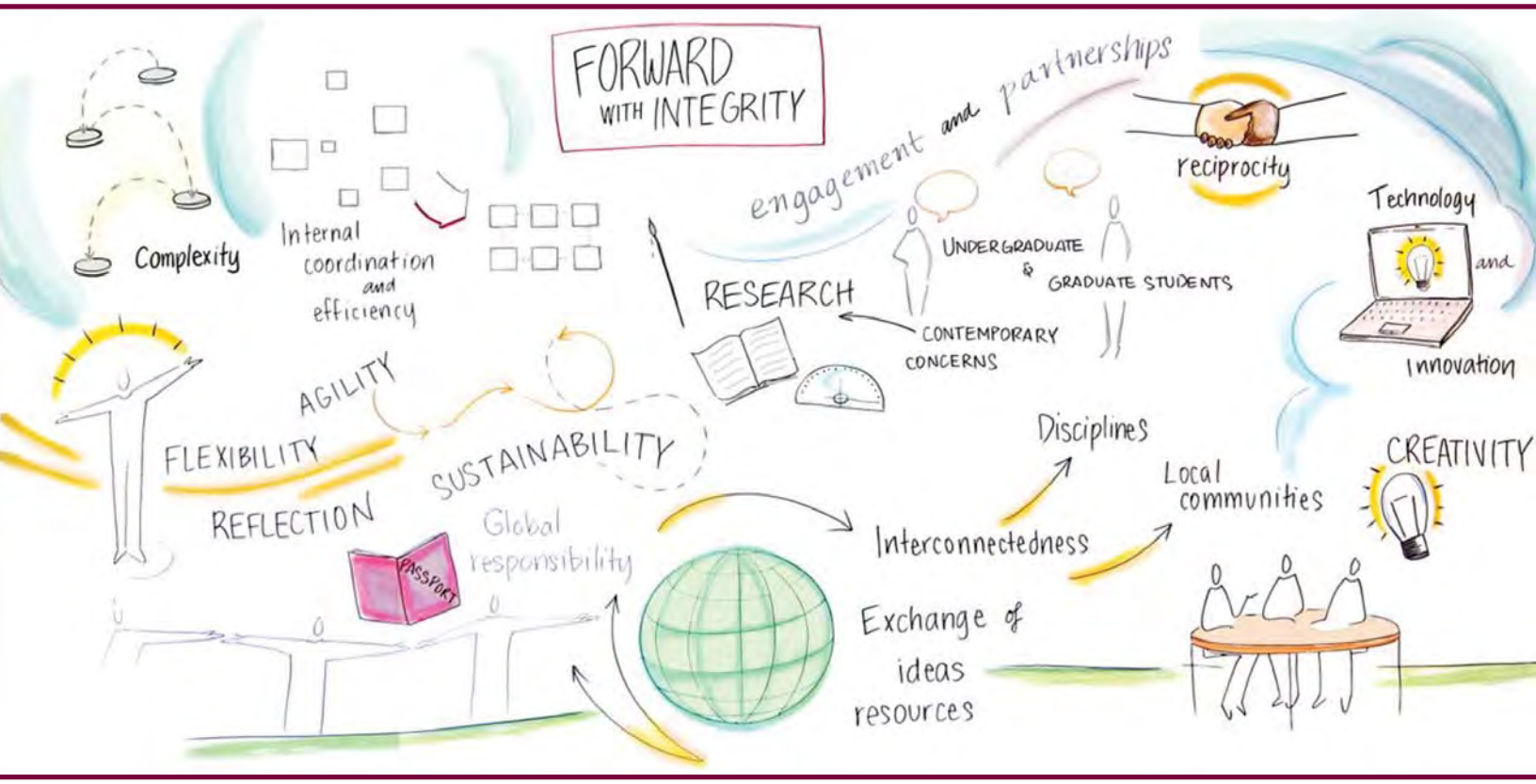
ANNUAL FINANCIAL REPORT 2011/2012



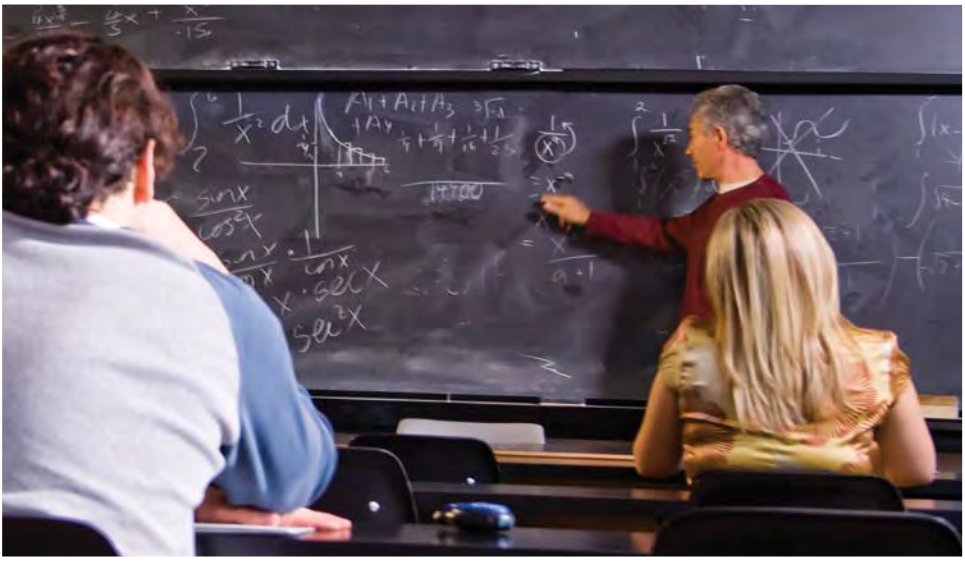
McMaster University

ANNUAL FINANCIAL REPORT 2011/2012

TASK FORCE REPORTS

A graphical artist has prepared a series of drawings to depict the themes presented in *The Emerging Landscape and Forward with Integrity: A Letter to the McMaster Community*[1] as well as the ideas emerging from the McMaster community. The image on the front cover is a compilation of the views imparted by the task forces focusing on the student experience, internationalization, research and community engagement. Images associated with each task force report are displayed throughout this financial report.

1 The Emerging Landscape and Forward with Integrity: A Letter to the McMaster Community http://www.mcmaster.ca/presidentsoffice/fwi.html



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YEAR IN REVIEW

As McMaster University celebrates its 125th anniversary with positive financial results ($9.1 million consolidated surplus), we recognize that our successes are underpinned by our history as an inclusive community with a shared purpose and commitment to the advancement of knowledge, public service, and the realization of human potential. It is in this 125th year that McMaster University will acknowledge and honour our past while defining our future to move *Forward with Integrity*[1].

In 2011/12 the McMaster community was invigorated with renewed energy and enthusiasm by President Deane's letter to the community called *Forward with Integrity* (FWI). This letter celebrates McMaster's history and identifies evolutionary changes in the postsecondary environment which the University must recognize and consider as it sets its strategic direction.

As a response to the President's letter, multidisciplinary task forces gathered to discuss ideas emerging from within the Faculties and administrative units, as well as how these might be operationalized and aligned with the strategic priorities of the University. An Advisory Group set the stage for transformation by outlining some flagship recommendations and operating principles that could be used to unite and guide the McMaster community as we move forward and evolve in our identity as a research-focused student-centered institution.

McMaster celebrated a number of significant achievements and project approvals over the past year. The McMaster Health Campus in downtown Hamilton was approved ($84.6 million). This landmark project will bring over 4,000 students downtown to learn and work alongside some 450 employees serving the surrounding community and will be tangible evidence of our ongoing commitment to the City and broader community. As well, the Halton McMaster Family Health Centre was approved for the City of Burlington's downtown in partnership with Joseph Brant Memorial Hospital. Other capital achievements include the McMaster Automotive Resource Centre and the Engineering Technology Building Biointerfaces Institute, both projects made possible with government research funding partnerships.

McMaster's system renewal initiative ($46.3 million) was also approved this year and will replace a number of systems that have not kept pace with current needs and technology. Systems renewal will provide an integrated enterprise PeopleSoft platform to support students, research, human resources, finance and business intelligence reporting needs. It will begin to address one of our strategic priorities – to standardize and simplify our processes.

In addition to the above initiatives, McMaster was able to put in place a long-term funding plan for its post-retirement benefit obligations, a long-standing financial pressure. McMaster's Salaried and Hourly Pension Plans were approved for solvency relief enabling the University to spread solvency related payments over a period of time rather than requiring significant cash draws in the short term. These speccial payments approximate $21 million for each of the next two fiscal years. As well, the University amended its former debt policy, created before the global economic crisis, building in enhanced monitoring mechanisms that introduce concepts of acceptable ranges to guide debt capacity and affordability, while ensuring financial flexibility and sufficient liquidity. Finally, the University made significant strides in refining a new budget model to support future allocations and create transparency and alignment with the aspirations and principles of

BY THE NUMBERS

$33,900
Total revenue per FTE student vs. $33,800 last year

$179,200,000
Research revenue receipted vs. $179,500,000 last year

$519,200,000
Endowment funds vs. $513,100,000 last year

$62,300,000
Capital spending vs. $90,200,000 last year

$705,600,000
Total net assets vs. $692,200,000 last year

$877,900,000
Total revenue vs. $857,400,000 last year

25,929
Enrolment (full time equivalent (FTE)) vs. 25,399 last year

$8,600,000
Excess of revenues over expenses operating fund only vs.$12,400,000 last year

$20,023
Endowment per FTE students vs. $20,201 last year

$868,700,000
Total expenditures vs. $835,500,000 last year

$9,100,000
Excess of revenues over expenses vs. $22,000,000 last year

$281,500,000
Employee future benefit unfunded obligation registered pension vs. $211,000,000 last year

$217,900,000
Available expendable resources vs. $213,100,000 last year

$219,500,000
Employee future benefit unfunded obligation non-pension vs. $192,400,000 last year

Forward with Integrity.

These celebrations and achievements are marked with some considered caveats that could impact our future stability and place greater pressures on our use of resources in the years to come. Throughout 2011/12 McMaster monitored and experienced the continued volatile global economic environment affecting investment returns, endowment preservation, and future benefit obligation measurements. In addition, significant revaluations of McMaster's physical assets were undertaken during the year. The amount of deferred maintenance is approximately $150 million, with ongoing annual requirements of close to $13 million for critical renovations or repairs.

