

## Rating Report

Report Date:  
April 26, 2010

Previous Report:  
March 18, 2009



Insight beyond the rating.

# McMaster University

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## The University

McMaster University was founded in 1887 by the merger of the Toronto Baptist College and Woodstock College, and is located in Hamilton, a city of about 740,000 residents 60 kilometres west of Toronto. The University is a comprehensive, research-intensive institution offering a broad range of undergraduate, graduate and continuing education programs. In 2009-2010, McMaster had an enrolment of nearly 24,600 students (FTEs).

## Recent Actions

March 18, 2009  
Confirmed

## Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debt	AA (low)	Downgraded	Stable

## Rating Update

DBRS has downgraded the rating of McMaster University (McMaster or the University) to AA (low) from AA; the trend is now Stable. The rating action primarily reflects the downward pressure observed in operating results and financial flexibility since the trend on the rating was changed to Negative in March 2008, as well as the challenges foreseen over the medium term. In particular, the deficits posted in recent years have markedly depressed credit metrics and the sustained operating cost pressures and limited provincial grant increases point to challenging operating conditions for McMaster and the university sector. In addition, the University remains burdened by large and steadily rising employee benefit liabilities, which are expected to put considerable pressure on the budget going forward. The revised rating also incorporates McMaster's proposed plan to issue up to \$100 million in new debt over the years to come in order to repay internal loans and fund ongoing capital initiatives.

McMaster ended 2008-09 with a second consecutive consolidated deficit, this time totalling \$54.0 million. Investment losses were primarily to blame for the poor performance, although the absence of inflation in provincial grants and steady operating cost pressure also contributed to the weak results. Nonetheless, full-time equivalent (FTE) enrolment maintained its planned upward trend with a gain of 2.4%, a testament to McMaster's solid academic reputation. The rebound posted in stock markets in 2009 is expected to provide some relief to investment income in 2009-10. However, salary increases and rising employee benefit deficiencies combined with the lack of inflation indexation in operating grants and limited tuition fee-setting autonomy point to challenging conditions in the sector and weak results at McMaster in 2009-10 and over the next few years.

Concerns about McMaster's unfunded pension and post-employment liabilities have continued to escalate since DBRS's last rating review, as deficiencies reached a total of \$568.0 million by fiscal year-end 2008-09, up 57% year-over-year despite increases in the discount rates. The University has made significant changes to plan designs for many of its new employees and will continue to pursue strategies to slow future labour cost increases. (Continued on page 2.)

## Rating Considerations

### Strengths

- (1) Diversified and stable revenue base
- (2) High level of expendable financial resources
- (3) Sound university enrolment outlook in Ontario
- (4) Innovative program offering, with focus on high-demand disciplines

### Challenges

- (1) Rising projected debt level
- (2) Sizeable unfunded pension and post-employment benefit liabilities
- (3) Growing salary pressures
- (4) Limited fee-setting autonomy

## Financial Information

	For the year ended April 30				
	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
Consolidated surplus (deficit) (\$ millions)	(54.0)	(13.5)	23.7	8.6	6.1
Long-term debt (\$ millions)	154.3	155.3	156.3	157.1	158.0
Interest costs/total expenditures	1.3%	1.4%	1.6%	1.7%	1.6%
Interest coverage ratio (times)	0.3	4.2	7.0	5.9	4.8
Total endowment (\$ millions) (1)	417.1	490.1	498.5	449.3	385.5
Capital expenditures (\$ millions)	101.7	94.8	105.4	127.5	102.9
Total enrolment (FTEs) (2)	24,104	23,530	22,903	22,140	20,807
Long-term debt per FTE (\$)	6,403	6,601	6,823	7,098	7,592
Endowment per FTE (\$)	17,304	20,829	21,766	20,294	18,527

(1) Market value. (2) Full-time equivalent (FTE), excluding continuing education.

## Rating Update (Continued from page 1.)

However, these changes will have limited impact on costs in the near term. As such, the effect of these liabilities will be increasingly felt on operating results, slowing improvement in interest coverage, which reached its lowest level on record in 2008-09, at 0.3 times. Nonetheless, endowment assets and expendable financial resources remain significant despite the hit taken in 2008 from the equity market downturn, and provide meaningful financial flexibility. Debt also remains low relative to rated peers, at \$154.3 million or \$6,403 per FTE, at April 30, 2009. However, this advantage will disappear if the University moves forward with its plan to borrow up to \$100 million over the next few years, which could push debt up to about \$10,500 per FTE.

