

## Rating Report

### Report Date:

May 24, 2012

### Previous Report:

May 31, 2011



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. It is located in Hamilton, a city of 750, 200 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 2011-2012, McMaster had an estimated enrolment of 25,929 students (FTEs).

## Recent Actions

### May 31, 2011

Confirmation

### April 26, 2010

Downgrade

## Rating

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

## Rating Update

DBRS has confirmed the rating of McMaster University (McMaster or the University) at AA (low) with a Stable trend. The rating reflects the University's solid academic profile and stable operating performance, and acknowledges that strong endowment resources continue to provide resilience to the credit. Furthermore, its overall financial position compares well with peers in the same rating category. However, similar to other DBRS-rated universities, McMaster is challenged by significant operating pressures posed by cost inflation and significant employee benefit liabilities, although a plan exists to gradually address the latter.

A consolidated surplus of \$22.0 million was recorded for the year-ended April 30, 2011, ahead of the previously budgeted deficit of almost \$9 million. Revenue growth exceeded the growth in expenditures for the second consecutive year, helped by increased program-specific government funding, enrolment growth of 1.6%, positive investment returns and continued cost management. The solid operating results and a slight reduction in the debt balance led to a strong interest coverage ratio of 8.8 times. Capital market performance during fiscal 2010-11 allowed for gains in investment income and the maintenance of endowment resources at a high level.

Unfunded pension and post-employment liabilities declined to \$481.0 million in 2010-11, upon the successful implementation of employee contribution increases and revised retirement dates, as well as measures to close defined pension plans to new entrants of some labour groups. The University has made efforts to change its pension and post-retirement benefits, particularly for new employees, although these changes will have little impact on the near term, as upcoming obligations cannot be easily amended for current pensioners and long-serving staff. (Continued on page 2.)

## Rating Considerations

### Strengths

- (1) Diversified and stable revenue base
- (2) High level of expendable and financial resources
- (3) Sound university enrolment outlook in Ontario and for McMaster
- (4) Innovative and high demand program offerings

### Challenges

- (1) Inflationary labour costs, including rising unfunded employment benefit liabilities
- (2) Limited fee-setting autonomy
- (3) Rising projected debt level

## Financial Information

For the year ended April 30

	2010-11	2009-2010	2008-2009	2007-2008	2006-2007
Consolidated surplus (deficit) (\$ millions)	22.0	11.7	(54.0)	(13.5)	23.7
Long-term debt (\$ millions)	152.1	153.3	154.3	155.3	156.3
Interest costs/total expenditures	1.2%	1.2%	1.3%	1.4%	1.6%
Interest coverage ratio (times)	8.8	7.7	0.3	4.2	7.0
Total endowment (\$ millions) (1)	513.1	460.7	417.1	490.1	498.5
Capital expenditures (\$ millions)	90.2	93.9	101.7	94.8	105.4
Total enrolment (FTEs) (2)	25,399	25,007	24,104	23,530	22,903
Long-term debt per FTE (\$)	5,990	6,129	6,403	6,601	6,823
Endowment per FTE (\$)	20,201	18,424	17,304	20,829	21,766

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



## Rating Update (Continued from page 1.)

DBRS notes that McMaster has been approved for Stage 1 solvency relief for its salaried pension plan and its hourly pension plan under amendments made in May 2011 to the Ontario *Pension Benefits Act*. As required under Stage 1 of the solvency funding relief for the salaried plan, McMaster is required to make annual special payments of nearly \$21 million until the next valuation due July 1, 2014. As per a valuation of its hourly pension plan as of July 1, 2010, special payments are required of almost \$700,000 per year until the next valuation due July 1, 2013.

McMaster budgeted for a minor deficit of \$6.3 million for the 2011-12 fiscal year and preliminary indications point to close to break-even results. The budget assumed virtually flat enrolment growth, which was exceeded with actual enrolment growth of 2.1%. Debt is expected to have declined in 2011-12 to approximately \$140 million, in line with the debt amortization schedule and the repayment of a residential mortgage in the year. The University is currently developing its 2012-13 budget, and despite strong operating results posted in recent years, salary increases and rising employee benefit deficiencies, combined with a lack of inflation indexation in operating grants, limited fee-setting autonomy and upcoming capital and deferred maintenance and capital expenditures, will lead to the continuation of tight operating conditions.

