improvements	13,343	6,085	7,258
Leasehold improvements	191	57	134
Library materials	127,313	97,533	29,780
Equipment, furnishings and vehicles	341,226	277,094	64,132
Computing systems and computing equipment	112,726	92,866	19,860
Construction in progress	57,956	-	57,956
	$ 1,445,653	$ 730,492	$ 715,161

5. Employee future benefits:

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

(a) Information on the aggregate defined benefit plans position is as follows:

(thousands of dollars)	2011			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,358,987	$ 77,531	$ 192,403	$ 1,628,921
Fair value of plan assets	1,147,957	-	-	1,147,957
Funded status - deficiency	(211,030)	(77,531)	(192,403)	(480,964)
Reconciliation to deferred benefits (accrued future benefits):				
Unamortized past service cost	(2,693)	5,935	(15,363)	(12,121)
Unamortized actuarial loss	412,718	6,116	12,104	430,938
Deferred pension asset	$ 198,995	-	-	$ 198,995
Accrued employee future benefits	-	(65,480)	(195,662)	(261,142)
	$ 198,995	$ (65,480)	$ (195,662)	$ (62,147)

(thousands of dollars)	2010			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,332,688	$ 79,269	$ 203,731	$ 1,615,688
Fair value of plan assets	1,036,572	-	-	1,036,572
Funded status - deficiency	(296,116)	(79,269)	(203,731)	(579,116)
Reconciliation to deferred benefits (accrued future benefits):				
Unamortized past service cost	(2,952)	1,767	-	(1,185)
Unamortized actuarial loss	511,176	13,789	22,194	547,159
Deferred pension asset	$ 212,108	-	-	$ 212,108
Accrued employee future benefits	-	(63,713)	(181,537)	(245,250)
	$ 212,108	$ (63,713)	$ (181,537)	$ (33,142)

Each of the plans included above has accrued benefit obligations in excess of the fair value of plan assets at April 30th.

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

(thousands of dollars)	2011		2010	
	Pension	Other	Pension	Other
Net benefit expense	$ 66,182	$ 19,475	$ 58,357	$ 22,992

5. Employee future benefits (continued):

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

	Percentage of fair value of total plan	Target allocation percentage	Expected long-term rate of return
Equity securities	64%	65%	8.3%
Debt securities	35%	35%	4.6%
Other	1%	0%	3.0%

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

	Pension	Other
Discount rate	5.75%	5.75%
Expected long-term rate of return on plan assets	7.00%	-
Rate of compensation increase	4.75%	4.00%

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

	Pension	Other
Discount rate	6.00%	6.00%
Expected long-term rate of return on plan assets	7.00%	-
Rate of compensation increase	5.25%	4.50%

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

(thousands of dollars)	2011		2010	
	Pension	Other	Pension	Other
Employer contributions	$ 49,886	$ 5,350	$ 47,314	$ 4,975
Employee contributions	16,115	-	15,224	-
Benefits paid	58,374	5,350	54,558	4,975

(g) For measurement purposes, a 5.32% annual rate of increase in per capita medical cost was assumed for 2011, grading down to 4.5% per annum in and after 2030. For per capita dental costs, an annual rate of increase of 4.5% per annum was assumed.

(h) Details of actuarial valuation completion for funding purposes and filing dates of the respective plans are as follows:

- hourly rated employee pensions: completed as at July, 2010, the next required filing date is July, 2013.
- salaried employees pensions (Plan 2000): completed as at July, 2008; the next required filing date is July, 2011.
- other benefit: completed as at April 30, 2010; the next required filing date is April 30, 2013.

The results of each valuation have been extrapolated to April 30, 2011, which is the measurement date used to determine the accrued benefit obligation for all employee future benefit plans.

(i) In 2008 the University created a group RRSP for certain types of new employees. University and employees' contributions in 2011 amounted to $392,000 each (2010 - $94,000).

6. Long-term obligations:

Details of long-term obligations are as follows:

(thousands of dollars)					2011	2010
	Maturity	Interest Rate	Current portion	Non-current portion	Total Outstanding	Total Outstanding
Long term debt:						
Residence mortgage (a)	May 2011	9.81%	$ 11,544	$ -	$ 11,544	$ 11,544
Bank loan (b)	Dec 2012	floating	687	483	1,170	1,816
Mortgage	Oct 2016	5.38%	113	589	702	809
Bank term loan (c)	May 2033	floating	400	18,327	18,727	19,101
Debentures (d)	Oct 2052	6.15%	-	120,000	120,000	120,000
			12,744	139,399	152,143	153,270
Decommissioning obligation (e)			$ -	$ 8,307	$ 8,307	$ 6,300
Interest rate swap agreements (f)			-	5,098	5,098	4,692
			$ 12,744	$ 152,804	$ 165,548	$ 164,262

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

2012	$ 12,744
2013	1,028
2014	580
2015	616
2016	655

(a) A voluntary sinking fund has been established to fund a portion of the principal repayment of the residence mortgage upon maturity. Increases to the fund are charged to residence ancillary operations. The value of the fund amounts to $6,306,000 (2010 - $5,947,000). The mortgage was repaid in full on May 1, 2011.