Overall, the University still maintains a solid credit profile, supported by its superior academic reputation, large financial resources and management's resolve to address operating challenges. Yet the erosion observed in financial metrics makes the credit profile no longer consistent with an AA rating, while the large pension liabilities and challenging environment point to limited opportunities for a quick recovery.

## Rating Considerations Details

### Strengths

(1) McMaster's substantial research activities, fundraising efforts and innovative entrepreneurial initiatives create a relatively high level of revenue diversification. Sizeable funding from the Ontario government (the Province, currently rated AA (low) by DBRS), which accounted for about 30% of total revenues in 2008-09, also provides a fairly stable revenue source that supports the financial profile of the institution.

(2) Substantial protection is provided to bondholders through the University's considerable pool of expendable resources, which stood at \$179.2 million, or nearly 1.2 times total debt, at April 30, 2009. The holdings consist of \$13.0 million of internal debt retirement assets, \$67.4 million of internally restricted reserves and \$98.8 million in internally restricted endowment assets, most of which could be un-endowed by the Board of Governors to meet debt servicing needs, if required.

(3) Population growth in the province, continued migration from regional areas to the large urban centres and rising participation rates due to increased educational requirements in the labour market will help support university enrolment. However, total enrolment is projected to be little changed at McMaster over the next few years as the University has reached its medium-term target levels.

(4) The University benefits from a strong academic profile and innovative program offerings focused on high-demand disciplines. Furthermore, McMaster has the second-largest school of medicine in Ontario, Canada's largest co-operative education MBA and a top-ranked engineering school. These attributes translate into strong student applications and lend considerable support to enrolment stability and fundraising.

### Challenges

(1) Although financial market conditions have deferred McMaster's plans to issue new debt, the University is still planning to borrow up to \$100 million over the years to come to fund capital projects and repay internal loans. This would push total debt to about \$255 million or around \$10,500 per full-time equivalent (FTE), which would be at the high end of the range for DBRS-rated universities and would further dampen interest coverage.

(2) Despite an upward revision to the discount rate, unfunded pension liabilities more than doubled in 2008-09 to \$373 million, one of the highest levels in the sector. In addition, the University carries sizeable post-employment benefit liabilities, estimated at \$194.9 million as at April 30, 2009. McMaster has been using internal reserves to fund some of the special pension deficit payments but the latter are likely to rise notably at the next actuarial valuation in 2010, which will further constrain operating flexibility.

(3) Labour costs comprise the largest portion of university expenditures and have been rising solidly at most institutions in recent years, putting increasing pressure on financial results. At McMaster, annual increases in salary and benefits expenditures have averaged 8.6% per year over the past five years. Strong demand for academics across universities will continue to make managing salary pressures difficult in the years ahead.

(4) Since 2006-2007, universities in Ontario have been limited to a 5% average annual increase in tuition fees. While this is a definite improvement over the tuition freeze that was previously in place, universities are still left with limited flexibility to grow revenues. The current framework is in place until 2011-2012, after which point it is unclear whether the Province will change the regulation.

## 2008-2009 Operating Performance

Despite continued sound enrolment growth, the University closed its 2008-09 fiscal year with a sizeable consolidated deficit of \$54.0 million, or 7.4% of revenues. This was a sharp deterioration from the \$13.5 million shortfall recorded the prior year and marked deviation from the moderate shortfall originally budgeted, due mainly to poor investment returns recorded during the fiscal year. The operating fund was also in a modest surplus position, as one-time initiatives were funded with appropriations.

Total revenues were little changed in 2008-09, as the support provided by higher tuition fees, a 2.4% increase in FTE enrolment and \$6.4 million in year-end provincial funding was offset by investment losses totalling \$14.7 million and a 23.6% reduction in donations and other grants recognized as revenue. Returns on the long-term investment pool amounted to -18.9%. Research revenue jumped markedly year-over-year, but was matched by increased spending on various projects, consistent with the matching principle of research grants. Ancillaries performed relatively well, helped by higher enrolment and very high residence occupancy, although hospitality revenues were affected by the Brandon Hall fire in fall 2008.