The challenges ahead are only partially within management control with some of the most significant pressures being created by today's interest rate environment. These challenges serve as a reminder to everyone in the McMaster community to remain steadfast in discharging prudently our fiduciary responsibilities to obtain value for our assets and manage wisely our liabilities and expenses.

The information contained in this Annual Financial Report is intended to provide the reader with financial information for the fiscal year ended April 30, 2012 and was approved by the University's Board of Governors in October 2012. While the focus of this document will be the consolidated operations of all funds on an accrual basis, information regarding the Operating Fund, which operates on a cash basis for budgeting and accounting and represents almost 60% of the consolidated results, has been included on page 22.

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

- Forward with Integrity: The Emerging Landscape
  http://www.mcmaster.ca/presidentsoffice/documents/AG_Report_FWI_Emerging_Landscape_11Jul12.pdf

- Task Force Reports
  http://www.mcmaster.ca/presidentsoffice/priorities/tf_report.html

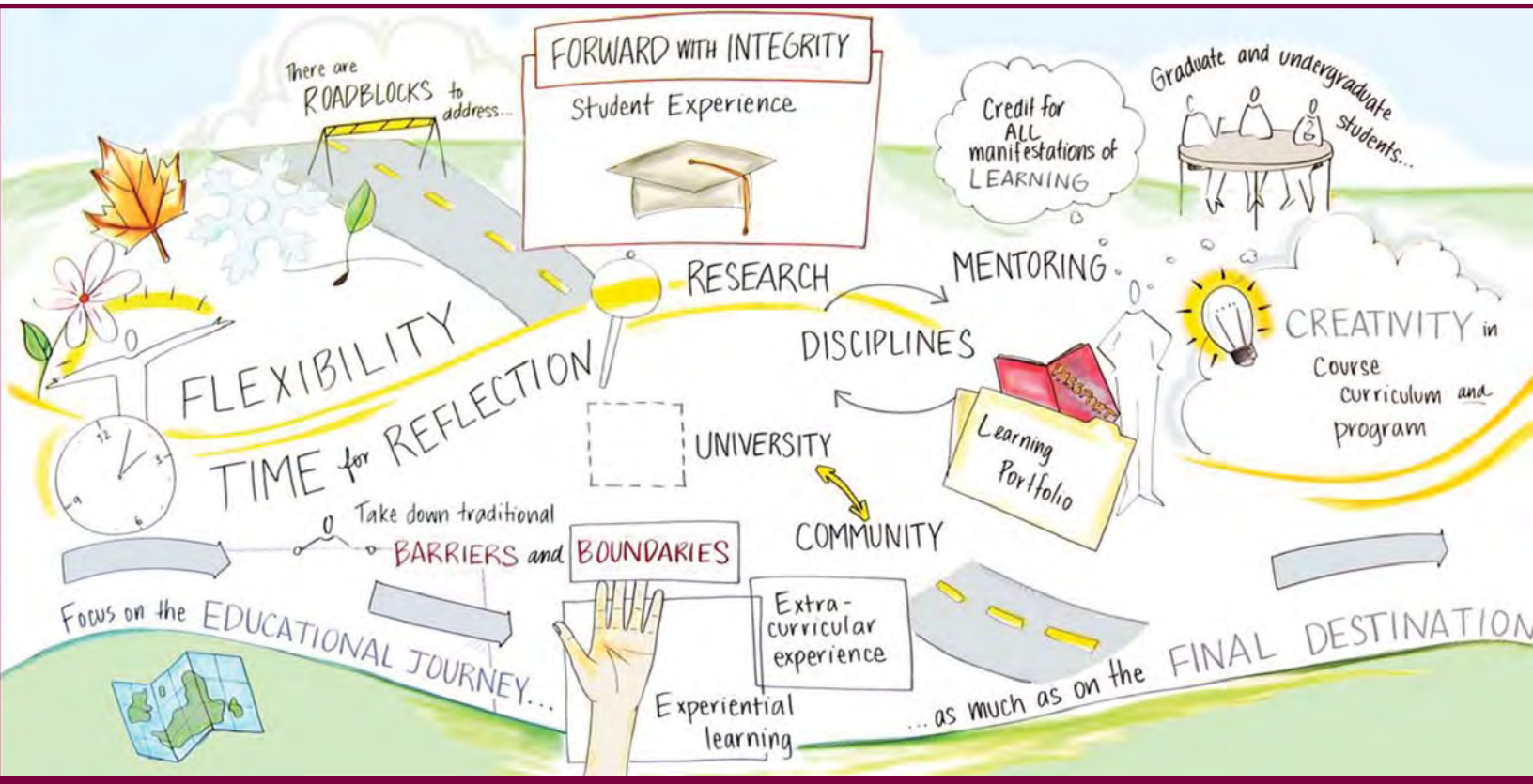
- 2012-13 Consolidated Budget – June 2012
  http://www.mcmaster.ca/bms/pdf/consbud12.pdf

- 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

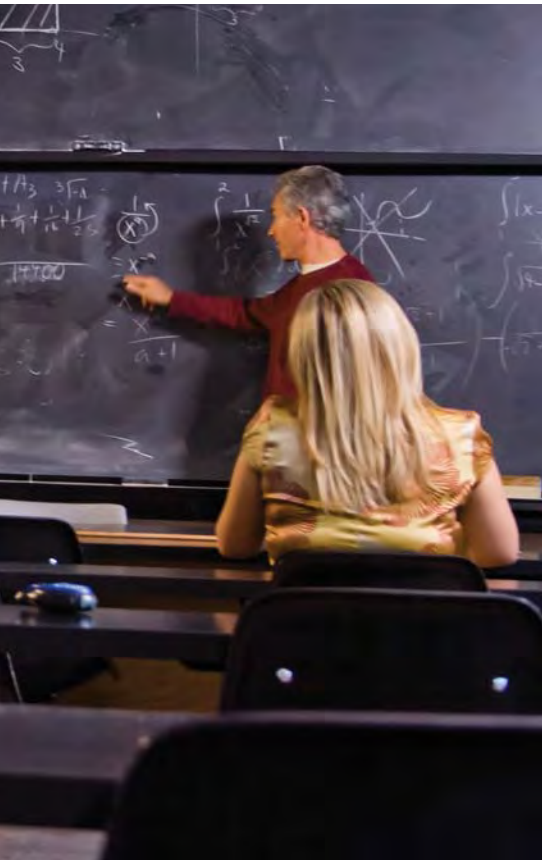
- McMaster Fact Book – October 2011
  http://mcmaster.ca/avpira/documents/factbook/FactBook20102011.pdf

REVENUES



At McMaster, we remain attentive to actively managing our finances and identifying innovative ways to generate new sources of funding that can be invested in our commitment to support each student in his/her unique learning journey.

REVENUES



	$ millions	
RESEARCH REVENUE RECOGNIZED	2012	2011
Federal Government	113.8	100.5
Province of Ontario	27.5	21.2
Other sources	37.9	57.8
Total research funds received	179.2	179.5
Less: amount deferred to future	(12.5)	(23.2)
	166.7	**156.3**

In 2011/12, total revenue increased by 2.4% representing revenue per FTE[2] enrolment of $33,900 (2010/11-$33,800). This $20.5 million increase relates to greater enrolment and specifically funded programs and services.

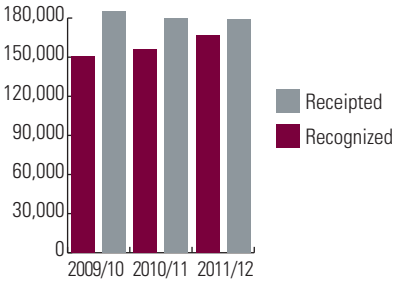
Operating Grants Income

Government operating grants of $237.2 million increased by $4.3 million or 1.9% over 2010/11 grants. Increases from the MTCU are tied to specific performance outcomes such as increasing enrolment. In addition, Quality grants totaling $9.2 million were also received that are 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 represents increases of $3.4 million and $0.5 million respectively. A $2 million funding increase for MD and postgraduate medical education was provided to expand the number of physicians in the province and represented 47% of the overall grant increase.

Research Grants and Contracts

In 2011/12 research revenue remained relatively consistent with the prior year. The revenue received 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, $179.2 million (2010/11 - $179.5 million) was received for future use. After deferrals, research revenue recognized over the past year increased by 6.7% to $166.7 million (2010/11 - $156.3 million), reflecting an increased level of research activity.

Research Revenue: Receipted vs Recognized in Income – $ thousands



Research revenue recognized by the University does not include hospital research or funding for Networks of Centres of Excellence, such as the Centre for Probe Development and Commercialization hosted by McMaster University. As illustrated in the table below, total research receipts were consistent with the prior year with increased funding from government sources offsetting a decline in other sources of revenue.

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

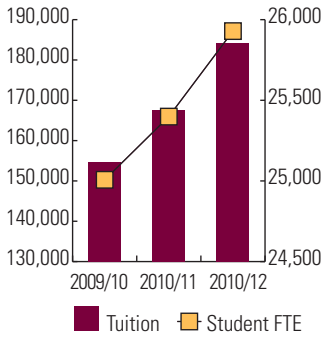
Research Overhead Grants

Research overhead grants assist the University in defraying the indirect costs associated with research activities. In 2011/12, $13.4 million was received (2010/11 - $14.0 million) as a partial offset to indirect support costs. 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 10% in 2011/12 representing 2.1% growth in student enrolment and provincial allowable tuition fee increases. In March 2010 the province extended its previous tuition fee setting policy for two years ending in 2011/12. The tuition fee setting policy permits the University to increase tuition fees for regulated programs by an overall maximum of 5% per year. In 2011/12, the University adjusted fees by the 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 7.4%) whose fees are higher than domestic rates. International students now account for approximately 7.2% (2010/11 – 6.9%) of the total student population.

Total Tuition – $ thousands and Number of FTE Students



Ancillary Operations

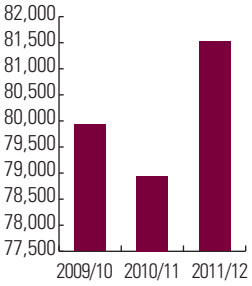
Ancillary operations provide business services that support the University community and enhance the student experience. Ancillary units aim to provide exceptional and affordable services, while covering all operating and capital costs and contributing funds to the University for strategic reinvestment. In order to generate revenue, it is critical that ancillary units provide good quality, reasonably-priced services and contain costs wherever possible.