While there are no immediate plans or an urgent need for new debt, the debt advantage could erode should McMaster choose to move ahead with consideration to issue up to \$100 million for capital projects, a plan which has been in contemplation for more than five years. The credit profile maintains some flexibility for new debt, although the potential borrowing could bring the University to a debt-per-FTE level that is at the top of its rating category.

## Rating Considerations Details

### Strengths

- (1) McMaster's successful fundraising efforts, sizable funding from the Ontario government which account for approximately 30% of total revenues, and increasing tuition revenues due to enrolment growth and the introduction of new innovative programming, provide a diversified and fairly stable revenue base.
- (2) The credit profile of the University is strengthened by its considerable pool of expendable resources, which amounted to \$217.7 million, or nearly 1.4 times total debt at April 30, 2011, and will likely remain at that level despite continued volatility in financial markets. The holdings consist of more than \$100 million in internally restricted endowment assets, most of which can be un-endowed by the Board of Governors to meet debt servicing requirements if needed.
- (3) Population growth, continued migration from regional areas to large urban centres, increasing educational requirements in the labour market and McMaster's strong reputation, will all contribute to the strong demand for enrolment. However, the University's limited space capacity could curb enrolment growth over the medium term. Plans are underway to make investments in new capital projects to accommodate growing demand.
- (4) The University benefits from a strong academic profile, ranking among the top four universities in Canada and among the top 100 in the world according to the 2011 Academic Ranking of World Universities. McMaster offers programming in all of the major high-demand disciplines (except law), and boasts the second-largest school of medicine in Ontario, the largest co-operative education MBA program in Canada and a top-ranked engineering program. These attributes, as well as its research-intensive activities, translate into strong student applications and lend considerable support to enrolment stability and fundraising.

**Challenges**

(1) Labour costs and rising pension and benefit expenses continue to put pressure on McMaster's operating performance. Annual increases in salaries and benefits expenditures have averaged 5.5% per year over the past five years, representing the largest portion of the university's expenditures. Unfunded pension liabilities reached \$288.6 million on an accounting basis in 2010-11, maintaining its position as one of the highest in the sector. Strong demand for academics continues to promote labour cost inflation, although consistent measures implemented by the Province may temper salary expectations in the sector.

(2) Since 2006-07, Ontario universities have been limited to a 5% overall annual increase in tuition fees, with a different limit depending on the type of program and year of study, leaving universities with limited flexibility to grow this key revenue source. The policy has been extended until the end of 2012-13 and the tuition regime that will replace it remains unknown. While the containment of tuition costs is a worthy public policy objective, this policy limits the flexibility of a key revenue source.

(3) The University is contemplating the option of borrowing up to \$100 million over the next few years to take advantage of low interest rates for the purpose of funding capital projects and repaying internal loans, although there is no formal plan in place to do so. Should they decide to move ahead with this initiative, it would push total debt up to about \$240 million, or close to \$9,300 per full-time equivalent (FTE). The credit profile maintains some flexibility for new debt, although the potential borrowing could bring the University to a debt-per-FTE level that is at the top of its rating category.

**2010-2011 Operating Performance**

McMaster continued to post sound operating results in fiscal 2010-11, the last year for which financial statements are available, overcoming financial pressures within the sector. Although an almost \$9 million deficit was budgeted for the 2010-11 fiscal year, a \$22.0 million surplus was recorded as a result of an increase in program specific grant funding, enrolment growth, positive investment returns and continued cost management, avoiding the need to draw on reserves to fund operations as previously budgeted. Consistent with the trend of the previous year, the pace of revenue growth at 3.8% exceeded expense growth of 2.6% for the second consecutive year, though the differential narrowed in fiscal 2010-11. Both the overall revenue and expense categories recorded a favourable variance against budget.