Total expenses rose by 5.0%, outpacing revenues for a second consecutive year and slightly above budget. Accounting for 61% of spending, compensation costs remained a key cost driver, reflecting salary increases as well as higher staffing levels. In an effort to set an example, academic and administrative officers voluntarily froze their salaries for a year and closed access to the defined-benefit pension plan and post-employment benefit plan to new hires, who will now participate in defined contribution plans. Access to the defined pension plan has also been closed for some time to new full-time non-union staff. In February 2010, an arbitrator awarded a modified defined benefit plan design for new CAW employees hired on or after May 1, 2010. The 15.3% increase in other supplies and expenses was mainly driven by increased research activities, while higher utility costs reflected facilities completed in recent years.

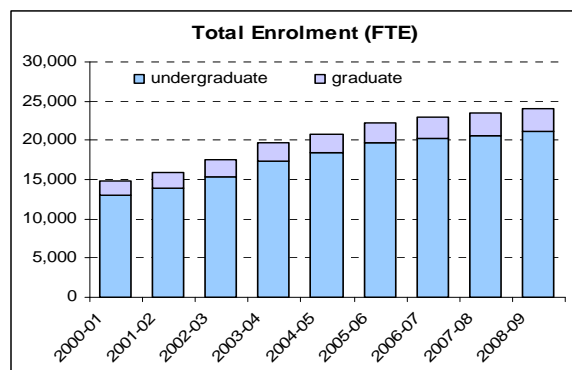
## Operating Outlook

*The University presents a consolidated budget that includes all six of its funds: operating, ancillary, research, trust, endowment and capital. However, it budgets on a cash basis, rather than an accrual basis as presented in its financial statements.*

### 2009-10 Budget

The operating environment is expected to remain challenging in fiscal year 2009-10, as inflation, salary adjustments and rising pension deficits continue to steadily drive up spending while revenue growth remains subdued by the fiscal challenges faced by the Province, the lack of inflation indexation in the basic operating grant and limited tuition fee-setting autonomy.

Based on the budget, McMaster is facing an operating deficit of nearly \$27 million before draws on appropriations. The consolidated deficit is projected at \$51 million, little changed from the prior year. The University notes that its operating fund shortfall is mainly due to one-time initiatives funded with appropriations and departmental reserves. Nonetheless, DBRS believes the regular use of department reserves to fund spending may be delaying the hard decisions that will eventually be required to restore fiscal soundness, leaving many faculties faced with structural deficits. Furthermore, some pension plan deficit payments are excluded from the operating budget and funded through reserves. Most post-employment benefits continue to be accounted for on a cash basis, which underestimates budget challenges.



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Consolidated spending is projected to grow by \$29.5 million, or 3.7% year-over-year, which is notably less than in prior years. Ongoing restructuring efforts in both academic and non-academic areas, deferred hiring and reductions of discretionary spending are expected to help absorb inflation pressure (about 6%) through existing budget envelopes. Senior management also accepted a wage freeze in order to set the example among employee groups. Nonetheless, salaries and benefits are set to jump by \$26 million or 5.9% in 2009-10, once again accounting for the bulk of spending growth. This highlights the challenge posed to universities by above-market salary increases and generous employee benefit packages. A notable increase is also budgeted in supplies and other expense, reflecting restructuring and one-time initiatives implemented by faculties and funded through reserves.

Total revenue is projected to rebound by \$88.3 million, or 12.7%, in 2009-10, driven by the absence of the large investment losses that plagued results last year. Excluding the noise created by investments, however, revenue growth is likely to be modest, as donations are expected to be lower due to weaker economic conditions and only modest enrolment growth is anticipated. Yet the University continues to maximize tuition fee increases permitted under the provincial tuition fee framework, generating nearly \$10 million in new revenues. In addition, DBRS notes that the University prudently assumes no year-end provincial funding and has conservatively budgeted for investment returns of 3%, which presents some upside given the sound performance of the financial markets recorded in 2009.