A detailed breakdown of ancillary operations follows. Sales revenue increased by 2.8% in 2011/12 primarily related to increases in Housing and Conference Services (8.7%) and Hospitality (5.6%). Additional student housing availability and a rate increase of 5% contributed to Housing and Conference Services' growth.

		$ thousands
SALES BY ANCILLARY OPERATIONS	2011/12	2010/11
Bookstore	21,488	21,621
Hospitality Services	20,646	19,560
Housing and Conference Services	21,919	20,164
Media Production Services	3,125	3,365
Parking	4,747	4,813
Continuing Education	5,048	4,856
Telecommunications	2,675	2,750
Student Wellness Centre	1,735	1,623
Miscellaneous	144	187
	81,527	78,939
Less: internal sales	(11,696)	(11,017)
	69,831	**67,922**

Hospitality Services revenues increased due in large part to enrolment growth and the re-opening of Centro@Commons following a major renovation. Bookstore sales remained relatively constant as a result of the product

Historical Perspective: Ancillary Sales – $ thousands



		$ thousands
INVESTMENT INCOME	2011/12	2010/11
Recognized in income	18,428	40,306
Net posted directly to external endowments	(15,097)	23,036
	3,331	**63,342**

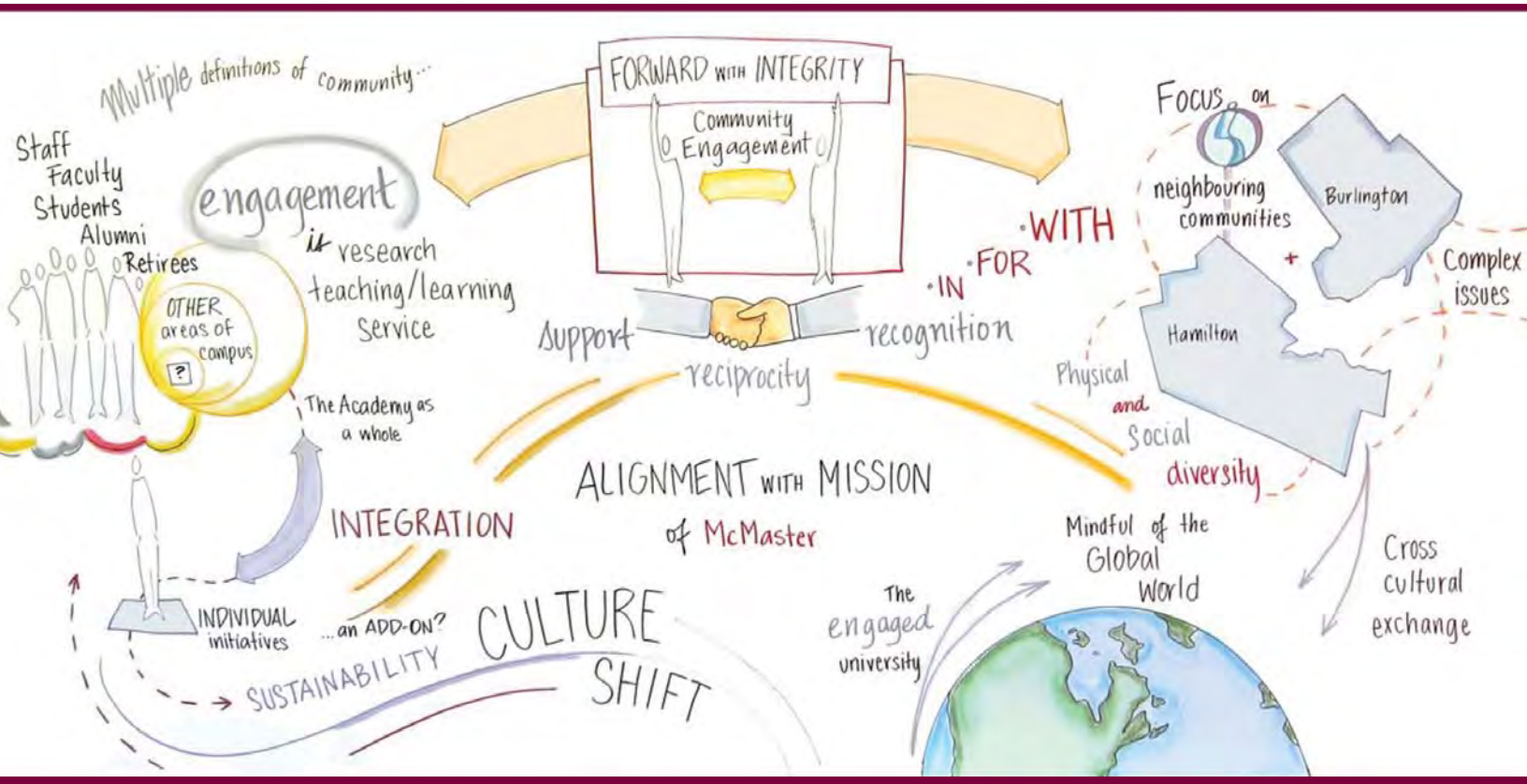
ranges being expanded to balance reducing book sales. Continuing Education sales grew by 4.0% related to a combination of greater demand for existing programs and the introduction of new programs and business community partnerships. The Student Wellness Centre revenue increased 6.9% attributed to an increase in UHIP revenue and an increased number of physicians (from 12 to 14) to meet student support needs. Media Production Services sales declined by 7.1% primarily related to fewer internal sales and demand for print materials.

Investment Income

The global economic environment continues to be slow to recover with stability. Investment returns fluctuated throughout the year with volatility reaching over +/- 3.0% month to month. The 2011/12 rate of return (after expenses) for the long-term investment pool was 0% compared to 11.5% in 2010/11. The endowment fund representing fixed income (40%) and equity securities (60%) generated an annual rate of return equivalent to the portfolio's benchmark return of 2.5% at March 31, 2012 (compared to 10.7% at March 31, 2011). Total investment income including both short-term and long-term investment earnings are allocated between income in the Statement of Operations and as protection of capital in the Statement of Changes in Net Assets and are summarized in the table above.

Investment returns on endowed funds are used in accordance with the purposes set out by donors or the Board of Governors. Annual endowment spending is targeted at a rate of 4% determined as a five-year average market value. As spending exceeded allocated income in 2011/12, $15.1 million was drawn from accumulated investment income.

COMPENSATION AND BENEFITS



At McMaster, we are united in our commitment to serve the greater good, beginning with our immediate community, our city, and extending outwards to the world at large. Our predisposition is to think creatively, originally and innovatively about the work we do and the challenges we strive to address. – *Adapted from The Emerging Landscape Forward with Integrity: A Letter to the McMaster Community.*

COMPENSATION AND BENEFITS

Salary and wage expenses are shown together in the Statement of Operations with related employee benefit costs identified as a separate line in the same Statement. 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 principles, only a portion of the total pension and non-pension liabilities are recognized on the Statement of Financial Position. The difference between the recorded Statement liability and the total pension and non-pension liabilities is 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 2011 – 7,284

- Academic *(includes Faculty, Sessional Lecturers, Post Doctoral Fellows, Librarians, Teaching Assistants)* (4,003) 55%
- Administrative Support (2,333) 32%
- Research Support (948) 13%

Expense

Total compensation-related expenses account for over 62% of total expenditures and represent a total of 7,284 permanent staff members as of October 2011 (October 2010 - 7,054).

The total number of faculty and staff members increased by 3.3% (compared to 4.0% growth in 2011). Salary and wage expenses increased by 5.3% (compared to 3.5% growth last year). Employment increases relate to targeted enrolment growth supported by an increase in teaching assistant hours and specifically funded programs. Employment expenses represent $539.3 million this year compared to $524.9 million (7,054 employees) and $507.7 million (6,781 employees) in 2010/11 and 2009/10 respectively.

Employee Future Benefit Obligations (Pension and Other)

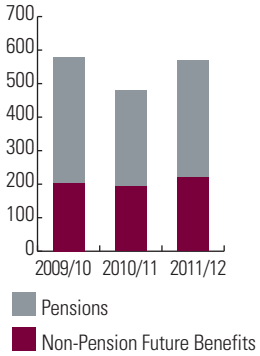
Included in total compensation expenses are both defined benefit pension and non-pension benefit costs. The non-pension benefit costs include extended health, dental and life insurance for most employees. The annual earned benefit costs are expensed in addition to a portion of the unrecorded deficit balance using an accounting method supported by generally accepted accounting principles. The accounting method for future benefit obligations allows unrecorded balances to be amortized into expenses over the average remaining service 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 financial challenges posed by the future benefit obligations are continued low long-term interest rates used to measure the obligation. As long-term interest rates are reduced the unfunded liability grows substantially. In fiscal 2011/12, a .75% decline in the interest rate resulted in the unfunded liability growing by $51 million.

Pension

Several positive steps have been taken over the last few years to manage the pension liability, such as revised eligibility rules for some groups, increased employee contributions and the introduction of a defined contribution group RRSP plan for new employees in some groups. Despite these changes, depressed investment returns and decreases in interest rates used to estimate and measure the long-term liabilities have increased the unfunded obligations as shown

in the chart below. As a result, the unfunded deficit grew by $62.5 million, which suggests that additional strategies will be necessary. Additional funding contributions will be required to address the plan shortfalls and will continue to place significant pressure on all programs for many years to come. During the year, the pension expense decreased by 21.8% from $66.2 million to $51.8 million primarily due to reduced current service costs attributed to increased employee contributions, and plan design changes. The pension expense also includes amortization of actuarial losses of $16.7 million (2010/11 - $20.0 million).

Pension and non-pension future benefits unfunded obligations



The funded status of the defined benefit Hourly and Salary Pension Plans for each of the last two years is summarized in the chart below.