Tuition fee revenue increased by 8.3% as a result of a modest 1.6% growth in students and tuition fees were increased to the maximum allowable overall cap of 5%. Another contributing factor to tuition revenue is a 10.1% increase in the number of international students, who pay higher tuition than domestic students and now account for 6.9% of the total student population, up from 6.4% in 2009-10. Government operating grants, representing the largest source of funding, grew by 4.5% year-over-year with gains primarily tied to increasing enrolment, as well as accountability agreements, undergraduate accessibility and increased graduate medical education funding. Ancillary revenues declined slightly, however the decline is not significant to the overall revenue base of the University, but does underscore the difficulty of diversifying revenues via value-add product and service sales. Investments generated significant gains of 11.5%, or \$40.3 million, in 2010-11, benefiting from continued improvement in capital markets during the period.

The continued decline in expenditure growth reflected budget restrictions across the university. The increase in salary and benefits costs, representing 62.6% of McMaster's expenses in 2010-11, slowed down to 3.40% from 6.35% in 2009-10. The rise in salary and benefit expenses reflects a 4.0% growth in FTE, primarily the result of increased teaching assistant hours to support enrolment growth. Despite the successful negotiation of compensation and benefit arrangements with labour groups, including the McMaster University Faculty Association (MUFA), the rise in salary and benefit costs can also be attributed to a 13.4% increase in pension expenses related to the recognition of previous actuarial losses and an annual special pension deficit amortization payment of \$9.4 million. All other expense categories grew marginally in aggregate at 1.2% over the previous year.

## 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 is presented in its financial statements.

### 2011-12 Operating Budget

Preliminary fiscal year-end 2011-12 results suggests near break-even results, slightly surpassing the budgeted deficit of approximately \$6.3 million primarily due to total enrolment growth of 2.1%, exceeding previous expectations of virtually flat enrolment growth and efforts to control faculty budget expenditures. Opportunities for significant revenue growth remain limited for the sector due to the fiscal challenges of the Province, the lack of inflation indexation in basic operating grants and the limited fee-setting autonomy. Revenue was budgeted to increase by around 4% on an accrual basis, supported by 5% in overall maximum tuition fee increases permitted under the provincial tuition framework. Expenditures are budgeted to increase by approximately 4%, primarily reflecting continued compensation and benefit pressures.

The Province's announced 30% tuition rebate is not expected to have negatively impacted McMaster's operating profile, as universities will be made whole for tuition credits given to students. However, some of allocated funding for tuition credits will be taken from donor matching programs, research grant funding and other technology and tuition grants. Faculty departments are responsible for handling their own budget allocations and to demonstrate fiscal prudence, with each faculty treated as its own business unit and responsible for managing its objectives and budgets accordingly.

DBRS notes that McMaster has qualified for Stage 1 solvency relief for its salaried pension plan and its hourly pension plan under the provincial solvency relief program. In accordance with Stage 1 of the solvency funding relief measures for public sector pension plans, McMaster is required to make annual special payments of less than \$21 million for its salaried pension plan until the next valuation due July 1, 2014. Special payments of almost \$700,000 per year are required for the hourly pension plan until the next valuation due July 1, 2013.

### Medium-Term Outlook

The University intends to continue efforts to closely manage its budget given the weak funding outlook faced by Ontario universities, rising employee benefit costs, salary increases and sizable deferred maintenance needs, which will make achieving balanced budgets a challenge. The upcoming 2012-13 assumes a 5% increase in tuition fees, a 7.5% projected return on the endowment and planned draws on reserves, forcing faculty departments and the administration to constrain budget expenditures. Tuition revenue growth also relies on a 6% increase in international tuition rates. Provincial operating grant increases are expected to continue to be fully funded to enrolment growth, which is projected at 1.7%. The University expects to receive a proportionate share of new funded graduate positions, although despite growth expectations, overall grant increases are expected to be less than one percent, and will likely remain at a modest level over the medium term, given the Province's fiscal constraints.

