Rating Report

Report Date:
June 12, 2013

Previous Report:
May 24, 2012

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 756,600 residents 60 kilometers west of Toronto. The University is a comprehensive, research-intensive institution offering a broad range of undergraduate, graduate and continuing education programs. In 2012–2013, McMaster had an estimated enrolment of 26,353 students (FTEs).

Recent Actions

May 24, 2012
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	AA (low)	Confirmed	Stable
Senior Unsecured Debt	AA (low)	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating and the Senior Unsecured Debt rating of McMaster University (McMaster or the University) at AA (low) and AA (low), respectively, with Stable trends. The ratings reflect the University's strong academic profile, sound operating performance in recent years, and sizable expendable resources that provide resilience to the credit. Despite considerable progress in slowing expenditure growth for employee compensation and benefits in recent years, DBRS expects a tighter operating environment due to rising pension funding expenses, large deferred maintenance needs and general baseline inflation that will strain resources over the medium-term.

For the year ended April 30, 2012, McMaster reported a consolidated surplus of $9.1 million, down from $22 million in 2010-11. In a reversal of trend, expenditure growth of 4% outpaced revenue growth of 2.4%, driven by general operating cost inflation and higher salaries and benefit expenses. The University maintained a healthy interest coverage ratio of 6.4 times, down slightly for the year due to the narrower surplus position. Although investment gains were muted in 2011-2012, McMaster's endowment grew by 1.2% to $519.2 million. This equates to $20,023 on a full-time equivalent (FTE) basis, one of the highest among DBRS-rated universities. Though a deficit was budgeted for 2012-2013, preliminary indications suggest that McMaster is on track to again report a modest consolidated surplus, supported by enrolment growth of 1.6% in 2012-2013. (Continued on page 2).

Rating Considerations

Strengths
(1) Diversified and stable revenue base
(2) High level of expendable and financial resources
(3) Strong academic profile
(4) Sound university enrolment outlook in Ontario and for McMaster

Challenges
(1) Inflationary labour costs, including rising unfunded pension and post-employment benefit liabilities
(2) Limited fee-setting autonomy
(3) Potential for additional debt
(4) Large deferred maintenance backlog

Financial Information

	For the year ended April 30				
	2011-2012	2010-11	2009-2010	2008-2009	2007-2008
Consolidated surplus (deficit) ($ millions)	9.1	22.0	11.7	(54.0)	(13.5)
Surplus to revenue	1.0%	2.6%	1.4%	(7.4%)	(1.8%)
Long-term debt ($ millions)	139.4	152.1	153.3	154.3	155.3
Interest costs/total expenditures	1.0%	1.2%	1.2%	1.3%	1.4%
Interest coverage ratio (times)	6.4	8.8	7.7	0.3	4.2
Total endowment ($ millions) (1)	519.2	513.1	460.7	417.1	490.1
Expendable resources-to-debt	153%	143%	128%	116%	135%
Total enrolment (FTEs) (2)	25,929	25,399	25,007	24,104	23,530
Long-term debt-per-FTE ($)	5,376	5,990	6,129	6,403	6,601
Endowment per FTE ($)	20,023	20,201	18,424	17,304	20,829

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

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Rating Rationale (Continued from page 1.)

The Province of Ontario (the Province; rated AA (low)) recently revised the provincial tuition framework, limiting annual undergraduate tuition fee increases from an average of 5% to 3% for the next four years. McMaster has assumed flat enrolment growth and a 3% undergraduate tuition cap rate increase in its 2013-2014 and 2014-2015 financial planning, which is likely to result in a continuation of solid operating performance based on actual enrolment trends. The University is in the process of implementing a new modified activity-based budget model to help align operations with broader objectives and cost incentives, and is undertaking a long-term capital planning and prioritization exercise to address capacity issues.

McMaster faces a number of challenges, including a significant deferred maintenance backlog, estimated at $150 million, and sizeable unfunded pension liabilities. A funding strategy is being implemented to increase expenditures on deferred maintenance by $45 million over five years, largely focusing on critical repairs, but this still leaves a significant structural backlog of deferred maintenance unaddressed. With respect to unfunded pension obligations, the University is required to make annual going concern deficit payments of $20.8 million until the next valuation in 2014. McMaster has qualified for Stage 1 of the Province's solvency relief program, allowing the University to defer solvency payments and extend the subsequent amortization period for funding the deficits to ten years from the normal five. DBRS notes that significant changes to employee contributions and plan design place McMaster ahead of many of its peers in addressing the long term sustainability of its pension plans.