(b) The bank loan maturing in 2012 is unsecured and the outstanding amount is subject to a 10-year interest rate swap agreement on an original notional principal of $5,500,000 with the banker whereby the University receives a floating interest rate while paying a fixed rate of 6.25%.

(c) 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%.

(d) The debentures, which are unsecured, bear interest at 6.15% payable semi-annually in April and October. The proceeds of the issue are being used to finance various capital projects.

A voluntary sinking fund has been established to provide funds to repay the debenture principal upon maturity. Increases to the sinking fund are charged to operations. The value of the fund amounts to $10,753,000 (2010 - $9,622,000).

(e) 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, 2011, the fair value of the trust funds amounted to $7,208,000 (2010 - $6,030,000). The net present value of the estimated cost for decommissioning, at April 30, 2011 is $8,307,000 (2010 - $6,300,000) using risk free rates ranging between 5.1% and 4.5%.

6. Long-term obligations (continued):

(f) The University has in place two interest rate swap agreements. The first agreement is for 10 years and expires in 2012, while the second agreement is for 30 years and expires in 2033. Under the terms of the first agreement, the University agrees with the counterparty to exchange, at specified intervals and for a specified period, its floating interest on the loan (note 6(b)) for a fixed rate of 6.25%. Under the terms of the second agreement, the University agrees to receive a floating interest rate on the loan (note 6(c)) while paying a fixed rate of 6.384%. The use of the agreements effectively enables the University to convert the floating rate interest obligations of the loans into fixed rate obligations and thus manage its exposure to interest rate risk.

The notional and fair values of the interest rate swap agreements are as follows:

(thousands of dollars)	2011		2010	
	Notional Value	Fair Value	Notional Value	Fair Value
10-year interest rate swap	$ 1,170	$ (47)	$ 1,816	$ (107)
30-year interest rate swap	18,727	(5,051)	19,101	(4,585)
	$ 19,897	$ (5,098)	$ 20,917	$ (4,692)

The change in fair value of the swaps for the year ended April 30, 2011 are as follows:

- 10-year: $60,000 (2010 - $128,000)
- 30-year: ($466,000) (2010 - $1,690,000)

7. 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)	2011	2010
Balance, beginning of year	$ 303,423	$ 282,679
Deferred and capital contributions received	273,137	272,969
	576,560	555,648
Less:		
Amounts recognized as revenue	(202,824)	(197,504)
Deferred capital contributions transfer	(56,999)	(54,721)
Balance, end of year	$ 316,737	$ 303,423

Deferred contributions consist of the following:

(thousands of dollars)	2011	2010
Research grants and contracts	$ 183,723	$ 177,114
Donations, other grants and investment income	68,990	65,063
Capital grants and donations	57,429	56,060
Other restricted funds	6,595	5,186
	$ 316,737	$ 303,423

7. Deferred contributions (continued):

(b) Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. Unspent deferred capital contributions are included in deferred contributions for future expenses until such time as capital expenditures are incurred. Details of the change in the unamortized deferred capital contributions are as follows:

(thousands of dollars)	2011	2010
Balance, beginning of year	$ 332,668	$ 314,333
Add: contribution transfers	56,999	54,721
Less: amount amortized to revenue	(34,688)	(36,386)
Balance, end of year	$ 354,979	$ 332,668

8. Internally restricted net assets:

(a) Employee future benefits:

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

(thousands of dollars)	2011	2010
Pensions	$ 93,938	$ 110,291
Other retirement and post employment benefit plans	(183,578)	(171,983)
	$ (89,640)	$ (61,692)

(b) Specific purposes:

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

(thousands of dollars)	2011	2010
Unexpended departmental carryforwards	83,496	71,065
Research	16,719	11,086
Ancillaries	5,157	7,997
Other	45,758	28,250
	151,130	118,398
Sinking funds	17,058	15,569
Capital projects	(72,132)	(74,015)
	$ 96,056	$ 59,952

Included in unexpended departmental carryforwards is a $4,000,000 (2010 - $4,500,000) advance to the Faculty of Science from unrestricted net assets for which arrangements for recovery are in place.