Significant changes have been made to pension plan designs for all labour groups, which will slow future benefit 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 and require significant increases in special payments over the medium term. During fiscal 2012-13, the University will be negotiating a new labour agreement with its largest union, representing non-academic staff, which introduces some uncertainty in the expenditure outlook.

## Capital Plan

In fiscal 2010-11, \$90 million was invested into capital projects, with major projects including the Farncombe Family Institute of Digestive Diseases at the McMaster University Medical Centre, the Nuclear Research Buildings renovation, the Centre for Spinal Cord Education, Research and Rehabilitation and the Niagara Regional Campus of the DeGroote Medical School, which were all completed by the 2011 calendar year-end.

### Medium-Term Capital Plan (2012-2013)

McMaster currently plans on making approximately \$540 million in capital investments between 2012 and 2016, of which \$120 million has already been approved and \$420 million is pending approval. The largest single projects within the plan include: the downtown McMaster Health Centre (\$85 million), funded by a \$20 million investment from the City of Hamilton, internal loans from reserves and donor contributions; the Wilson Building (\$65 million), funded by \$45.5 million in building-specific Ministry of Training Colleges and Universities funding, a \$10 million donation, \$1 million contribution from the McMaster Association of Part-time Students and an \$8.5 million internal loan from reserves; and the McMaster Automotive Research Centre (\$21 million), to be funded by \$11.5 million in capital grants from the Federal Economic Development Agency and a \$9.5 million loan from reserves.

All upcoming capital investments are expected to be internally funded by reserves, internal loans and grants, and current projections do not require additional external borrowing. Included in the list of pending projects is approximately \$28.1 million in deferred maintenance projects, which will likely change significantly depending on outcomes of an internal deferred maintenance assessment, currently underway.

## Debt and Liquidity

In keeping with the trend of the last few years, total debt in 2010-11 declined modestly by \$1.1 million to \$152.1 million by year-end 2010-11. Debt is expected to decline further in 2011-12 to approximately \$140 million, in line with the amortization schedule and the repayment of a residential mortgage in May 2011. Major expenses such as capital expenditures continued to be financed by government grants and internal reserves. The solid operating results and stable debt produced an interest-coverage ratio of 8.8 times in 2010-11, although this ratio is likely to have declined somewhat in 2011-12 to around 4.0 times.

Total endowment assets over the 2010-11 fiscal year rose notably to \$513.1 million, benefiting from strong in-year investment performance. Difficult market conditions will likely dampen much of the growth in 2011-12, although McMaster continues to have the third-largest total endowment assets among DBRS-rated Canadian universities.

Unfunded pension liabilities fell to \$288.6 million on an accounting basis in fiscal 2010-11 from \$375 million in fiscal 2009-10, benefiting from the successful negotiation and implementation of increased employee contribution rates, reduced pension benefits and closure of the defined benefit plan to some new members. According to the latest actuarial valuation of its salaried pension plan dated July 1, 2011, the solvency deficit (before special payments) is \$267.2 million and the going concern deficit is \$181.5 million. As per a valuation of its hourly pension plan as of July 1, 2010 (completed a year in advance of the salaried pension plan), the solvency deficit (before special payments) for that plan is \$14.5 million and the going concern deficit is \$3.8 million.

A reduction was noted in post-employment benefit obligations to \$192.4 million in fiscal 2010-11 from \$203.7 million in fiscal 2009-10. Despite the improvement, the size of post-employee benefit obligations is still concerning, given that they will continue to pose a drain on operating resources and endowments over the foreseeable future.