### **Medium-Term Outlook**

The University intends to focus its attention over the years to come on improving operating results and stabilizing reserve and fund balances. However, DBRS doubts that McMaster will be able to balance its operating budget within the five-year window established in 2007-08, given the weak government funding outlook faced by Ontario universities, rising employee benefit costs, contractual salary increases and sizeable deferred maintenance needs. The University has identified numerous strategies aimed at mitigating budget pressures, including pursuing enrolment in areas funded by the Province, eliminating programs with low enrolment, and requiring ancillaries to contribute 1% of sales to the operating fund. The University has made significant changes to plan designs for many of its new employees and will continue to pursue strategies to slow future labour cost increases. However, these changes will have limited impact on costs in the near term, as McMaster is already faced with large plan deficiencies that will put growing pressure on the budget. As such, more aggressive actions will likely be needed in order to bring spending growth more in line with revenue growth, and restore fiscal soundness.

### **Capital Plan**

McMaster's capital renewal and expansion program introduced in 2007 is coming to an end, with several projects scheduled for completion in 2009-10. These include the new engineering building (\$48.0 million), the fit-out of the second floor of the MDCL building (\$18.5 million), the Farncombe Digestive Health Research Institute (\$5.6 million) and the Bio Sciences Level 3 Laboratory Project (\$2.5 million). The program was supported by significant government funding as well as fundraising and temporary draws on internal funds, which are expected to be repaid at some point with a debt issue of up to \$100 million. Despite the continued lack of recurring funding from the Province to address deferred maintenance needs, the large projects completed in recent years have contributed to stabilizing the backlog, which was estimated at about \$140 million, or 8.5% of replacement value, in 2008-09.

Priorities for 2010-11 include the Centre for Advanced Management Studies (\$26.0 million), which was started in 2009-10 on the Burlington Campus, and the McMaster Innovation Park (MIP), a large research complex that will be completed in stages. The first stage of the MIP is projected to reach completion by 2013 at a cost of \$109 million. The University has provided a debt service deficiency undertaking on \$23 million of bank financing recently obtained for one component of the project. At this time, it is expected that the remainder will be funded by non-recourse debt issued by the MIP and a combination of public and private sources. The Board also recently approved the construction of the Centre for Primary Care at the MIP. With an updated budget estimated at \$39.9 million, the project should get started shortly and, similar to the other projects underway, will require internal funding.

McMaster also maintains a long list of potential projects that are in early planning stages but have not yet received Board approval. Since the benchmark financial ratios tracked by the University are below required levels, however, it is unlikely that new projects will be undertaken before all required funding is available.

## Debt and Liquidity

Debt per FTE has been trending downward since the 2002 bond issue and continues to compare favourably with other DBRS-rated universities. However, weakening operating results, and large and rising employee benefits liabilities, as well as the marked decline in financial resources that resulted from the financial market downturn, have eroded coverage ratios and financial flexibility.

Total debt continued to slowly decline in 2008-09 to \$154.3 million, or \$6,403 per FTE, on the amortization of certain bank loans. No material change in McMaster's debt burden is expected to have occurred in 2009-10 as capital investments continued to be partly financed with grants as well as internal loans, which reached \$68.9 million in 2008-09. However, weak operating results pushed the interest coverage ratio down to 0.3 times in 2008-09, its lowest level on record. DBRS expects the ratio to have recovered slightly to around 1.0 to 2.0 times during the fiscal year just ending.

A growing source of concerns for DBRS in recent years, unfunded pension liabilities before adjustments for unamortized losses more than doubled to \$373.0 million in 2008-09, due primarily to large investment losses on plan assets. Without an increase of the discount rate from 6.25% to 7.50%, the deficiencies would have been \$42 million larger. Non-pension employee benefit liabilities fell slightly in 2008-09 on the effect of the higher discount rate but remained sizeable (\$194.9 million). As a result of improved investment returns and special deficit amortization payments, employee benefit liabilities are expected to have shown some modest improvement in the current fiscal year but likely remain among the largest in the sector. DBRS notes that post-employment benefits and defined-benefit pension plans are no longer available to new hires in certain non-union employee groups.