CHANGE IN FUNDED STATUS OF PENSION BENEFIT PLANS

	APRIL 30, 2012 $ millions	APRIL 30, 2011 $ millions
Funded status, opening balance	(288.6)	(375.4)
Costs in the period:		
Current service cost	(34.5)	(39.1)
Interest on liabilities	(83.5)	(86.3)
Actual return on plan assets	46.9	103.8
	(71.1)	(21.6)
Actuarial loss related to changes in discount rate	(50.9)	(13.7)
Actuarial gain related to salary assumptions and other	6.3	72.2
Plus: University contributions	53.2	49.9
Funded status, closing balance	**(351.1)**	**(288.6)**

Investment returns for the year ended April 30, 2012 weakened the plan position while current service costs and interest on liabilities declined marginally, combining to increase the plan deficit by $71.1 million in 2011/12. The discount rate used to measure the plan decreased to 5.00% from 5.75% using the accounting methodology resulting in a negative impact on the funded position due to the long (14 year) duration of the liabilities. In the current year the expected long-term rate of return on plan assets was revised to 6.5% from 7.0%.

In fiscal 2011/12 the University submitted a July 1, 2011 funding valuation for the Salary Plan, which accounts for over 96% of the assets. Based on the results of this valuation significant increases in deficit payments (which were approximately $8.4 million for each of the last 3 years) will be required. The provincial government has approved a solvency relief program for universities which allows for these increased deficit payments to be spread over a longer period. Universities can qualify for the program by demonstrating the steps that have been taken to ensure the long-tem sustainability of the plans. Both the Salary and the Hourly Pension Plan have qualified for this solvency relief program. The result

CHANGE IN FUNDED STATUS OF NON-PENSION BENEFIT PLANS

	APRIL 30, 2012 $ millions	APRIL 30, 2011 $ millions
Funded status, opening balance	(192.4)	(203.8)
Costs in the period:		
Current service cost	(8.8)	(7.7)
Interest on liabilities	(10.8)	(12.0)
	(19.6)	(19.7)
Actuarial loss related to changes in assumptions for discount rate	(25.5)	(8.6)
Plan amendments	n/a	15.9
Gain due to updated utilization data	8	n/a
Gain/(loss) due to change in trend assumption for health costs	n/a	17.8
Other	4.5	0.6
University contributions	5.5	5.4
Funded status, closing balance	**(219.5)**	**(192.4)**

of this is that for the next two fiscal years, based on the new valuation, the University will be required to make annual deficit payments of $20.8 million for the Salary Plan (as opposed to $59.5 million per annum). Solvency relief does not relieve the University of funding going concern deficits or resolve its solvency deficiencies; it only allows the contributions to be made over a longer period. In fact, the University will require increased payments to the plan for the foreseeable future.

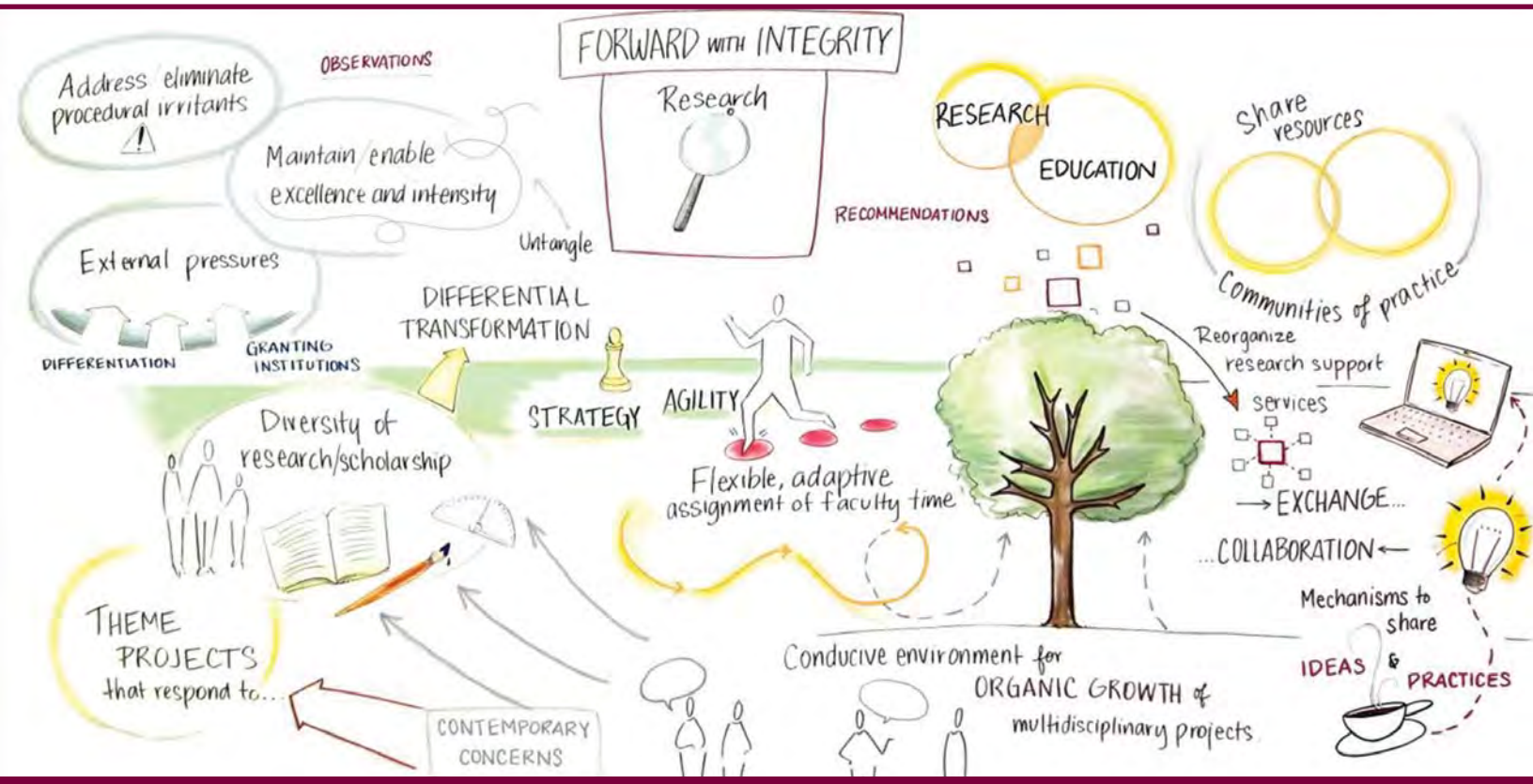
Other Post-Retirement and Post-Employment Benefit Plans

Non-pension employee benefit expenses in 2011/12 represented $18.1 million, a $1.4 million decrease from 2010/11 primarily due to reduced interest costs.

The deficit status of the non-pension post-retirement benefit plan as at April 30, 2012 amounted to $219.5 million, an increase of $27.1 million from April 30, 2011. The significant changes in each of the last two years are outlined in the above chart.

In fiscal 2011/12 the increase in the obligation is primarily the result of the change in the discount rate from 5.75% to 5.0% ($25.5 million).

CAPITAL PROJECTS AND FINANCING



It will be necessary to allocate funds to increase our research capacity and to ensure that our future achievements either match or surpass those of the present, and in order to develop in our distinct identity as a research-focused student-centred institution. Alignment of academic activities, resources, goals and premises is critical if we are to maintain or increase our present level of research excellence…improved alignment represents our greatest promise of increased success.
– Adapted from The Emerging Landscape and Forward with Integrity: A Letter to the McMaster Community

CAPITAL PROJECTS AND FINANCING

The McMaster Campus Master Plan provides a comprehensive framework guiding campus capital development. The plan is reviewed annually. Its objectives are to maintain and enhance the quality of the campus while meeting McMaster's changing needs and reflecting its strategic priorities.

Capital Projects

The McMaster Health Campus is a project centered in downtown Hamilton. When it opens in the fall of 2014, the new 217,000 square foot LEED-certified building will accommodate 54,000 patient visits each year. The building will house essential community services such as the Hamilton Maternity Centre and the Shelter Health Network. The plan also includes locating Hamilton Public Health clinics and offices within the new Campus. More than 4,000 students will be served by the Campus including a mix of undergraduate, graduate and health sciences continuing education professionals. The University anticipates some 450 employees will be based in the new building and another 650 jobs will be created during the design and construction.

The McMaster Automotive Resource Centre project was made possible through a FedDev Ontario grant of $11.5 million. This project will enable the University to accelerate automotive research, which will improve educational and employment opportunities across Hamilton and beyond. The project is being built in the shell of a former appliance warehouse at the McMaster Innovation Park and will occupy approximately 80,000 square feet of the building. It will become a state-of-the-art research facility where academic, government and industrial partners will collaborate to develop new technology. A major focus of the Automotive Resource Centre will be the work of Dr. Ali Emadi who holds the $10 million Canada Excellence Research Chair in

	$ thousands
CAPITAL ASSET ADDITIONS	2011/12
Completed Building Projects and Construction in Process	28,716
Computers, Furnishings and Other Equipment	28,312
Library Materials	5,265
	62,293

MAJOR BUILDING PROJECTS – as of April 30, 2012

PROJECT	BUDGET	FUNDING SOURCES	EXPECTED COMPLETION
McMaster Health Campus	$84.6 million	Provincial and Municipal Governments, Donors and University	2014
McMaster Automotive Resource Centre at McMaster Innovation Park	$26.5 million	Federal and Provincial Governments and University	2012
Engineering Technology Building Biointerfaces Institute	$5.1 million	Federal and Provincial Governments and University	2012
Halton McMaster Family Health Centre	$5 million	Federal and Provincial Governments and University	2013

Hybrid Powertrain. The project is expected to be completed by December 2012.

The Engineering Technology Building Biointerfaces Institute project is a Canadian Foundation for Innovation project and is located on the fourth floor of the Engineering Technology Building. This state-of-the-art facility located in 10,000 square feet of space is designed to use high-throughput methods to understand the nature of biointerfaces. The project will be completed in 2012.

The Halton McMaster Family Health Centre project creates a teaching family practice unit in downtown Burlington and will be constructed on the grounds of Joseph Brant Memorial Hospital. The Hospital will provide a 49-year renewable land lease to facilitate the construction of an office building. The teaching family practice clinic will be located on the ground floor and leased to an academic family physician group. Classrooms will be located on the second floor with the hospital boardroom and conference facilities sharing unused capacity which will result in 15,000 square feet of university space. The anticipated completion date for the project is December 2013.