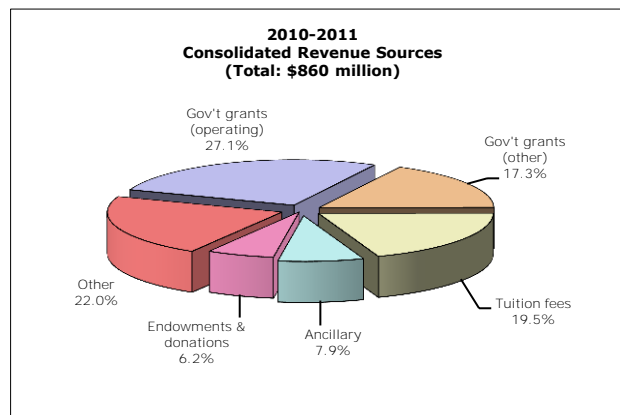
**Medium-Term Outlook**

The University continues to consider borrowing up to \$100 million to replenish internal funds used primarily for capital projects. This plan has been contemplated by McMaster for more than five years. While there are no immediate plans, a new debt issue would have an adverse impact on financial ratios and could push debt up to about \$9,300 per FTE, putting the University in the upper limb in terms of debt burden amongst its peers. Although interest coverage could regress if more debt is undertaken, the ratio would be expected to remain above four times, provided operating discipline is maintained. As such, University maintains the flexibility to accommodate new debt if operating results remain sound and unfunded benefit liabilities continue to show improvement.

**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 68% of total revenues in 2010-2011.

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, 44.4%): 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 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, including an additional \$64 million for universities and colleges in 2011-2012.

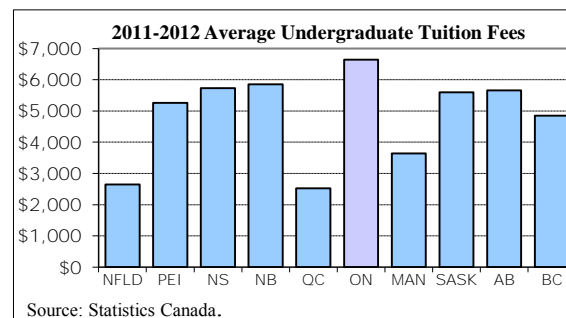
In 2011, the Ontario government introduced refinements to its post-secondary education plan which embraced a number of priorities, including 60,000 additional spaces by 2015-2016, tuition and financial assistance for students, long-term capital funding to support expansion and renewal of campus infrastructure 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 the capital funding. As part of its Economic Action Plan, the federal government created a \$2 billion Knowledge Infrastructure Program (KIP) to fund up to 50% of qualifying capital expenses incurred by post-secondary institutions across Canada. The 2009 provincial budget also committed \$780 million in capital funding for colleges and universities over a two-year period to address a portion of post-secondary growth and deferred maintenance needs. Both the KIP and provincial stimulus program have since been wound down, resulting in a notable decline in capital funding. In addition, 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.

**McMaster University**

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**Student Fees (19.5%):** 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, while 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, originally set to expire in 2009-2010, was extended to 2011-12 and has recently been extended again for another year for 2012-13, with the tuition regime applicable thereafter currently unclear. McMaster's 2012-13 budget will reflect the 5% average tuition fee increase. The University will continue to assume that the cap on tuition increases will persist at its current level or below for future planning and budgeting purposes.

Of note is that on November 22, 2011, the Province announced that it would reduce the average college and university tuition by 30% for students of families earning less than \$160,000 per year. This program could have a modest impact for some universities, as the government will fund it by phasing out certain student aid and research grants.

**Fundraising and Endowment Contributions (6.2%):** 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, 2011, endowment assets stood at \$513.1 million, or \$20,201 per FTE, up 11.4% year-over-year mainly as a result of solid in-year investment conditions. 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. The University does not have any immediate plans to launch another major fundraising campaign on the strength of this last effort's success. Furthermore, the weak economic climate is expected to dampen donations over the years to come. McMaster boasts the third-largest endowment in Ontario after the University of Toronto and Queen's University, providing sizable support to the operating fund.