In 2011-2012, McMaster's total debt fell to $139.4 million or approximately $5,375 per full time equivalent (FTE). Debt is not expected to have changed materially in 2012-2013 beyond scheduled amortization although, as noted for some time by DBRS, the University is considering the possibility of adding up to $100 million in new debt to finance capital projects. Plans are now in more advanced stages, with an emphasis being placed on projects that would be largely self-supporting in nature. DBRS expects the proposed debt increase would result in debt-per-FTE of approximately $8,600, and reduce the interest coverage ratio to the 4.0 to 5.0 times range, provided a balanced operating position is maintained. DBRS views this as manageable for the current rating. The University's conservative financial approach, emphasis on revenue-generating projects and the need for additional capacity are noted by DBRS as mitigating factors of this reduced flexibility.

Rating Considerations Details

Strengths

(1) McMaster's successful fundraising efforts, substantial funding from the Ontario government which accounted for approximately 27% of total revenues in 2011-2012, and increasing tuition revenues due to enrolment growth and the introduction of new and innovative programming, provide a diversified and fairly stable revenue base.

(2) The University's credit profile is strengthened by its considerable level of expendable resources, which amounted to $213.9 million, or 153% of total debt at April 30, 2012, and will likely remain sizeable despite volatility in capital markets. Expendable resources consist of more than $100 million in internally restricted endowment assets, which can be unendowed by the Board of Governors to meet debt servicing needs, if needed.

(3) The University benefits from a notable academic profile and reputation, ranking among the top four universities in Canada and among the top 100 globally according to the 2012 Academic Ranking of World Universities. McMaster offers programming in all of the major high-demand disciplines (except law) and boasts the second-largest medical school in Ontario, the largest co-operative education MBA program in the country and has a top-ranked school of engineering. These attributes, as well as research-intensive activities, translate into strong student applications and lend considerable support to enrolment and fundraising.

(4) Increasing educational requirements in the labour market, McMaster's close proximity to the Province's largest urban center and a solid reputation reinforce stable enrolment growth prospects for the University. However, the University's limited space capacity could inhibit growth over the medium-term. Plans are

underway to make investments in new capital projects to help alleviate these constraints to meet this growing demand.

Challenges

(1) McMaster's operating performance will be constrained by continuing inflationary pressures related to employee salaries, benefits and pensions. Annual increases in salary and benefit expenditures have averaged 4.3% per year over the past five years, and represent the largest portion of the University's expenditures. Based on the latest actuarial valuations, unfunded pension liabilities are $181.5 million on a going concern basis and $267.2 million on a solvency basis, among the highest in the university sector in Canada. The demand for academics continues to promote labour cost inflation; however, measures by the Province to limit these cost increases may temper salary expectations going forward. The low interest rate environment could also result in additional downward adjustments to plan discount rates resulting in further actuarial losses.

(2) Starting with the 2013-2014 academic year, the cap on annual undergraduate tuition fee increases will be reduced from an average of 5% to 3% for the next four years. This policy change further limits the flexibility of a key revenue source, but the University has made conservative assumptions based on the revised framework.

(3) The University is considering borrowing up to $100 million within the next five years for the purpose of funding priority capital projects, although no formal plan has been approved. Should they decide to move ahead with this proposal, debt would rise to approximately $240 million, or roughly $8,600 per FTE. Although this pushes the debt-per-FTE level to the upper range of the rating category, continued enrolment growth and debt repayment will provide additional flexibility.

(4) McMaster has sizable and growing deferred maintenance needs, totaling approximately $150 million. The considerable backlog of maintenance and critical upgrades presents risks to the University's budget and medium-term operating performance. The current cost of critical repairs and maintenance is estimated to be nearly $13 million per year.