The University's total capital expenditures for 2011/12 reached $62.3 million (2010/11 $90.2 million), summarized in the tables on the previous page.

Capital Financing

The Campus Master Plan, along with the annual Capital Projects Budget and the Debt Management Policy continue to frame the University's building and construction spending and 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 2011/12 the internal loan was finalized for the MDCL 2nd Floor fit-out and additional repayments were made on the Ron Joyce Centre in Burlington and on the Engineering Technology Building loan. The net internal central bank capital loans have declined from $72.1 million in 2010/11 to $61.8 million as of April 30, 2012. The loans have varying repayment terms and interest rates which reflect the date of issue and the project income stream. In 2011/12 no new external borrowing was undertaken.

In June 2012, the University updated its Debt Management Policy adding two additional monitoring ratios to assess investment flexibility and cash liquidity. The policy continued its use of funding capacity and affordability monitoring ratios with minor refinements to incorporate learnings from the 2008 global economic crisis. The policy ratios provide a framework for monitoring the University's ability to undertake additional external or internal debt to carry out strategic investments.

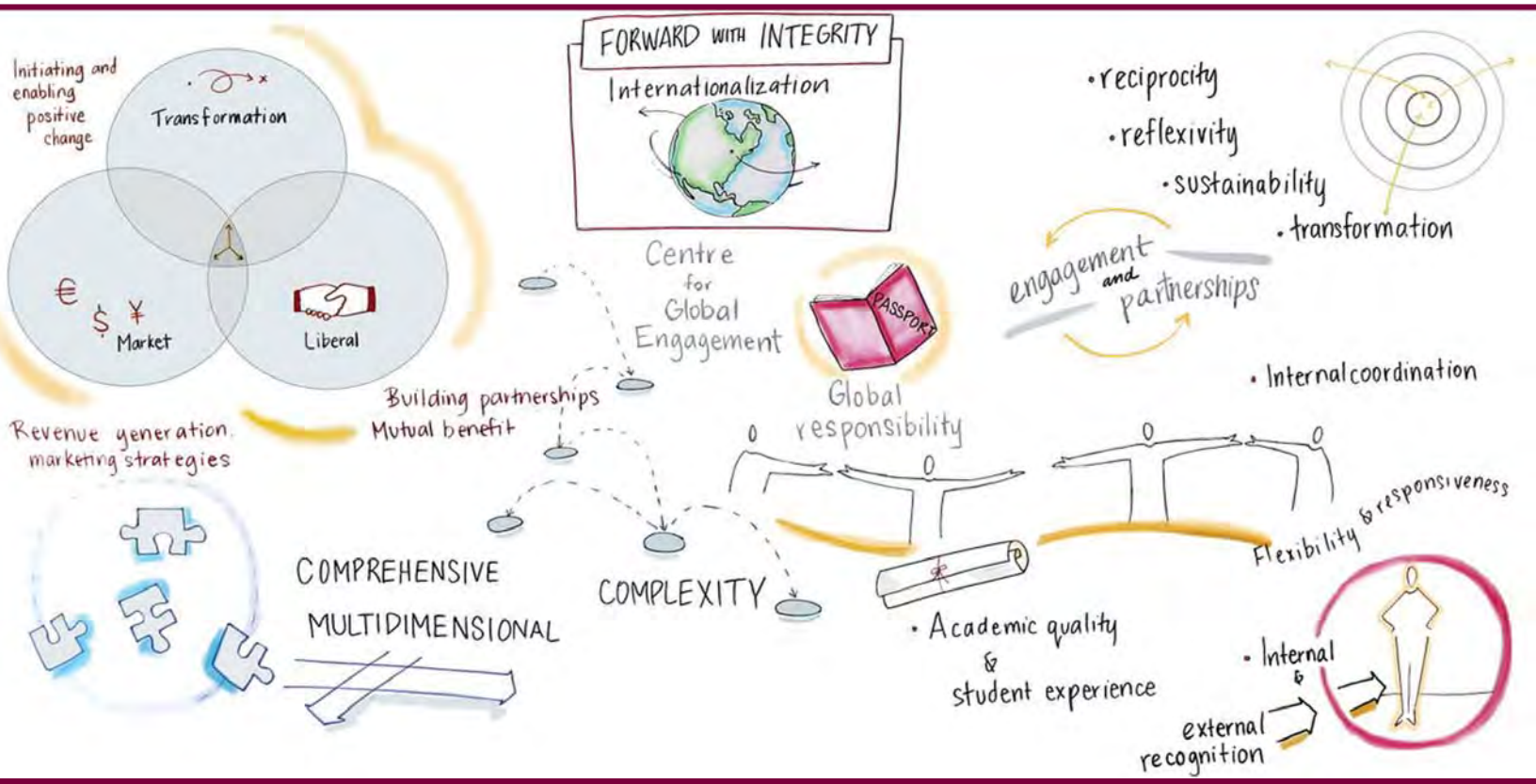
The chart below outlines these ratios.

DEBT MANAGEMENT POLICY RATIOS

RATIO	GOAL	GUIDELINE	2009/10	2010/11	2011/12	3-YR AVG.
Expendable resources to debt	Capacity	.6 to 1.0	0.7	0.8	0.9	0.8
Interest coverage ratio	Affordability	2.75 to 3.25	4.8	5.9	5.2	5.3
AER* as % of revenue	Flexibility	Greater than 15%	21%	25%	25%	23%
Cash** to monthly expenditures	Liquidity	Greater than 1	3.2	3.4	3.6	3.4

*Available expedible resources
** Includes short term investments

ENTERPRISE RISK MANAGEMENT



At McMaster University, intellectual discovery and knowledge exploration are encouraged and supported by a strong shared desire to enhance the learning journey of our students.

Enterprise Risk Management

A renewed Enterprise Risk Management (ERM) Program was initiated in April 2011 following a review by the University. McMaster's ERM is aligned with international standards and reflects the strategic priorities of the University and considers lessons learned from past ERM activities. Enterprise Risk Management supports the University environment and its strategic directions while informing Internal Audit and the Audit Committee about managing risk.

Progress in 2011/12 primarily includes building ERM awareness across the University community, and developing and implementing consistent ERM processes with risk leaders. Further achievements with ERM stakeholders include:

- The establishment of a defined governance following the Enterprise Risk Organizational Framework involving an Enterprise Risk Steering Committee (comprised of the President and Vice-Presidents), an ERM Working Group (comprised of University Senior Management) and Risk Leaders defined for each key risk. These ERM additions add to existing risk management resources including the Chief Risk Office and the Audit Committee of the Board of Governors;
- Alignment of common risk language and ERM tools for use across the University.
- Creation of the University's Risk Appetite Statement, which provides guidance on its willingness to accept risk when considering challenges and opportunities;
- Applying the ERM assessment tool, identifying the University's top twelve current risks (as shown in the key enterprise risk listing below); and
- Identification of risk mitigation strategies addressing the top key enterprise risks by engaging identified risk leaders.

Using a collaborative model, ERM supports the identification, assessment and management of individual and combined impacts of our current and emerging landscape and strategic choices.

Please refer to the attached Audited Financial Statements of McMaster University for the Year ended April 30, 2012.

KEY RISKS AS OF JULY 2012

- Change Readiness
- Financial
- Organizational Alignment
- Government Policy
- Human Capital
- Research
- Reputation and Brand
- Student Experience
- Physical Infrastructure
- Technology
- Information Availability & Integrity
- Information Security

FINANCIAL ANALYSIS

Total Revenue

- Revenues increased from $857.4 million to $877.9 million resulting in an overall increase of 2.4%. Most notable increases were in operating grants (1.8%), tuition (10%, related to increased enrolment and fee increases in accordance with legislation) and research (6.7%).
- Investment revenue decreased from $40.3 million to $18.4 million in 2010/11, as a result of volatile financial markets in 2011/12.

Total Expenditures

- Expenditures grew in the year by 4.0% to $868.7 million.
- Employment related expenses grew by 2.7%, while supplies and other expenditures grew by 6.0%, reflecting increased spending in the operating, research and trust funds.

Total Assets

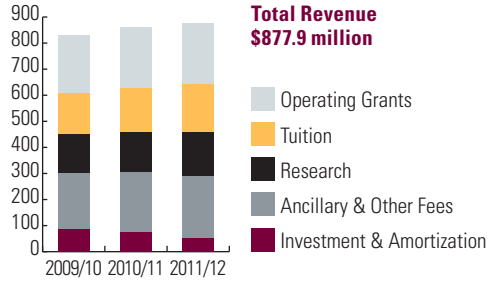
- Assets grew by 1.8% mainly attributed to current asset growth of 4.7% and investment asset growth of 2.3%.
- Capital assets grew by a net of $1.3 million as a result of $62.3 million in capital expenditures, offset by amortization of $61 million.

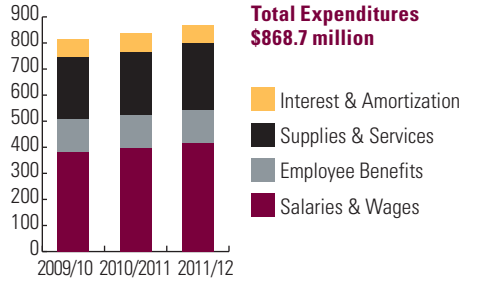
Total Liabilities

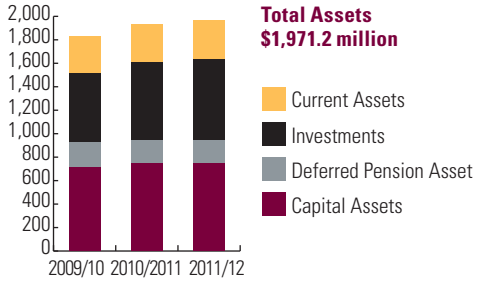
- Liabilities grew by 1.7% with the highest growth experienced in employee future benefits (4.6%) and deferred contributions (1.4%).
- Long term debt (including current and non current portions) decreased by $10.3 million reflecting the repayment of the mortgage associated with the Hedden residence.