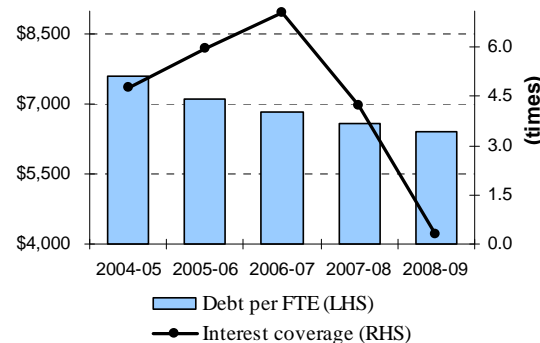
Financial resources remain substantial but have been hard hit by the global equity market downturn and investment losses of 18.9% in 2008-09. Continued endowment payouts amidst weak returns and temporary drawdowns on reserves for capital purposes have also contributed to the erosion. Total endowment assets fell by 14.9% in 2008-09 to a market value of \$417.1 million, but remained the third highest among Ontario universities on a per FTE basis. Expendable resources posted a similar decline and stood at \$179.2 million at April 30, 2009, or nearly 1.2 times total debt. The strong rebound in equities recorded in 2009 and sustained fundraising efforts are expected to have provided partial relief to financial resources, although it may take a few years before assets return to pre-recession levels.

### Medium-Term Outlook

The University continues to foresee borrowing needs of up to \$100 million to replenish internal funds used up for recent capital projects and finance other initiatives. The timing of the new debt remains uncertain, however, as McMaster's benchmark financial ratios remain below the levels required under the debt management policy (*see textbox*). This could push debt up to about \$10,500 per FTE, which could be manageable for the credit in normal conditions but would eliminate the University's debt advantage relative to its rated peers. Efforts to gradually address the deficit will help strengthen interest coverage although the ratio is expected to remain low relative to historical levels for some time.

More importantly, the large unfunded pension and post-employment benefit liabilities will have a material dampening effect on operating and financial flexibility over the years to come. In particular, post-employment benefit costs continue to be accounted for on a cash basis, resulting in steady increases in unfunded liabilities given the gap of about \$15 million between the benefits accrued and the cash cost of benefits paid annually.

Debt Per FTE and Interest Coverage



### McMaster Debt Management Policy

The debt policy establishes guidelines regarding the use and affordability of external debt. The policy relies on two key affordability ratios, as measured by the University:

**Expendable Resources-to-Debt  $\geq$  0.8 times coverage**

**Interest Coverage  $\geq$  2.75 to 3.25 times**



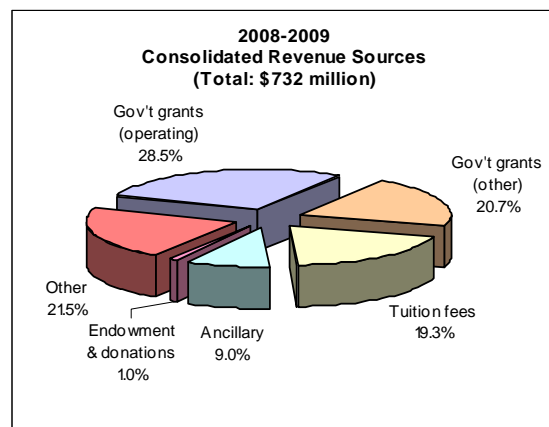
The University intends to pursue further changes in benefit programs through collective bargaining in order to slow the growth in unfunded liabilities. The next formal actuarial pension valuation (as of July 2011) is expected by DBRS to be based on a lower discount rate, which will likely still point to substantial employee benefit liabilities and increased budget pressure, as about three-quarters of pension contributions and all post-employment benefit costs are assumed by the University.

## University Funding in Ontario

Canadian universities generally have access to three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees, and (3) fundraising/endowment income. For McMaster, these accounted for about 70% of total revenues in 2008-2009.

Provincial government funding remains the primary source of revenue for universities across the country, although its relative importance has been under pressure in many provinces over the past decade due to efforts by provincial governments in the mid-1990s to rein in budget shortfalls and accelerating cost pressures in healthcare programs. In Ontario, lack of indexation in base operating grants also contributed to this trend.

In compensation for the budget cuts, Ontario universities were given more fee-setting autonomy, leading to increased reliance on tuition fees and other private-funding sources, as has occurred in other provinces.