**McMaster University**
**Consolidated Balance Sheet**

(\$ thousands)	As at April 30				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>					
Cash and short-term investments	167,916	170,506	76,182	112,571	88,107
Receivables	144,456	135,170	148,369	125,369	118,115
Inventories and prepaid expenses	9,997	10,783	10,643	9,409	9,481
Deferred pension asset	198,995	212,108	220,811	222,282	222,972
Long-term investments	658,020	573,779	563,211	614,020	588,398
Other investments	13,436	13,318	13,318	13,318	13,318
Capital assets	744,235	715,161	683,777	644,744	613,812
<b>Total Assets</b>	<b>1,937,055</b>	<b>1,830,825</b>	<b>1,716,311</b>	<b>1,741,713</b>	<b>1,654,203</b>
<b>Liabilities and Equity</b>					
Payables and other current liabilities	146,432	155,968	153,502	130,328	105,356
Employee future benefits (1)	261,142	245,250	224,891	205,058	182,651
Deferred contributions - endowment (2)	68,990	65,063	72,125	56,037	53,273
Other deferred contributions	247,747	238,360	210,554	199,514	158,101
Deferred capital contributions	354,979	332,668	314,333	299,489	299,796
Long-term debt	152,143	153,270	154,331	155,329	156,265
Other long-term liabilities (3)	13,405	10,992	12,504	10,070	5,427
Total liabilities	1,244,838	1,201,571	1,142,240	1,055,825	960,869
<b>Fund balances</b>					
Unrestricted	2,268	2,174	(146)	1,807	4,929
Committed (4)	6,416	(1,740)	9,794	55,790	81,056
Endowment - internally restricted	114,833	107,817	98,832	133,166	154,823
Endowment - externally restricted	329,272	287,854	246,139	300,860	290,420
Equity in capital assets	239,428	233,149	219,452	194,265	162,106
<b>Total Liabilities and Equity</b>	<b>1,937,055</b>	<b>1,830,825</b>	<b>1,716,311</b>	<b>1,741,713</b>	<b>1,654,203</b>
<b>Contingencies and Commitments</b>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital commitments	102,965	115,085	70,395	78,960	103,350
Legal claims	31,000	31,000	31,000	31,000	31,000
	133,965	146,085	101,395	109,960	134,350

(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.).

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

(\$ thousands)	For the year ended April 30				
	<u>2010-2011</u>	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Operating balance before fund contributions	21,951	11,650	(53,953)	(13,519)	23,662
Amortization	61,115	62,474	62,659	63,846	62,430
Other non-cash adjustments	(5,683)	(7,324)	(15,842)	(17,950)	(18,851)
Cash flow from operations	77,383	66,800	(7,136)	32,377	67,241
Change in working capital	(4,722)	36,269	26,068	75,711	(6,474)
Operating cash flow after working capital	72,661	103,069	18,932	108,088	60,767
Net capital expenditures*	(33,190)	(39,137)	(49,702)	(54,038)	(51,927)
Free cash flow	39,471	63,932	(30,770)	54,050	8,840

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





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**Consolidated Financial Summary (DBRS-Adjusted)**

(\$ thousands)	For the year ended April 30				
	<u>2010-2011</u>	<u>2010-2009</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Total revenue	859,507	828,373	731,819	735,034	730,966
Total expenditures	837,556	816,723	785,772	748,553	707,304
<b>Recurring Surplus (Deficit)</b>	<b>21,951</b>	<b>11,650</b>	<b>(53,953)</b>	<b>(13,519)</b>	<b>23,662</b>
Net contributions from (to) endowments	(7,016)	(8,985)	33,334	21,657	(10,945)
Net contributions from (to) committed funds (1)	(8,156)	11,534	45,996	25,266	13,514
Change in investment in capital assets	(6,279)	(13,697)	(25,187)	(32,159)	(26,953)
Net change in unrealized losses on interest rate swaps	(406)	1,818	(2,143)	(482)	-
<b>Net change in unrestricted assets</b>	<b>94</b>	<b>2,320</b>	<b>(1,953)</b>	<b>763</b>	<b>(722)</b>
<b>Revenue</b>					
Tuition fees	167,474	154,696	141,323	132,723	123,761
Government operating grants	232,938	222,865	208,673	199,915	200,340
Research grants and contracts	170,235	164,918	170,333	155,166	155,297
Ancillary operations	67,922	68,756	65,602	64,408	64,138
Investment income	40,306	48,748	(14,739)	23,112	40,052
Donations & other grants	35,527	33,817	28,799	37,695	38,023
Earned capital contributions	34,688	36,386	37,146	41,047	38,268
Other revenue	110,417	98,187	94,682	80,968	71,087
<b>Total Revenue</b>	<b>859,507</b>	<b>828,373</b>	<b>731,819</b>	<b>735,034</b>	<b>730,966</b>
<b>Expenditures</b>					
Salaries and benefits	524,929	507,687	477,355	468,282	436,447
Student aid	43,512	43,161	39,547	37,373	35,437
Cost of goods sold	13,428	12,837	13,830	14,463	15,440
Utilities	24,792	25,346	24,531	22,000	21,806
Other supplies and expenses	159,880	155,249	157,816	132,461	124,599
Amortization	61,115	62,474	62,659	63,846	62,430
Interest	9,900	9,969	10,034	10,128	11,145
<b>Total Expenditures</b>	<b>837,556</b>	<b>816,723</b>	<b>785,772</b>	<b>748,553</b>	<b>707,304</b>
<b>Gross Capital Expenditures</b>	<b>90,189</b>	<b>93,858</b>	<b>101,692</b>	<b>94,778</b>	<b>105,400</b>