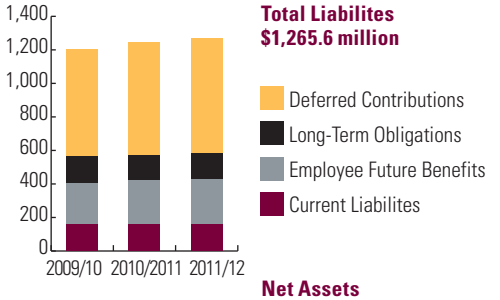
Net Assets

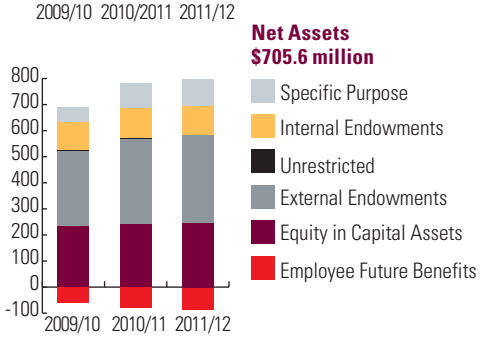
- Net assets grew by 1.9% mainly as a result of the increase in the external endowment (1.9%) and reserves.
- Reserves grew primarily as a result of the surplus in the Operating fund of $8.6 million.











Long Term Debt

- External long term debt decreased by $12.7 million.
- The debt service coverage ratio decreased due to a fall in the excess of revenues over expenditures offset by lower debt.
- There were net repayments from internal capital loans (net $61.8 million compared to $72.1 million at April 30, 2011).

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 slightly to $217.9 million from $213.1 million.

Endowment Funds

- McMaster's internal and external endowments grew by 1.2%.
- Endowment per student decreased slightly from $20,201 to $20,023 year over year.
- As of December 31, 2011, McMaster had the 7th largest endowment in Canada.

Deferred Maintenance

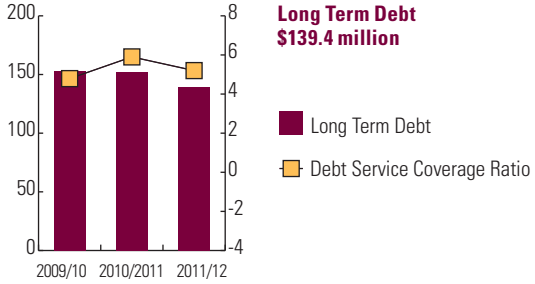
- McMaster's deferred maintenance backlog increased slightly from $145.6 million to an estimated $150.0 million.
- McMaster's Facilities Condition Index (FCI) is 8.7% (2010/11: 7.9%). McMaster's target FCI is < 10%.

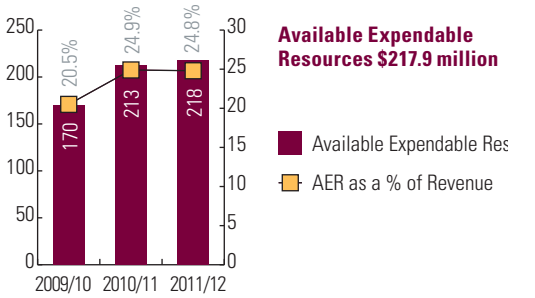
Operating Fund – expenditures by envelope

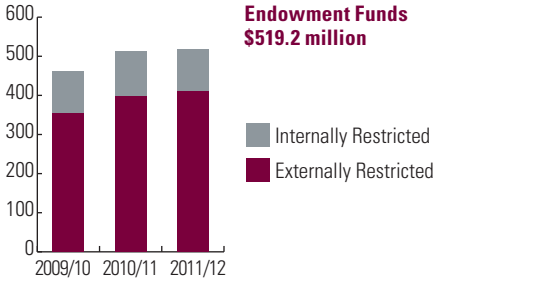
- Operating fund net expenditures increased by 6.9%.
- Academic and student support areas increased by 8.3%.
- Facilities support was flat as a result of savings in compensation costs and utilities usage.

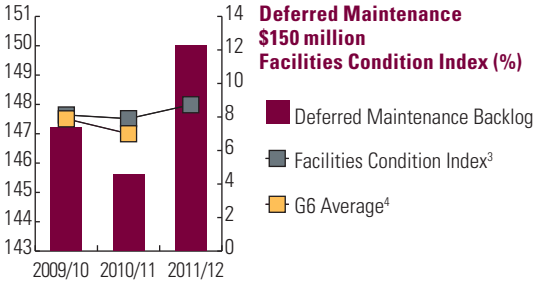
[3] Facilities Condition Indicator (FCI) is the ratio of deferred maintenance to the replacement value of the facilities.

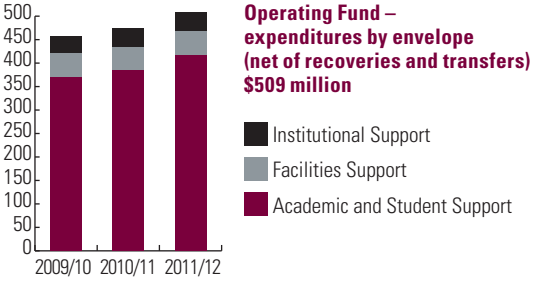
[4] G6 refers to the six Ontario research-intensive universities. 2011/12 not yet available.











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 using the Deferral Method of accounting ("deferral method") and consolidation of all activity. For external reporting under the deferral method, all funds are consolidated in a single column on the Statement of Operations.

In contrast, the University's internal reports and budgets are prepared on a cash basis and pursuant to the concepts of fund accounting. Under this method, separate budgets and funds are set up for fund activities, with each fund comprised of its own 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 2011/12 Operating Fund Budget included the full cost of pension plan contributions and deficit payments and a portion of the accrual based costs of post-retirement benefits.

Considerable attention and effort is focused on the allocation and use of resources to build a balanced operating budget. The University finished the year with an $8.6 million (1.7%) surplus as shown in the chart below

Total operating fund revenues were $517.6 million as compared to the projected funding of $509.7 million. The favourable variance of $7.9 million (1.5%) is primarily due to increased application and enrolment volume, with higher revenue from grants, tuition fees, application fees and interest on

2011/12 OPERATING FUND ($ millions)

				Variance	
	Budget	Projection	Actual	Budget vs. Actual	Projection vs. Actual
Sources of revenue	$ 491.7	$ 509.7	$ 517.6	$ 25.9	$ 7.9
Less net expenditures	509.0	513.7	508.5	0.5	5.2
Excess (deficiency) of revenue over net expenditures	**(17.3)**	**(4.0)**	**9.1**	**26.4**	**13.1**
Add amount funded by (transferred to) unrestricted net assets	**(0.5)**	**(0.5)**	**(0.5)**	**–**	**–**
Net surplus (deficit)	**(17.8)**	**(4.5)**	**8.6**	**26.4**	**13.1**
Fund balance, beginning of year*	83.5	83.5	83.5	–	–
Fund balance, end of year	**$ 65.7**	**$ 79.0**	**$ 92.1**	**$ 26.4**	**$ 13.1**

*adjusted to actual

student accounts, in addition to educational grants from the Ministry of Health previously included in the Research Fund.

The favourable revenue variance of $25.9 million (5.3%) compared to original budget primarily relates to:

- increased provincial funding ($4.6 million) including an increase to the basic operating grant, which rolled in 2010/11 Accessibility funding ($2.0 million), additional Accessibility funding for increased enrolment in 2011/12 ($1.4 million), increased Quality and Performance funding ($1.3 million), and medical grants ($0.5 million), net of lower than expected graduate expansion funding ($0.6 million);
- greater than budgeted tuition revenue due to higher enrolment ($7.8 million);
- research overhead income ($0.9 million); and
- other income ($12.6 million), primarily due to specific program grants from the Ministry of Health.

Operating fund expenditures net of transfers and recoveries were $508.5 million as compared to projected net expenditures of $513.7 million. The favourable variance of $5.2 million (1.0%) is the result of McMaster's conservative budgeting philosophy, and is primarily due to delayed or reduced spending as departments seek to align their operations with available resources, as well as lower than anticipated spending on specifically funded accounts.

The remaining surplus of $8.6 million has been transferred to internally restricted net assets (department appropriations) which results in closing appropriations of $92.1 million, up from $83.5 million at April 30, 2011. Appropriations are available to provide funds to offset one-time spending and investments in deficit-reducing strategies.

FINANCIAL STATEMENTS, APRIL 30, 2012

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McMaster University

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, 2012 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. No members of the Audit Committee are officers or employees of the University. The Audit Committee meets regularly with management, as well as the internal auditors and the external auditors, to discuss the results of the audit examinations and financial reporting matters, and to satisfy itself that each party is properly discharging its responsibilities. The auditors have full access to the Audit Committee with and without the presence of management.

The financial statements for the year ended April 30, 2012 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	President	AVP (Administration) & CFO
October 18, 2012		

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, 2012, 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, 2012, 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 18, 2012

McMASTER UNIVERSITY
Statement of Financial Position
April 30, 2012, with comparative figures for 2011
(thousands of dollars)

	2012	2011
Assets		
Current assets:		
Cash and equivalents	$ 184,153	$ 167,916
Government grants and other accounts receivable	56,054	64,925
Research grants receivable	84,834	79,531
Inventories	6,613	4,956
Prepaid expenses	5,834	5,041
	337,488	322,369
Investments (note 2)	673,311	658,020
Other investments (note 3)	14,687	13,436
Capital assets (note 4)	745,529	744,235
Deferred pension asset (note 5)	200,230	198,995
	$ 1,971,245	$ 1,937,055
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 123,547	$ 117,784
Deferred revenue	32,818	28,648
Current portion of long-term obligations (note 6)	1,028	12,744
	157,393	159,176
Accrued employee future benefits (note 5)	273,156	261,142
Long-term obligations (note 6)	154,208	152,804
Deferred contributions (note 7):		
Deferred for future expenses	318,307	316,737
Deferred capital contributions	362,589	354,979
	680,896	671,716
Net assets:		
Unrestricted	1,182	2,268
Internally restricted (note 8):		
Employee future benefits	(93,738)	(89,640)
Specific purpose	106,925	96,056
Equity in capital assets (note 9)	245,855	239,428
Endowments (note 10):		
Internal	109,806	114,833
External	335,562	329,272
	705,592	692,217
Commitments and contingencies (note 11)		
	$ 1,971,245	$ 1,937,055

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, 2012, with comparative figures for 2011
(thousands of dollars)