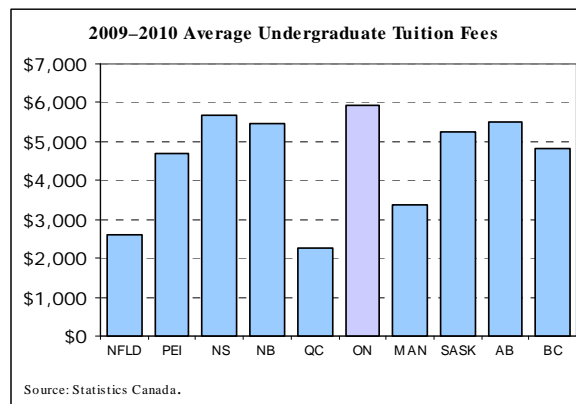
**Government Funding** (provincial and federal – 49%): Includes (1) operating grants, (2) research grants and contracts, and (3) capital grants. Operating grants are by far the most important and stable revenue source of the three. Operating grants are provided exclusively by the Province, primarily through a formula that allocates a certain number of basic income units to each student based on the program in which they are enrolled. Targeted funding, which is mainly aimed at expanding enrolment in high-demand programs, and performance-based grants also account for a small, though growing portion of provincial operating funding.

No inflation adjustment is provided in base operating funding in Ontario. However, the Province continues to provide Ontario universities with full average funding for enrolment growth, including \$248 million in 2010-11. No other significant new funding initiatives have been introduced since the 2005 provincial budget, which boosted university funding in response to the recommendations of the post-secondary review. Also important are government grants for research and capital projects. The federal government generally accounts for 65% to 75% of total public research funding, while the Province provides the bulk of capital funding. As part of its Economic Action Plan introduced in January 2009, the federal government created a \$2 billion Knowledge Infrastructure Program to fund up to 50% of qualifying capital expenses incurred by post-secondary institutions across Canada by March 31, 2011. The budget introduced by the Province in March 2009 also committed \$780 million in capital funding for colleges and universities over a two-year period, which will help institutions address a significant portion of their growth and deferred maintenance needs. However, the larger deficits faced by the Province over the years to come point to limited room for operating funding growth.

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**Student Fees (19%):** The tuition regime introduced in March 2006 in Ontario permits universities to increase average tuition fees by up to 5% annually beginning in 2006-2007, with fee-increase limits varying across programs and years of study. For example, arts and science tuitions can be increased by 4.5% for the first year of study and 4% for the remaining years, and graduate and professional program tuition fees can be increased by 8% for the first year of study and 4% in the following years. Overall, however, a university's average tuition increase will not be allowed to exceed 5%. The framework was originally set to expire in 2009-2010 but was recently extended for two more years until 2011-2012, after which point it is unclear whether the Province will change the regulation. For McMaster, tuitions increased by the maximum allowable in 2009-2010.



**Fundraising and Endowment Contributions (1%):** Unrestricted donations are recognized as revenue when received, while funds accepted with external restrictions or designated by the Board of the University are added directly to endowments and reported as revenue when related expenses are incurred.

The success of McMaster's fundraising efforts is exhibited by the growth of the endowment fund since 2002. Fundraising is expected to continue to contribute to endowment growth, although the weak economic climate is expected to dampen donations over the years to come.

As of April 30, 2009, McMaster's endowment stood at \$417.1million, or \$17,304 per FTE, down 14.9% year-over-year as a result of the extremely challenging investment conditions encountered in the last two years. Nonetheless, McMaster still boasts the third largest endowment in Ontario after the University of Toronto and Queen's University, providing sizeable support to the operating fund. Endowment assets are expected to have rebounded notably in 2009. Furthermore, McMaster is in the midst of the largest fundraising campaign in its history, with a total goal of \$400 million. This will help endowments resume their upward trend, although the recovery will be tempered by drawdowns planned by the University to temporarily fund additional pension contributions.