2011-2012 Operating Performance

McMaster achieved a consolidated surplus of $9.1 million for the year ended April 30, 2012, down from $22 million the previous year, but varying positively from the $6.3 million accrual-based deficit that was budgeted. These results were supported by better than expected enrolment growth of 2.1% for the 2011-2012 academic year and led to increased provincial grants for operations, quality, accessibility and specific programs, as well as greater tuition revenue.

Total revenues grew at a modest rate of 2.4%, and below the five year average. Revenue growth was driven by a 1.9% increase in government operating grants and 10% increase in tuition revenues, partly due to a growing proportion of international students that pay higher tuition fees. Research grant revenues were up by a noteworthy 6.7% year-over-year, while ancillary operations returned stable revenue growth of 2.8%. Investment income declined substantially compared with the previous year, as a result of a disappointing 0% fiscal-year return on the long-term endowment investment pool (after expenses), but remained positive overall. Investment income weakness was partially offset by a 26.4% rise in donations and other grants.

Costs grew at a rate of 4% in 2011-2012, outpacing revenue growth and creating a tighter operating environment overall. General cost inflation for supplies and services drove the majority of expenditure growth for the year, while the growth of salary and benefit expenses slowed to 2.7%, compared to an average annual rate of 4.3% in the previous five years. The University has achieved notable success in reigning in compensation costs, including increased employee pension contribution rates, retirement date changes and closing defined benefit plans to new entrants of some labour units. Pension expenses for the year declined by 21.8%, due primarily to these contribution and plan design changes.

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.

2012-2013 Operating Budget
Based on the latest financial update, McMaster is on track to achieve a modest accrual-based surplus again in fiscal year 2012-2013, which would be a positive variance against the budgeted $1.9 million deficit for the year. These results are in line with previous years, where the University experienced positive variances from budget and mid-year projections due to conservative assumptions and in-year management of expenses. On a cash basis, which the University uses for its budget planning, a net deficit of $27 million in the operating fund was forecast attributable to a number of one-time expenditures. The University continues to tightly manage costs and seek savings in all areas in the face of significant baseline inflation across its operating units.

The University's 2012-2013 budget assumed enrolment growth of 1.4% for undergraduate students and 2.9% for graduate students, largely in line with 2011-2012 results. Tuition revenues were budgeted to grow by 6.8%, as the University implemented the 5% maximum allowable increase to domestic undergraduate tuition and a 6% increase in international student tuition rates before the new provincial tuition fee framework takes effect.

Labour-related costs remain the largest portion of expenditures, at 62% of total spending, and constitute the most significant challenge to overall cost-containment efforts. Due to pension solvency deficiencies, special going concern payments of $20.8 million for the salary plan are required for three years beginning 2012-2013. For the hourly plan, combined going concern and solvency payments of $667,000 are required for 2012-2013. The University has reduced or kept its budget envelopes flat in recent years, thereby putting the burden of absorbing inflationary increases related to salaries and benefits on individual operating units. This has led to reductions in the workforce, largely through attrition and delayed hiring. The 2012-2013 budget plan also projects baseline inflationary pressure of $19 million per year, or 2.1% of total operating expenditures, indicative of the University's cost containment challenge moving forward.

Medium-Term Outlook
Although McMaster has not published its 2013-2014 budget, current financial plans project structurally balanced budgets with one-time appropriations for critical needs and projects leading to cash-based operating fund deficits of $6.5 and $4.7 million for 2013-2014 and 2014-2015, respectively. On an accrual basis, consolidated surpluses of $7.6 million and $12.4 million are anticipated despite the significant budget pressures facing the University. Revenues are likely to remain relatively stable, with flat enrolment growth and a 3% increase in domestic tuition rates assumed for 2013-2014 and 2014-2015.

Solvency Funding Relief

Announced in Ontario's 2010 budget, Ontario Regulation 178/11 came into force in June 2011 and allows for solvency funding relief in two stages for certain public sector pension plans.

Stage 1:
- Allows universities up to three years to make changes that will improve the sustainability of their plans.
- Special payments are only required to ensure the solvency shortfall does not increase.

Stage 2:
- Provided sufficient progress is made to improve the sustainability of pension plans, solvency deficiency can be amortized over ten years instead of five.