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



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**Summary Statistics (DBRS-Adjusted)**

	For the year ended April 30				
	<u>2010-2011</u>	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
<b>Total Enrolment (FTE) (1)</b>	25,399	25,007	24,104	23,530	22,903
- Undergraduate	86%	87%	88%	88%	88%
- Graduate	13%	13%	12%	12%	12%
- Total annual change	1.6%	3.7%	2.4%	2.7%	3.4%
<b>Total Employees (2)</b>	4,932	4,837	4,721	4,613	4,635
- Full-time faculty	1,330	1,306	1,253	1,241	1,227
<b>Operating Results</b>					
Surplus (deficit) (\$ millions)	22.0	11.7	(54.0)	(13.5)	23.7
- As % of revenues	2.6%	1.4%	-7.4%	-1.8%	3.2%
<b>Revenue Mix (as % of total DBRS-adjusted revenue)</b>					
- Government funding (federal+provincial)	44.4%	44.6%	49.2%	46.1%	46.9%
- Tuition fees	19.5%	18.7%	19.3%	18.1%	16.9%
- Ancillary	7.9%	8.3%	9.0%	8.8%	8.8%
- Endowment and expendable donations	6.2%	6.7%	1.4%	6.0%	8.1%
- Other	22.0%	21.7%	21.1%	21.1%	19.3%
<b>Debt and Liquidity Analysis</b>					
Total long-term debt (\$ millions)	152.1	153.3	154.3	155.3	156.3
- Per FTE student (\$)	5,990	6,129	6,403	6,601	6,823
Long-term debt, contingencies & commitments (\$ millions) (3)	547.3	544.6	480.6	470.3	473.3
- Per FTE student (\$)	21,546	21,778	19,939	19,989	20,664
Cash and cash equivalents (\$ millions)	167.9	170.5	76.2	112.6	88.1
- As % of current liabilities	115%	109%	50%	86%	84%
Interest costs as % of total expenditures	1.2%	1.2%	1.3%	1.4%	1.6%
Interest coverage ratio (times)	8.8	7.7	0.3	4.2	7.0
<b>Endowment Funds</b>					
Total market value (\$ millions)	513.1	460.7	417.1	490.1	498.5
- Per FTE student (\$)	20,201	18,424	17,304	20,829	21,766
- Annual change	11.4%	10.5%	(14.9%)	(1.7%)	11.0%
- Payout ratio (% of three-year average market value)	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.



## McMaster University

### Report Date:

May 24, 2012

## Rating

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

## Rating History

	Current	2011	2010	2009	2008	2007
Senior Unsecured Debt	AA (low)	AA (low)	AA	AA	AA	AA

## Related Research

- [Commentary: The Next Big Test for Universities: Addressing Pension Deficits](#), February 13, 2012.
- [Methodology: Rating Canadian Universities](#), March 22, 2011.

### Notes:

All figures are in Canadian dollars unless otherwise noted.

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