8. Internally restricted net assets (continued):

(b) Specific purposes (continued):

Details of the internally financed capital projects which have various recovery terms and periods are as follows:

(thousands of dollars) Project	Funding Source	2011 Balance
Engineering Building	Graduate funding, pledges, fundraising	$ (8,768)
Les Prince Residence	Ancillary operations	(18,345)
David Braley Athletic Centre	Student levies, pledges, fundraising	(13,351)
Stadium and Parking Project	Parking fees, pledges, fundraising	(26,181)
McMaster Biosciences Incubation Centre	Rental and other income	-
Michael DeGroote Centre for Learning, 2nd Floor	Graduate funding, pledges, fundraising	(6,255)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(19,941)
Internal Equipment Loans	Various	(361)
Other projects (net)	Various	21,070
		$ (72,132)

(thousands of dollars) Project	Funding Source	2010 Balance
Engineering Building	Graduate funding, pledges, fundraising	$ (13,086)
Les Prince Residence	Ancillary operations	(18,829)
David Braley Athletic Centre	Student levies, pledges, fundraising	(14,510)
Stadium and Parking Project	Parking fees, pledges, fundraising	(27,835)
McMaster Biosciences Incubation Centre	Rental and other income	(101)
Michael DeGroote Centre for Learning, 2nd Floor	Graduate funding, pledges, fundraising	(5,953)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(12,966)
Internal Equipment Loans	Various	(273)
Other projects (net)	Various	19,538
		$ (74,015)

9. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	2011	2010
Capital assets	$ 744,235	$ 715,161
Less amounts financed by:		
Net long-term debt	(149,828)	(149,344)
Unamortized deferred capital contributions	(354,979)	(332,668)
	$ 239,428	$ 233,149

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	2011	2010
Repayment of long-term debt	$ 1,127	$ 1,061
Capital asset purchases from operating	31,579	38,724
	$ 32,706	$ 39,785

10. Endowments:

(a) Internal:

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

(thousands of dollars)	2011	2010
Balance, beginning of year	$ 107,817	$ 98,832
Donations	-	130
Investment income	12,245	16,696
Net transfers and expenses	(5,229)	(7,841)
Balance, end of year	$ 114,833	$ 107,817

Included in internal endowments is an amount of $55,179,000 (2010 - $51,827,000) reflecting the legacy of Dr. H. L. Hooker. The income generated from this capital is used to fund programs that enrich the academic achievements of the University as approved annually by the Board.

(b) External:

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

(thousands of dollars)	2011	2010
Balance, beginning of year	$ 287,854	$ 246,139
External contributions:		
OTSS	3,437	3,390
Other	14,945	5,218
Income retained - capital protection policy	23,036	33,107
Balance, end of year	$ 329,272	$ 287,854

Investment income on external endowments amounted to $30,681,000 (2010 - $40,200,000). In accordance with the endowment capital protection policy, this income less the amount made available for spending of $7,067,000 (2010 - $6,597,000) net of transfers of $578,000 (2010 - $496,000) were added to endowment net assets. The amount made available for spending is recorded as investment income in the statement of operations.

11. 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.

11. Commitments and contingencies (continued):

(b) Legal claims (continued):

On October 12, 2007, the University was served with a Class Action Claim ("Claim") on behalf of certain retired and active Clinical Faculty members who were, or are, members of the Pension Plan for Salaried Employees ("Plan") during the period from 1973 to-date. The basis of the Claim, which amounts to approximately $31 million, relates to allegations of certain breaches of trust and fiduciary responsibilities in the administration of the Plan. During the year, negotiations were held and a settlement provision has been made in these financial statements.

(c) Debt Service Deficiency Agreement:

The University has guaranteed the scheduled principal and interest payments, up to $23 million of long-term debt extended to The First Longwood Innovation Trust, in the event of default. The total amount of debt outstanding and subject to the Debt Service Deficiency Agreement at April 30, 2011 was $22 million (2010 - $20 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2011, 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 projects amounted to $102,965,000 at April 30, 2011 (2010 - $115,085,000).

(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, 2011, the University's remaining share of the costs are estimated to be $30.5 million. Payments to HHSC will take place up to 2029. The expected net present value of the future net savings for the University up to 2029 is $7,069,000.