As a result of the University's unfunded pension liabilities, McMaster qualified for Stage 1 solvency funding relief for its pension plans under amendments made in May 2011 to the *Ontario Pension Benefits Act,* which allow for a deferral of solvency payments for three years while changes are implemented to improve plan sustainability. DBRS notes that meaningful changes have been made to the University's pension contribution rates and plan design, including the closing of defined benefit plans to new entrants of certain labour groups, which should further slow expenditure growth and help McMaster achieve approval for Stage 2 solvency funding relief. However, these changes will have limited impact on costs in the near-term, as growing pension payments will place pressure on operating budgets over the current planning horizon. As more of these costs are absorbed by academic and operating units, further spending restraint will be necessary.

Under current funding valuations, going concern payments for the salaried pension plan of $20.8 million will rise to $29 million in 2015-2016. Solvency payments of $35 million will also begin that year, bringing the annual cost of pension payments on the salaried plan to $64 million. For the University's hourly plan, the combined going concern and solvency payments of $667,000 per year are set to rise to $2.6 million in 2014-2015. The trajectory of the required payments for the hourly plan and salary plan are subject to change based on the outcome of funding valuations to be submitted in July 2013 and July 2014, respectively.

A number of collective bargaining agreements are coming up for renegotiation including sessional faculty in 2013, and operating engineers, parking and transit staff in 2014. The University's negotiating mandates continue to be lean as it pursues additional cost savings, especially changes related to pension and benefit contribution rates and plan design. The McMaster University Faculty Association has a collective agreement in place until 2017, providing some stability to the largest component of the University's compensation expenses.

In order to more closely align operations with broader objectives and cost incentives, the University is moving to implement a modified activity-based budgeting model, replacing its historical cost-based system. Under the new model, all faculties are to receive revenues based on drivers including enrolment, subsequently contributing 7% of their allocated revenues to a broader University Fund for funding strategic initiatives University-wide. Faculties will also contribute 1% to a Research Infrastructure Fund, to be redistributed on the basis of research intensity as determined by Canadian Tri-Council research funding success. The University will "hold harmless" individual faculties unless activity level decreases. The new model will be implemented in 2014-2015. Additionally, a new University-wide enterprise resource planning software system will go live through 2014-2015 that aims to achieve efficiencies by standardizing and aligning business and administration activities across the relatively decentralized institution.

McMaster's operating outlook remains challenging as growing compensation and benefit costs, deferred maintenance needs and general inflationary pressure will continue to strain resources amid a weaker funding outlook and more restrictive tuition framework. The University intends to continue managing its budget closely in light of these constraints, and DBRS expects operating performance to remain balanced in the medium-term, despite some sizable operating fund deficits related to critical needs and one-time investments.

Capital Plan

In 2011-2012, $62.3 million was expended on capital, representing a 31% decrease year-over-year. The 2012-2013 budget projects $131 million in planned capital expenditures, comprised of a number of one-time initiatives and completion of major capital projects already underway. The majority of capital projects have been funded through external sources, including government support.

The University recently completed the $21.6 million McMaster Automotive Resource Centre (MARC) at the McMaster Innovation Park, and the construction of the $84.6 million downtown McMaster Health Campus is underway. Construction on the $65 million L.R. Wilson Hall for Humanities and Social Sciences is set to commence in spring 2013 and will provide critical expansion space on campus for an additional 1,275 students when it is completed in September 2015. The new Social Sciences building will be funded through $45 million in building-specific grants from the Province, to be received over the course of construction. The project also benefits from a $10 million multi-year donation from McMaster Chancellor Lynton Wilson and a $1 million gift from the McMaster Association of Part-time Students, as well as an internal loan of $8.5 million.

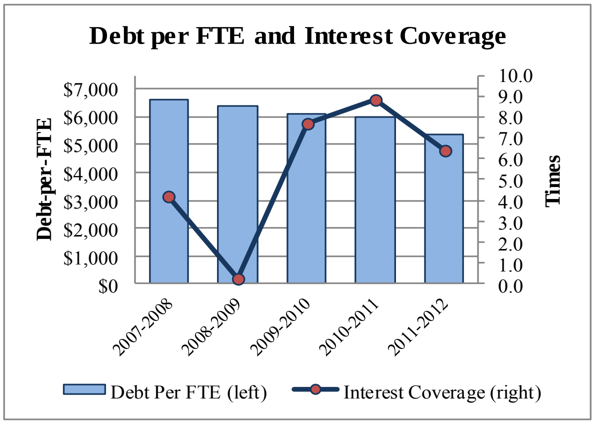
Medium-Term Capital Plan (2013-2017)