	2012	2011
Revenues:		
Operating grants	$ 237,248	$ 232,938
Research grants and contracts	166,743	156,266
Tuition fees	184,275	167,474
Other (note 12)	109,161	108,308
Ancillary sales and services	69,831	67,922
Investment income, net	18,428	40,306
Donations and other grants	44,903	35,527
Research overhead grants	13,422	13,969
Amortization of deferred capital contributions	33,840	34,688
	877,851	857,398
Expenses:		
Salaries and wages	416,458	395,458
Employee benefits	122,859	129,471
Supplies and services	259,738	239,503
Interest on long-term obligations	8,694	9,900
Amortization of capital assets	60,999	61,115
	868,748	835,447
Excess of revenues over expenses	$ 9,103	$ 21,951

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statement of Changes in Net Assets
Year ended April 30, 2012, with comparative figures for 2011
(thousands of dollars)

		Internally restricted						
	Unrestricted	Employee future benefits	Specific purposes	Equity in capital assets	Endowments Internal	Endowments External	2012 Total	2011 Total
Net assets, beginning of year:	$ 2,268	(89,640)	96,056	239,428	114,833	329,272	692,217	629,254
Excess (deficiency) of revenues over expenses	36,262	-	-	(27,159)	-	-	9,103	21,951
External endowment contributions:								
Contributions	-	-	-	-	-	21,387	21,387	18,382
Protection of capital	-	-	-	-	-	(15,097)	(15,097)	23,036
Transfers and adjustments:								
Transfers for specific purposes	(6,771)	(4,098)	10,869	-	-	-	-	-
Capital transactions from operating (note 9)	(33,586)	-	-	33,586	-	-	-	-
Transfer from internal endowments	5,027	-	-	-	(5,027)	-	-	-
Net change in unrealized losses on interest rate swap agreements (note 6)	(2,018)	-	-	-	-	-	(2,018)	(406)
	(1,086)	(4,098)	10,869	6,427	(5,027)	6,290	13,375	62,963
Net assets, end of year	$ 1,182	(93,738)	106,925	245,855	109,806	335,562	705,592	692,217

See accompanying notes to financial statements

McMASTER UNIVERSITY
Statement of Cash Flows
Year ended April 30, 2012, with comparative figures for 2011
(thousands of dollars)

	2012	2011
Cash flows from operating activities:		
Excess of revenues over expenses	$ 9,103	$ 21,951
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(33,840)	(34,688)
Amortization of capital assets	60,999	61,115
Increase in accrued employee future benefits	12,014	15,892
Equity earnings of other investments	(1,251)	(118)
Increase in decommissioning obligation	413	2,007
(Increase) decrease in deferred pension asset	(1,235)	13,113
	46,203	79,272
Net change in contributions deferred for future expenses	1,570	13,314
Net change in other non-cash working capital	11,051	(18,036)
	58,824	74,550
Cash flows from financing and investing activities:		
Purchase of capital assets	(62,293)	(90,189)
Net change in investments	(15,291)	(84,241)
Net change in external endowments	6,290	41,418
Deferred capital contributions	41,450	56,999
Principal repayments on long-term obligations	(12,743)	(1,127)
	(42,587)	(77,140)
Net increase (decrease) in cash and equivalents	16,237	(2,590)
Cash and equivalents, beginning of year	167,916	170,506
Cash and equivalents, end of year	$ 184,153	$ 167,916

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 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

McMaster Innovation Park:

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.

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

- Life Sciences Company ("LSC")

  These financial statements include the University's 50% interest in LSC (note 3). LSC is a joint venture with an unrelated pharmaceutical research company to commercialize intellectual property. LSC has a fiscal year end of August 31st and the University records its share of the operating results on that date.

- The Director's College

  These financial statements include the University's 50% interest in The Director's College (note 3). This joint venture is a project with The Conference Board of Canada to form the first university accredited corporate director development program. The Director's College has a fiscal year end of May 31st and the University records its share of the operating results on that date.

1. Significant accounting policies (continued):

(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. Ancillary sales and services revenue is recognized at point of sale or when the service has been provided.

(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 are classified as held-for-trading.
- 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.

1. Significant accounting policies (continued):

(c) Financial instruments (continued):

The University's interest rate swap agreements have been designated as effective and are measured at fair value at the year end date 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.

(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 $890,000 (2011 - $804,000) 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 asset

1. Significant accounting policies (continued):

(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.

! 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.

1. Significant accounting policies (continued):

(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.

(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.

(q) Future accounting standards for not-for-profit organizations:

In December 2010, the Accounting Standards Board (“AcSB”) and Public Sector Accounting Board (“PSAB”) issued new standards for not-for-profit organizations (“NPOs”). The AcSB’s standards for non-government NPOs form Part III of the CICA Handbook. Effective for the fiscal year ending April 30, 2013, the University will adopt the Part III standards. Management is currently determining the impact of the new standards on financial statement presentation and disclosure.

2. Investments:

Details of investments are as follows:

(thousands of dollars)	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Equities:				
Canadian	$ 121,175	$ 120,949	$ 135,547	$ 116,692
United States	134,085	114,673	122,865	115,309
Non-North American	99,717	120,034	108,635	118,432
	354,977	355,656	367,047	350,433
Fixed income	$ 307,458	$ 301,477	$ 284,612	$ 282,276
Other	10,876	10,263	6,361	8,549
	$ 673,311	$ 667,396	$ 658,020	$ 641,258

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. Other investments:

Details of other investments are as follows:

(thousands of dollars)	2012
McMaster Innovation Park (a)	$ 14,234
Life Sciences Company (b)	619
Director's College (c)	(166)
	$ 14,687

(a) McMaster Innovation Park:

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

Details of the investment are as follows:

(thousands of dollars)	2012	2011
Balance, beginning of year	$ 13,436	$ 13,318
Equity earnings	798	118
Balance, end of year	$ 14,234	$ 13,436

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. For the year ended April 30, 2012, $108,934 (2011 - $106,630) in income was recorded by the University.

Included in rent expense for the University at April 30, 2012 is $636,165 (2011 - $434,773). Included in accounts receivable at April 30, 2012 is $933,295 (2011 - $216,809) receivable from the Park. Included in accounts payable is $1,124,631 (2011 - $776,000) owing to the Park. Included in Note 11(f) are $2,710,185 in lease commitments with the Park.

3. Other investments (continued):

(a) McMaster Innovation Park (continued):

During the year the University provided payroll services at a fee (1% of total salaries paid) which amounted to $13,200 (2011 - $10,725).

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

(thousands of dollars)	December 31 2011	December 31 2010
Total assets	$ 106,898	$ 102,963
Total liabilities	$ 82,447	$ 78,280
Total deferred operating and capital grants	10,217	11,247
Total trusts' equity	14,234	13,436
	$ 106,898	$ 102,963
Results of operations:		
Total revenue	$ 10,099	$ 4,443
Total expenses	9,301	4,325
Net earnings	$ 798	$ 118
Cash flows:		
From operating activities	$ (7,794)	$ 1,877
From financing and investing activities	9,128	(1,136)
Increase in cash	$ 1,334	$ 741

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. Construction costs incurred to April 30, 2012 amounted to $5,701,632.

(b) Life Sciences Company:

Financial information from the life sciences company's financial statements are as follows:

(thousands of dollars)	August 31 2011	August 31 2010
Total assets	$ 3,150	$ 1,005
Total liabilities	$ 1,912	$ 402
Total equity	1,238	603
	$ 3,150	$ 1,005
Results of operations:		
Total revenue	$ 9,336	$ 5,206
Total expenses	8,700	4,622
Net earnings	$ 636	$ 584

3. Other investments (continued):

(c) The Director's College:

The University's share of cash distributions fromThe Director's College amounted to $300,000 (2011 - $ 500,000)

Financial information from The Director's College financial statements are as follows:

(thousands of dollars)	May 31 2011	May 31 2010
Total assets	$ 1,526	$ 1,145
Total liabilities	$ 358	$ 400
Total equity	1,168	745
	$ 1,526	$ 1,145
Results of operations:		
Total revenue	$ 2,023	$ 1,871
Total expenses	1,601	1,348
Net earnings	$ 422	$ 523

4. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	2012 Net
Land	$ 3,440	$ -	$ 3,440
Buildings	886,162	297,997	588,165
Decommissioning retirement costs	1,826	185	1,641
Site improvements	18,063	7,199	10,864
Leasehold improvements	642	330	312
Library materials	135,363	107,491	27,872
Equipment, furnishings and vehicles	378,325	318,482	59,843
Computing systems and computing equipment	105,144	89,319	15,825
Construction in progress	37,567	-	37,567
	$ 1,566,532	$ 821,003	$ 745,529

(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

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)	2012			
	Pension			
	Registered	Supplemental	Other	Total
Accrued benefit obligation	$ 1,482,727	$ 69,578	$ 219,532	$ 1,771,837
Fair value of plan assets	1,201,181	-	-	1,201,181
Funded status - deficiency	(281,546)	(69,578)	(219,532)	(570,656)
Reconciliation to deferred benefits (accrued future benefits):				
Unamortized past service cost	(2,434)	5,581	(13,827)	(10,680)
Unamortized actuarial loss (gain)	484,210	(958)	25,158	508,410
Deferred pension asset	$ 200,230	-	-	$ 200,230
Accrued employee future benefits	-	(64,955)	(208,201)	(273,156)
	$ 200,230	$ (64,955)	$ (208,201)	$ (72,926)

(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)

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)	2012		2011	
	Pension	Other	Pension	Other
Net benefit expense	$ 51,773	$ 18,049	$ 66,182	$ 19,475

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	63%	65%	8.3%
Debt securities	36%	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	5.00%	5.00%
Expected long-term rate of return on plan assets	6.50%	-
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	5.75%	5.75%
Expected long-term rate of return on plan assets	7.00%	-
Rate of compensation increase	4.75%	4.00%

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

(thousands of dollars)	2012		2011	
	Pension	Other	Pension	Other
Employer contributions	$ 53,260	$ 5,509	$ 49,886	$ 5,350
Employee contributions	17,753	-	16,115	-
Benefits paid	59,003	5,509	58,374	5,350

(g) For measurement purposes, a 5.28% annual rate of increase in per capita medical cost was assumed for 2012, 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, 2011, the next required filing date is July, 2014.
- 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, 2012, 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 2012 amounted to $381,000 each (2011 - $392,000).