## McMaster University

### Consolidated Balance Sheet

(\$ thousands)	As at April 30				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>					
Cash and short-term investments	76,182	112,571	88,107	89,231	114,405
Receivables	148,369	125,369	118,115	113,600	105,495
Inventories and prepaid expenses	10,643	9,409	9,481	6,946	7,025
Deferred pension asset	220,811	222,282	222,972	225,409	175,890
Long-term investments	563,211	614,020	588,398	538,112	477,143
Other investments	13,318	13,318	13,318	13,460	-
Capital assets	683,777	644,744	613,812	570,842	515,493
<b>Total Assets</b>	<b>1,716,311</b>	<b>1,741,713</b>	<b>1,654,203</b>	<b>1,557,600</b>	<b>1,395,451</b>
<b>Liabilities and Equity</b>					
Payables and other current liabilities	153,502	130,328	105,356	112,277	76,215
Employee future benefits (1)	224,891	205,058	182,651	165,813	86,617
Deferred contributions - endowment (2)	72,125	56,037	53,273	55,881	48,976
Other deferred contributions	210,554	199,514	158,101	147,996	160,767
Deferred capital contributions	314,333	299,489	299,796	284,591	284,159
Long-term debt	154,331	155,329	156,265	157,146	157,974
Other long-term liabilities (3)	12,504	10,070	5,427	5,163	4,913
Total liabilities	1,142,240	1,055,825	960,869	928,867	819,621
<b>Fund balances</b>					
Unrestricted	(146)	1,807	4,929	5,651	13,985
Committed (4)	9,794	55,790	81,056	79,624	104,247
Endowment - internally restricted	98,832	133,166	154,823	143,878	131,515
Endowment - externally restricted	246,139	300,860	290,420	249,481	204,640
Equity in capital assets	219,452	194,265	162,106	150,099	121,443
<b>Total Liabilities and Equity</b>	<b>1,716,311</b>	<b>1,741,713</b>	<b>1,654,203</b>	<b>1,557,600</b>	<b>1,395,451</b>
<b>Contingencies and Commitments</b>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital commitments	70,395	78,960	103,350	99,700	104,000
Legal claims	31,000	31,000	31,000	-	-
	<b>101,395</b>	<b>109,960</b>	<b>134,350</b>	<b>99,700</b>	<b>104,000</b>

(1) After adjustments for unamortized losses.

(2) Endowment-related deferred contributions represent expendable externally restricted grants and donations.

(3) Includes nuclear reactor decommissioning costs and the unrealized cost on interest rate swap contracts.

(4) Funds set aside for specific purposes (e.g. departmental carry-forwards, pension cost deferral, etc.).





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### Consolidated Financial Summary (DBRS-Adjusted)

(\$ thousands)	For the year ended April 30				
	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
Total revenue	731,819	735,034	730,966	685,372	637,186
Total expenditures	785,772	748,553	707,304	676,810	631,095
<b>Recurring Surplus (Deficit)</b>	<b>(53,953)</b>	<b>(13,519)</b>	<b>23,662</b>	<b>8,562</b>	<b>6,091</b>
Net contributions from (to) endowments	33,334	21,657	(10,945)	(12,863)	(2,050)
Net contributions from (to) committed funds (1)	45,996	25,266	13,514	24,312	25,740
Change in investment in capital assets	(25,187)	(32,159)	(26,953)	(28,345)	(25,824)
Net change in unrealized losses on interest rate swaps	(2,143)	(482)	-	-	-
<b>Net change in unrestricted assets</b>	<b>(1,953)</b>	<b>763</b>	<b>(722)</b>	<b>(8,334)</b>	<b>3,957</b>
<b>Revenue</b>					
Tuition fees	141,323	132,723	123,761	116,963	111,246
Government operating grants	208,673	199,915	200,340	167,864	149,787
Research grants and contracts	170,333	155,166	155,297	151,959	153,764
Ancillary operations	65,602	64,408	64,138	58,094	65,164
Investment income	(14,739)	23,112	40,052	44,703	36,106
Donations & other grants	28,799	37,695	38,023	43,136	25,062
Earned capital contributions	37,146	41,047	38,268	40,753	36,899
Other revenue	94,682	80,968	71,087	61,900	59,158
<b>Total Revenue</b>	<b>731,819</b>	<b>735,034</b>	<b>730,966</b>	<b>685,372</b>	<b>637,186</b>
<b>Expenditures</b>					
Salaries and benefits	482,491	468,282	436,447	402,622	368,528
Student aid	39,547	37,373	35,437	34,204	35,215
Cost of goods sold	13,830	14,463	15,440	21,570	23,552
Utilities	24,531	22,000	21,806	17,354	15,338
Other supplies and expenses	152,680	132,461	124,599	130,871	124,506
Amortization	62,659	63,846	62,430	58,806	53,700
Interest	10,034	10,128	11,145	11,383	10,256
<b>Total Expenditures</b>	<b>785,772</b>	<b>748,553</b>	<b>707,304</b>	<b>676,810</b>	<b>631,095</b>
<b>Gross Capital Expenditures</b>	<b>101,692</b>	<b>94,778</b>	<b>105,400</b>	<b>127,547</b>	<b>102,888</b>

(1) Internally restricted funds set aside for specific purposes.