McMaster is in the process of finalizing and approving a five-year capital plan that contemplates up to $640 million in capital spending, including approved and proposed projects, which could include the use of new debt finance. These plans include the aforementioned Health Campus and L.R. Wilson Hall, as well as a new undergraduate student residence projected to cost $48 million, with a longer term plan for a second new residence likely. The University will capitalize $20 million per year of research spending and $15 million of operating equipment and projects, as per past practice. New capital spending for ongoing operational needs such as information technology upgrades, library services and other ancillary needs are also included in the plan.

The proposed capital plan includes additional spending of $45 million over the next five years to help stem the growth in deferred maintenance backlog. These appropriations will start at $5 million per year and increasing in increments of $2 million per year to reach $13 million annually by 2017. Provincial funding for facilities renewal has fallen from $1.8 million in 2008-2009 to approximately $1.2 million in 2012-2013, which has further limited the University's flexibility on this front.

Debt and Liquidity

The downward trajectory of debt continued through 2011-2012, with McMaster's total debt burden falling by $12.7 million to $139.4 million. As a result, McMaster's debt-per-FTE fell to $5,376 from $ 5,990, a favourable level relative to other similarly rated peers. Interest costs represented a low 1% of total expenditures. A narrowing of the operating surplus was offset by lower overall debt and resulted in a still solid interest coverage ratio of 6.4 times. Consequently, the University maintains a considerable degree of debt flexibility within the current rating.



In 2011-2012 McMaster's endowment assets grew by 1.2% to $519.2 million or $20,023 per FTE, among the highest levels of Canadian universities. The University also has a large base of expendable resources, which stood at $213.9 million at April 30, 2012, or 153% of total debt. These expendable resources are comprised of internal debt sinking funds, $93 million in unrestricted cash reserves and over $100 million in internally restricted endowment assets, which could be unendowed by the Board of Directors to meet debt servicing needs, if necessary.

According to the latest actuarial valuation of the University's salaried pension plan dated July 1, 2011, the solvency deficit of the plan (before special payments) is $267.2 million and the going concern deficit is $181.5 million. The hourly pension plan has a solvency deficit (before special payments) of $14.5 million, and a going concern deficit of $3.8 million, according to the latest actuarial valuation dated July 1, 2010. Revised valuations as at July 2013 for the hourly plan and July 2014 for the salary plan are expected to show an increase in the pension deficiencies largely due to continued declines in the discount rate. McMaster also has other non-pension post-employment benefit obligations of $219.5 million as of fiscal year-end 2011-2012, which increased by $27.1 million from the prior year.

Medium-Term Outlook

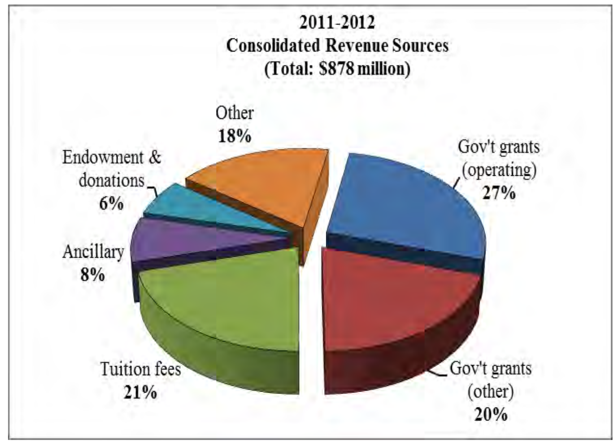
With no new borrowing undertaken and major projects financed with internal resources, grants or donations, debt is expected to decline slowly in line with scheduled amortization in 2012-2013. The University has undertaken a comprehensive modeling of its $640 million capital plan to determine their medium-term financing requirements and has recommended that the Board conduct a project prioritization for approximately $590 million in capital spending and explore the potential of approximately $100 million in new external debt. DBRS notes that the proposed $100 million in new borrowing could push debt-per-FTE to approximately $8,600 and interest coverage down to within the 4.0 to 5.0 times range. DBRS views the debt at manageable given the university's considerable financial resources, and believes that the University maintains the flexibility to absorb new debt within the current rating, as long as operating results remain sound and employee-related liabilities are appropriately managed.