(f) Leases:

The University has entered into operating lease agreements for office equipment and buildings. The total annual minimum lease payments in each of the next five years are approximately as follows:

(thousands of dollars)	
2012	$ 2,493
2013	1,721
2014	767
2015	698
2016	576

12. Other income:

Details of other income are as follows:

(thousands of dollars)	Major Sources	2011	2010
Faculty of Health Sciences	Government specifically funded programs	$ 47,025	$ 41,020
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees	28,610	27,489
Academic Services	Nuclear reactor sales, contracts and patent royalties, registrar administration fees	11,314	10,666
Student Services	Athletics and Recreation memberships and user fees	12,991	12,434
Miscellaneous	Application fees, late payment fees	10,477	6,578
		$ 110,417	$ 98,187

13. Related party transactions:

In addition to transactions and balances disclosed in note 3, the University had the following transactions with:

- Fundraising entities: funds received during the year amounted to $267,000 (2010 - $458,000).
- Joint ventures: the University's share of cash distributions amounted to $500,000 (2010 - $100,000).

14. Capital management:

In managing capital, the University focuses on liquid resources available for operations. The University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of its annual and capital budgets and by monitoring and forecasting of cash flows. The University maintains a line of credit of $15 million which can be used in the event of a short term deficiency in cash flow. The line of credit was not used in 2011. In addition, the University could issue unsecured debentures or enter into other long-term debt to assist in the financing of capital projects.

15. Ontario student opportunity trust fund:

External endowments include grants for funding student aid provided by the Government of Ontario's Student Opportunity Trust Fund matching program. Under the program, the Province has matched qualifying external endowment donations received with equal contributions.

(a) Ontario Student Opportunity Trust Fund - Phase I

The following schedule represents the changes for the years ended April 30, 2011 and 2010 in the first phase of the Ontario Student Opportunity Trust Fund (OSOTF I) balance:

(thousands of dollars)	2011	2010
Endowment balance, beginning of year	$ 30,817	$ 29,406
Investment income retained for protection of capital	1,658	1,414
Investment income transferred (to) expendable income	(8)	(3)
Endowment balance, end of year	32,467	30,817
Funds available for awards, beginning of year	-	-
Investment income	315	320
Bursaries awarded (2011 - 250 awards; 2010 - 254 awards)	(323)	(323)
Investment income transferred from endowment balance	8	3
Funds available for awards, end of year	-	-
Total funds at book value	$ 32,467	$ 30,817

The market value of the endowment as at April 30, 2011 was $31,020,000 (2010 - $28,438,000).

(b) Ontario Student Opportunity Trust Fund - Phase II

The Ontario government requires separate reporting of balances as at April 30, and details of the changes in the balances for the period then ended with respect to the second phase of the Ontario Student Opportunity Trust Fund (OSOTF II) of McMaster University including Divinity College.

The following is the schedule of changes for the years ended April 30th:

(thousands of dollars)	2011	2010
Endowment balance, beginning of year	$ 5,673	$ 5,468
Investment income retained for protection of capital	218	205
Endowment balance, end of year	5,891	5,673
Funds available for awards, beginning of year	31	30
Investment income for expenditures	79	60
Bursaries awarded (2011 - 58 awards; 2010 - 67 awards)	(84)	(59)
Funds available for awards, end of year	26	31
Total funds at book value	$ 5,917	$ 5,704

The market value of the endowment as at April 30, 2011 was $5,639,000 (2010 - $5,531,000).

16. 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)	2011	2010
Endowment balance, beginning of year	$ 25,546	$ 21,976
Cash donations received	1,217	1,515
Funds received/receivable from MTCU	2,337	1,927
Investment income retained for protection of capital	1,400	128
Endowment balance, end of year	30,500	25,546
Funds available for awards, beginning of year	819	750
Investment income for expenditures	199	221
Bursaries awarded (2011 - 70 awards; 2010 - 31 awards)	(220)	(152)
Funds available for awards, end of year	798	819
Total funds at book value	$ 31,298	$ 26,365

The market value of the endowment as at April 30, 2011 was $31,812,000 (2010 - $22,779,000).

17. Pledges receivable:

Outstanding but unrecorded pledges for donations and other fund raising amounted to $74,087,000 (2010 - $92,674,000).

18. Fair value of financial instruments:

The carrying value of cash and equivalents, government grants and other accounts receivable, research grants receivable and accounts payable and accrued liabilities approximates their fair values based on the the short-term maturity of these instruments.

The fair values of the respective long term debt are presented in the following table:

(thousands of dollars)	2011		2010	
	Book Value	Fair Value	Book Value	Fair Value
Long term debt:				
- with fixed interest rates	$ 132,246	$ 155,156	$ 132,353	$ 144,167
- with variable interest rates (without consideration of interest rate swaps)	19,897	19,897	20,917	20,917

The fair value of these obligations was calculated using the future cash flows (principal and interest) of the actual outstanding debt instruments, discounted at current market rates available to the University for similar instruments. Information concerning the fair values of the interest rate swap agreements is disclosed in notes 6(f).

19. Comparative figures:

Certain comparative figures for 2010 have been reclassified to conform with the financial statement presentation adopted in the current year.

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