### Statement of Cash Flow (DBRS-Adjusted)

(\$ thousands)	For the year ended April 30				
	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
Operating balance before fund contributions	# (53,953)	(13,519)	23,662	8,562	6,091
Amortization	62,659	63,846	62,430	58,806	53,700
Other non-cash adjustments	(15,842)	(17,950)	(18,851)	(11,044)	(21,313)
Cash flow from operations	(7,136)	32,377	67,241	56,324	38,478
Change in working capital	26,068	75,711	(6,474)	22,170	15,368
Operating cash flow after working capital	18,932	108,088	60,767	78,494	53,846
Net capital expenditures*	(49,702)	(54,038)	(51,927)	(86,362)	(62,852)
Free cash flow	(30,770)	54,050	8,840	(7,868)	(9,006)

\* Defined as gross capital expenditures less contributions restricted for capital purposes.



McMaster  
University

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## McMaster University

### Summary Statistics (DBRS-Adjusted)

	For the year ended April 30				
	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
<b>Total Enrolment (FTE) (1)</b>	24,104	23,530	22,903	22,140	20,807
- Undergraduate	88%	88%	88%	89%	89%
- Graduate	12%	12%	12%	11%	11%
- Total annual change	2.4%	2.7%	3.4%	6.4%	5.2%
<b>Total Employees (2)</b>	4,721	4,613	4,635	4,457	4,398
- Full-time faculty	1,253	1,241	1,227	1,195	1,166
<b>Operating Results</b>					
Surplus (deficit) (\$ millions)	(54.0)	(13.5)	23.7	8.6	6.1
- As % of revenues	-7.4%	-1.8%	3.2%	1.2%	1.0%
<b>Revenue Mix (as % of total DBRS-adjusted revenue)</b>					
- Government funding (federal+provincial)	49.2%	46.1%	46.9%	43.1%	43.1%
- Tuition fees	19.3%	18.1%	16.9%	17.1%	17.5%
- Ancillary	9.0%	8.8%	8.8%	8.5%	10.2%
- Endowment and expendable donations	1.0%	6.0%	8.1%	10.3%	7.2%
- Other	21.6%	21.1%	19.3%	21.1%	22.1%
<b>Debt and Liquidity Analysis</b>					
Total long-term debt (\$ millions)	154.3	155.3	156.3	157.1	158.0
- Per FTE student (\$)	6,403	6,601	6,823	7,098	7,592
L-t debt, contingencies & commitments (\$ millions) (3)	480.6	470.3	473.3	422.7	348.6
- Per FTE student (\$)	19,939	19,989	20,664	19,090	16,754
Cash and cash equivalents (\$ millions)	76.2	112.6	88.1	89.2	114.4
- As % of current liabilities	50%	86%	84%	79%	150%
Interest costs as % of total expenditures	1.3%	1.4%	1.6%	1.7%	1.6%
Interest coverage ratio (times)	0.3	4.2	7.0	5.9	4.8
<b>Endowment Funds</b>					
Total market value (\$ millions)	417.1	490.1	498.5	449.3	385.5
- Per FTE student (\$)	17,304	20,829	21,766	20,294	18,527
- Annual change	(14.9%)	(1.7%)	11.0%	16.5%	15.4%
- Payout ratio (% of three-year average market value)	4.0%	4.0%	4.0%	4.5%	4.5%

(1) Full-time equivalent, excluding continuing education. (2) Headcount; excludes teaching assistants and sessional lecturers.

(3) Includes accrued employee future benefits.



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## Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debt	AA (low)	Downgraded	Stable

## Rating History

	Current	2009	2008	2007	2006	2005
Senior Unsecured Debt	AA (low)	AA	AA	AA	AA	AA

## Related Research

- [Rating Canadian Universities](#), October 3, 2007.

Note:

All figures are in Canadian dollars unless otherwise noted.

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