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 74% of total revenues in 2011-2012.

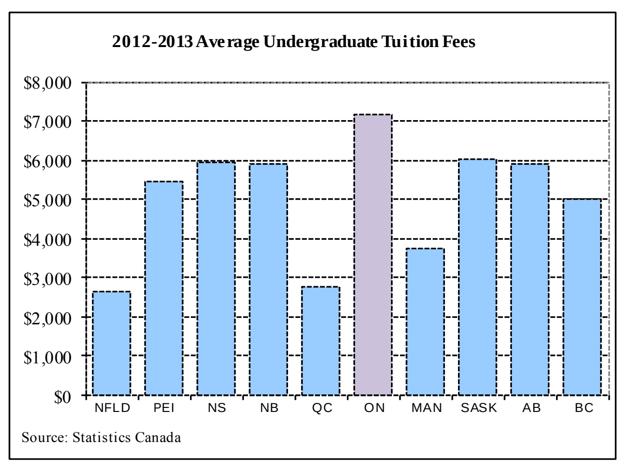
Provincial government funding remains the primary source of revenue for universities across the country, although its relative importance remains under pressure in most provinces as a result of accelerating costs in competing areas of provincial responsibility, notably health care. In Ontario, the lack of indexation in base operating grants has also contributed to this trend.

Government Funding (provincial and federal – 47%): This includes operating grants, research grants and contracts and capital grants, of which operating grants are by far the most important and stable revenue source. They 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 aimed at expanding enrolment in high-demand programs, and performance-based grants also account for a small portion of provincial operating funding. No inflation adjustment is provided for base operating funding in Ontario, although the Province continues to provide full average funding for enrolment growth.



In 2011, the Ontario government introduced refinements to its post-secondary education plan that embraced a number of priorities, including 60,000 additional spaces by 2015-16 (of which 41,000 would go to the university sector), tuition and financial assistance for students, long-term capital funding to support expansion and renewal of campus infrastructure and renegotiation of multi-year accountability agreements. Government grants for research and capital projects are also an important source of funding. The federal government typically provides 65% to 75% of all public research funding, while the Province provides the bulk of capital funding. However, the provincial government's increased emphasis on spending restraint to help address its own budgetary challenges suggests limited flexibility for funding increases, making cost containment at universities that much more crucial.

Student Fees (21%): From 2005-06 to 2012-2013 the Province permitted universities to raise average tuition fees by 5% annually, with fee increase limits varying across programs and years of study. For example, arts and sciences tuition can be increased by 4.5% for the first year of study and 4% for the following years, while graduate and professional program tuition fees can be increased by 8% for the first year of study and 4% per year for the remaining years. In March 2013, the Province announced that starting with the 2013-2014 academic year and for the next four years, the cap on annual undergraduate tuition fee increases will be reduced to 3%. Additionally, tuition fee increases for graduate and professional programs were also reduced, and will now be capped at 5%.



Fundraising and Endowment Contributions (6.4%): 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 past fundraising efforts is exhibited by the growth of the endowment fund since 2002.

As of April 30, 2012, endowment assets stood at $519.2 million or $20,023 per FTE, up 1.2% during a year of muted investment returns. In September 2010, McMaster successfully completed its largest fundraising campaign in history, raising $473 million over a four-year period, surpassing its $400 million target. In 2012, McMaster's University Advancement VP surpassed internal targets with $23.8 million in new pledges and gifts and $6.5 million in discounted future gifts recorded, for a total of $30.3 million. McMaster boasts the third largest endowment in Ontario after the University of Toronto and Queen's University, providing considerable support to the operating fund.