6. Long-term obligations:

Details of long-term obligations are as follows:

(thousands of dollars)					2012	2011
	Maturity	Interest Rate	Current portion	Non-current portion	Total Outstanding	Total Outstanding
Long term debt:						
Residence mortgage (a)	May 2011	9.81%	$ -	$ -	$ -	$ 11,544
Bank loan (b)	Dec 2012	floating	483	-	483	1,170
Mortgage	Oct 2016	5.38%	119	471	590	702
Bank term loan (c)	May 2033	floating	426	17,901	18,327	18,727
Debentures (d)	Oct 2052	6.15%	-	120,000	120,000	120,000
			1,028	138,372	139,400	152,143
Decommissioning obligation (e)			$ -	$ 8,720	$ 8,720	$ 8,307
Interest rate swap agreements (f)			-	7,116	7,116	5,098
			$ 1,028	$ 154,208	$ 155,236	$ 165,548

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

2013	$ 1,028
2014	580
2015	616
2016	655
2017	622

(a) A voluntary sinking fund was established to fund a portion of the principal repayment of the residence mortgage upon maturity. Increases to the fund were charged to residence ancillary operations. The value of the fund at April 30, 2012 was $nil (2011- $6,306,000). 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 $10,769,000 (2011 - $10,753,000).

(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, 2012, the fair value of the trust funds amounted to $7,732,000 (2011 - $7,208,000). The net present value of the estimated cost for decommissioning, at April 30, 2012 is $8,720,000 (2011 - $8,307,000) 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)	2012		2011	
	Notional Value	Fair Value	Notional Value	Fair Value
10-year interest rate swap	$ 483	$ (9)	$ 1,170	$ (47)
30-year interest rate swap	18,327	(7,107)	18,727	(5,051)
	$ 18,810	$ (7,116)	$ 19,897	$ (5,098)

The change in fair value of the swaps for the year ended April 30, 2012 are as follows:

- 10-year: $38,000 (2011 - $60,000)
- 30-year: ($2,056,000) (2011 - ($466,000))

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)	2012	2011
Balance, beginning of year	$ 316,737	$ 303,423
Deferred and capital contributions received	271,716	273,137
	588,453	576,560
Less:		
Amounts recognized as revenue	(228,696)	(202,824)
Deferred capital contributions transfer	(41,450)	(56,999)
Balance, end of year	$ 318,307	$ 316,737

Deferred contributions consist of the following:

(thousands of dollars)	2012	2011
Research grants and contracts	$ 178,293	$ 183,723
Donations, other grants and investment income	73,815	68,990
Capital grants and donations	58,375	57,429
Other restricted funds	7,824	6,595
	$ 318,307	$ 316,737

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)	2012	2011
Balance, beginning of year	$ 354,979	$ 332,668
Add: contribution transfers	41,450	56,999
Less: amount amortized to revenue	(33,840)	(34,688)
Balance, end of year	$ 362,589	$ 354,979

8. Internally restricted net assets:

(a) Employee future benefits:

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

(thousands of dollars)	2012	2011
Pensions	$ 96,886	$ 93,938
Other retirement and post employment benefit plans	(190,624)	(183,578)
	$ (93,738)	$ (89,640)

(b) Specific purposes:

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

(thousands of dollars)	2012	2011
Unexpended departmental carryforwards	92,113	83,496
Research	17,212	16,719
Ancillaries	6,851	5,157
Other	41,758	45,758
	157,934	151,130
Sinking funds	10,769	17,058
Capital projects	(61,778)	(72,132)
	$ 106,925	$ 96,056

Included in unexpended departmental carryforwards is a $3,500,000 (2011 - $4,000,000) 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	2012 Balance
Stadium and Parking Project	Parking fees, pledges, fundraising	$ (24,520)
Ron Joyce Centre - Burlington	Fundraising, Region of Halton, City of Burlington	(18,250)
Les Prince Residence	Ancillary operations	(17,837)
David Braley Athletic Centre	Student levies, pledges, fundraising	(12,286)
Hedden Residence	Various	(5,205)
Engineering Building	Graduate funding, pledges, fundraising	(4,531)
McMaster Automotive Resource Centre (MARC)	Various	(4,017)
Michael DeGroote Centre for Learning, 2nd Floor	Graduate funding, pledges, fundraising	(3,192)
Internal Equipment Loans	Various	(480)
Other projects (net)	Various	28,540
		$ (61,778)

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

9. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	2012	2011
Capital assets	$ 745,529	$ 744,235
Less amounts financed by:		
Net long-term debt	(137,085)	(149,828)
Unamortized deferred capital contributions	(362,589)	(354,979)
	$ 245,855	$ 239,428

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	2012	2011
Repayment of long-term debt	$ 12,743	$ 1,127
Capital asset purchases from operating	20,843	31,579
	$ 33,586	$ 32,706

10. Endowments:

(a) Internal:

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

(thousands of dollars)	2012	2011
Balance, beginning of year	$ 114,833	$ 107,817
Donations	143	-
Investment income	75	12,245
Net transfers and expenses	(5,245)	(5,229)
Balance, end of year	$ 109,806	$ 114,833

Included in internal endowments is an amount of $52,635,000 (2011 - $55,179,000) 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)	2012	2011
Balance, beginning of year	$ 329,272	$ 287,854
External contributions:		
OTSS	2,936	3,437
Other	18,451	14,945
Income retained - capital protection policy	(15,097)	23,036
Balance, end of year	$ 335,562	$ 329,272

Investment income (loss) on external endowments amounted to ($2,030,000) (2011 - $30,681,000). In accordance with the endowment capital protection policy, this income less the amount made available for spending of $12,750,000 (2011 - $7,067,000) net of transfers of $317,000 (2011 - $578,000) were added to endowment net assets. The amoun 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 continued 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, 2012 was $21.9 million (2011 - $22 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2012, 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 $208,240,000 at April 30, 2012 (2011 - $102,965,000). Included in the total is $65 million for the Wilson Building for Studies in Humanities and Social Sciences.

(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, 2012, the University's remaining share of the costs are estimated to be $29.2 million (2011- $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 $7,943,000 (2011- $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)	
2013	$ 1,931
2014	962
2015	857
2016	736
2017	498

(g) McMaster Health Campus:

In fiscal 2012, the University entered into an agreement with the Hamilton Wentworth District School Board (the "Board") to purchase the Board's offices at 100 Main Street West in downtown Hamilton. The purchase was completed in August 2012 at a cost of $8.7 million. The University plans to develop the McMaster Health Campus at an estimated cost of $85 million. The University also entered into a Conditional Financial Contribution Agreement with the City of Hamilton which requires the University to meet certain construction milestones in order to receive grant installments totaling $20 million between now and 2020, of which $5 million has been received.

12. Other income:

Details of other income are as follows:

(thousands of dollars)	Major Sources	2012	2011
Faculty of Health Sciences	Government specifically funded programs	$ 41,883	$ 47,025
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees	34,075	28,610
Academic Services	Nuclear reactor sales, contracts and patent royalties, registrar administration fees	11,369	11,314
Student Services	Athletics and Recreation memberships and user fees	14,001	12,991
Miscellaneous	Application fees, late payment fees	7,380	8,368
Other Investment Income	Director's College, Life Sciences Company	453	-
		$ 109,161	$ 108,308

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 $143,000 (2011 - $267,000).
- Joint ventures: the University's share of cash distributions amounted to $300,000 (2011 - $500,000).

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 2012. 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, 2012 and 2011 in the first phase of the Ontario Student Opportunity Trust Fund (OSOTF I) balance:

(thousands of dollars)	2012	2011
Endowment balance, beginning of year	$ 32,467	$ 30,817
Investment income (used from) retained for protection of capital	(539)	1,658
Investment income transferred (to) expendable income	(280)	(8)
Endowment balance, end of year	31,648	32,467
Funds available for awards, beginning of year	-	-
Investment income	993	315
Bursaries awarded (2012 - 1,086 awards; 2011 - 250 awards)	(1,273)	(323)
Investment income transferred from endowment balance	280	8
Funds available for awards, end of year	-	-
Total funds at book value	$ 31,648	$ 32,467

The market value of the endowment as at April 30, 2012 was $29,746,000 (2011 - $31,020,000).

(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)	2012	2011
Endowment balance, beginning of year	$ 5,891	$ 5,673
Investment income (used from) retained for protection of capital	(154)	218
Endowment balance, end of year	5,737	5,891
Funds available for awards, beginning of year	26	31
Investment income for expenditures	178	79
Bursaries awarded (2012 - 216 awards; 2011 - 58 awards)	(184)	(84)
Funds available for awards, end of year	20	26
Total funds at book value	$ 5,757	$ 5,917

The market value of the endowment as at April 30, 2012 was $5,561,000 (2011 - $5,639,000).

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)	2012	2011
Endowment balance, beginning of year	$ 30,500	$ 25,546
Cash donations received	1,660	1,217
Funds received/receivable from MTCU	1,347	2,337
Investment income retained for protection of capital	1,046	1,400
Endowment balance, end of year	34,553	30,500
Funds available for awards, beginning of year	798	819
Investment income for expenditures	896	199
Bursaries awarded (2012 - 209 awards; 2011 - 70 awards)	(683)	(220)
Funds available for awards, end of year	1,011	798
Total funds at book value	$ 35,564	$ 31,298

The market value of the endowment as at April 30, 2012 was $35,988,000 (2011 - $31,812,000).

17. First Generation Pilot Project Initiatives:

For the period from May 1, 2011 to April 30, 2012, the University's financial statements include expenditures totaling $360,316 (2011 - $309,834) for the purpose of carrying out the First Generation Pilot Project Initiatives. The goal of this project is to increase the awareness of the benefits of post-secondary education for the first generation students thereby increasing their participation, retention and graduation rates.

18. Pledges receivable:

Outstanding but unrecorded pledges for donations and other fund raising amounted to $80,829,000 (2011 - $74,087,000).

19. 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)	2012		2011	
	Book Value	Fair Value	Book Value	Fair Value
Long term debt:				
- with fixed interest rates	$ 120,590	$ 163,369	$ 132,246	$ 155,156
- with variable interest rates (without consideration of interest rate swaps)	18,810	18,810	19,897	19,897

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 note 6(f).

20. Comparative figures:

Certain comparative figures for 2011 have been reclassified to conform with the financial statement presentation adopted in the current year.

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