McMaster University

Consolidated Balance Sheet

($ thousands)	As at April 30				
Assets	**2012**	**2011**	**2010**	**2009**	**2008**
Cash and short-term investments	184,153	167,916	170,506	76,182	112,571
Receivables	140,888	144,456	135,170	148,369	125,369
Inventories and prepaid expenses	12,447	9,997	10,783	10,643	9,409
Deferred pension asset	200,230	198,995	212,108	220,811	222,282
Long-term investments	673,311	658,020	573,779	563,211	614,020
Other investments	14,687	13,436	13,318	13,318	13,318
Capital assets	745,529	744,235	715,161	683,777	644,744
Total Assets	1,971,245	1,937,055	1,830,825	1,716,311	1,741,713
Liabilities and Equity					
Payables and other current liabilities	156,365	146,432	155,968	153,502	130,328
Employee future benefits (1)	273,156	261,142	245,250	224,891	205,058
Deferred contributions - endowment (2)	73,815	68,990	68,990	65,063	72,125
Other deferred contributions	244,492	247,747	238,360	210,554	199,514
Deferred capital contributions	362,589	354,979	332,668	314,333	299,489
Long-term debt	139,400	152,143	153,270	154,331	155,329
Other long-term liabilities (3)	15,836	13,405	10,992	12,504	10,070
Total liabilities	1,265,653	1,244,838	1,201,571	1,142,240	1,055,825
Fund balances					
Unrestricted	1,182	2,268	2,174	(146)	1,807
Committed (4)	13,187	6,416	(1,740)	9,794	55,790
Endowment - internally restricted	109,806	114,833	107,817	98,832	133,166
Endowment - externally restricted	335,562	329,272	287,854	246,139	300,860
Equity in capital assets	244,855	239,428	233,149	219,452	194,265
Total Liabilities and Equity	1,971,245	1,937,055	1,830,825	1,716,311	1,741,713

Contingencies and Commitments	**2012**	**2010**	**2011**	**2010**	**2009**
Capital commitments	208,240	102,965	115,085	70,395	78,960
Legal claims	31,000	31,000	31,000	31,000	31,000
	239,240	133,965	146,085	101,395	109,960

(1) After adjustments for unamortized losses.
(2) Endowment-related deferred contributions represent expendable externally restricted grants and donations.
(3) Includes nuclear reactor decomissioning 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.).

McMaster University

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June 12, 2013

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Consolidated Financial Summary (DBRS-Adjusted)

($ thousands)	For the year ended April 30				
	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008
Total revenue	877,851	857,398	828,373	731,819	735,034
Total expenditures	868,748	835,447	816,723	785,772	748,553
Recurring Surplus (Deficit)	9,103	21,951	11,650	(53,953)	(13,519)
Net contributions from (to) endowments	5,027	(7,016)	(8,985)	33,334	21,657
Net contributions from (to) committed funds (1)	(6,771)	(8,156)	11,534	45,996	25,266
Change in investment in capital assets	(6,427)	(6,279)	(13,697)	(25,187)	(32,159)
Net change in unrealized losses on interest rate swaps	(2,018)	(406)	1,818	(2,143)	(482)
Net change in unrestricted assets	(1,086)	94	2,320	(1,953)	763
Revenue					
Tuition fees	184,275	167,474	154,696	141,323	132,723
Government operating grants	237,248	232,938	222,865	208,673	199,915
Research grants and contracts	180,165	170,235	164,918	170,333	155,166
Ancillary operations	69,831	67,922	68,756	65,602	64,408
Investment income	18,428	40,306	48,748	(14,739)	23,112
Donations & other grants	44,903	35,527	33,817	28,799	37,695
Earned capital contributions	33,840	34,688	36,386	37,146	41,047
Other revenue	109,161	108,308	98,187	94,682	80,968
Total Revenue	877,851	857,398	828,373	731,819	735,034
Expenditures					
Salaries and benefits	539,317	524,929	507,687	477,355	468,282
Student aid	42,970	43,512	43,161	39,547	37,373
Cost of goods sold	11,972	13,428	12,837	13,830	14,463
Utilities	24,276	24,792	25,346	24,531	22,000
Other supplies and expenses	180,520	159,880	155,249	157,816	132,461
Amortization	60,999	61,115	62,474	62,659	63,846
Interest	8,694	9,900	9,969	10,034	10,128
Total Expenditures	868,748	595,944	816,723	785,772	748,553
Gross Capital Expenditures	62,293	90,189	93,858	101,692	94,778

Statement of Cash Flow (DBRS-Adjusted)

($ thousands)	For the year ended April 30				
	2011-2012	**2010-2011**	**2009-2010**	**2008-2009**	**2007-2008**
Operating balance before fund contributions	9,103	21,951	11,650	(53,953)	(13,519)
Amortization	60,999	61,115	62,474	62,659	63,846
Other non-cash adjustments	(23,061)	(5,683)	(7,324)	(15,842)	(17,950)
Cash flow from operations	47,041	77,383	66,800	(7,136)	32,377
Change in working capital	12,621	(4,722)	36,269	26,068	75,711
Operating cash flow after working capital	59,662	72,661	103,069	18,932	108,088
Net capital expenditures*	(20,843)	(33,190)	(39,137)	(49,702)	(54,038)
Free cash flow	38,819	39,471	63,932	(30,770)	54,050

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

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Summary Statistics (DBRS-Adjusted)

	For the year ended April 30				
	2011-2012	**2010-2011**	**2009-2010**	**2008-2009**	**2007-2008**
Total Enrolment (FTE) (1)	25,929	25,399	25,007	24,104	23,530
- Undergraduate	86%	86%	87%	88%	88%
- Graduate	14%	13%	13%	12%	12%
- Total annual change	2.1%	1.6%	3.7%	2.4%	2.7%
Total Employees (2)	5,041	4,932	4,837	4,721	4,613
- Full-time faculty	1,377	1,330	1,306	1,253	1,226
Operating Results					
Surplus (deficit) ($ millions)	9.1	22.0	11.7	(54.0)	(13.5)
- As % of revenues	1.0%	2.6%	1.4%	(7.4%)	(1.8%)
Revenue Mix (as % of total DBRS-adjusted revenue)					
- Government funding (federal+provincial)	47.1%	44.5%	44.6%	49.2%	46.1%
- Tuition fees	21.0%	19.5%	18.7%	19.3%	18.1%
- Ancillary	8.0%	7.9%	8.3%	9.0%	8.8%
- Endowment and expendable donations	6.4%	6.3%	6.7%	1.4%	6.0%
- Other	17.4%	21.8%	21.7%	21.1%	21.1%
Debt and Liquidity Analysis					
Total long-term debt ($ millions)	139.4	152.1	153.3	154.3	155.3
- Per FTE student ($)	5,376	5,990	6,129	6,403	6,601
Long-term debt, contingencies & commitments ($ millions) (3)	651.8	547.3	544.6	480.6	470.3
- Per FTE student ($)	25,138	21,546	21,778	19,939	19,989
Cash and cash equivalents ($ millions)	184.2	167.9	170.5	76.2	112.6
- As % of total expenditures	21%	20%	21%	10%	15%
- As % of current liabilities	118%	115%	109%	50%	86%
Expendable Resources	213.9	217.7	196.6	179.4	209.6
- As % of total debt	153%	143%	128%	116%	135%
Interest costs as % of total expenditures	1.0%	1.2%	1.2%	1.3%	1.4%
Interest coverage ratio (times)	6.4	8.8	7.7	0.3	4.2
Endowment Funds					
Total market value ($ millions)	519.2	513.1	460.7	417.1	490.1
- Per FTE student ($)	20,023	20,201	18,424	17,304	20,829
- Annual change	1.2%	11.4%	10.5%	(14.9%)	(1.7%)
- Payout ratio (% of five-year average market value) (4)	4.0%	4.0%	4.0%	4.0%	4.0%

(1) Full-time equivalent, excluding continuing education. (2) Headcount; excludes teaching assistants and sessional lecturers.
(3) Includes accrued employee future benefits. (4) Prior to 2011-2012, payout ratio was based on three-year average market value

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Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	AA (low)	Confirmed	Stable
Senior Unsecured Debt	AA (low)	Confirmed	Stable

Rating History

	Current	2012	2011	2010	2009	2008
Issuer Rating	AA (low)	AA (low)	NR	NR	NR	NR
Senior Unsecured Debt	AA (low)	AA (low)	AA (low)	AA	AA	AA

Related Research

- DBRS Comments on New Ontario University Tuition, April 3, 2013.
- Canadian University Peer Comparison Sheet, May 3, 2013.
- Rating Public Universities, October 3, 2012.

Notes:
All figures are in Canadian unless otherwise noted.