Rating Report

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September 18, 2014

Previous Report:
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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 2013–2014, McMaster had an estimated enrolment of 26,662 students (FTEs).

Ratings

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

Rating Rationale

DBRS has confirmed the Issuer Rating and Senior Unsecured Debt rating of McMaster University (McMaster or the University) at AA (low) with Stable trends, reflecting the institution's solid academic profile, high level of expendable resources and track record of prudent financial management. Although DBRS remains concerned about large and growing pension and post-employment benefit obligations, the University has taken a number of proactive steps in addressing funding deficiencies. Cost containment efforts have yielded positive results in recent years, with total expenditures growing by just 0.8% in 2012–2013. Revenues expanded by 6.6% in the same year, producing a consolidated surplus of $60.7 million; however, this was largely driven by strong capital market performance, leading to high investment returns. Financial results for the most recent fiscal year are not yet available, but DBRS expects another relatively strong surplus based on projections.

Like all Ontario universities, McMaster enjoys limited fee-setting autonomy under the Province's recently updated tuition framework that holds average tuition rate increases to 3%, and has been required to absorb cuts to operating and other grants beginning in 2013–2014. Although recent budgets have been structurally balanced before one-time costs, the University has relied on prior appropriated surpluses to fund a number of strategic investments, a strategy that is likely to prove unsustainable over the long term. Rising pension and post-employment unfunded liabilities are also generating significant cash requirements that must be funded by individual operating units out of existing allocations, in addition to normal current service costs and baseline inflation from negotiated salary increases. While this is a significant pressure for the University, a long-term funding strategy has been put in place to meet the annual pension payment requirements. (Continued on page 2.)

Rating Considerations

Strengths

(1) Stable revenue base of provincial funding and student tuition
(2) High level of expendable financial resources
(3) Strong academic profile

Challenges

(1) Inflationary labour costs, including rising pension and post-employment benefit liabilities
(2) Limited fee-setting autonomy and constrained funding environment
(3) Large backlog of deferred maintenance

Financial Information

	For the year ended April 30				
	2012-13	2011-12	2010-11	2009-2010	2008-2009
Consolidated surplus (deficit) ($ millions)	60.7	9.1	22.0	11.7	(54.0)
Surplus-to-revenue	6.5%	1.0%	2.6%	1.4%	(7.4%)
Long-term debt ($ millions)	138.4	139.4	152.1	153.3	154.3
Interest costs/total expenditures	1.0%	1.0%	1.2%	1.2%	1.3%
Interest coverage ratio (times)	12.5	6.4	8.8	7.7	0.3
Total endowment ($ millions) (1)	553.1	519.2	513.1	460.7	417.1
Expendable resources-to-debt	156%	160%	143%	128%	116%
Total enrolment (FTEs) (2)	26,353	25,929	25,399	25,007	24,104
Long-term debt per FTE ($)	5,251	5,376	5,990	6,129	6,403
Endowment per FTE ($)	20,988	20,023	20,201	18,424	17,304

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

Rating Rationale (Continued from page 1.)

Cost containment efforts have proved successful in holding down expenditure growth in recent years, despite these inflationary pressures. The full implementation of a new modified activities-based budget model in 2014–2015 should further strengthen internal financial incentives, drive new efficiencies and better align the strategic objectives of the University with the activities of operating units based on actual enrolment and other drivers.

As noted for some time by DBRS, the University is considering adding up to $120 million in new long-term financing to fund capital expansion and new campus capacity. Projects under consideration could generate ancillary revenues that would self-support higher interest charges and expand revenue potential through higher enrolment, such as a proposed mixed-use Living Learning Centre. Should McMaster proceed with this new borrowing, DBRS expects debt per full-time equivalent student (FTE) to peak at nearly $9,400 in 2015–2016, while interest coverage would likely erode to the 4.0 to 5.0 times range, both of which are viewed as manageable for the rating, given McMaster's considerable base of expendable resources and need for new campus capacity. However, this higher leverage would likely exhaust much of the remaining room within the current rating.

Rating Considerations Details

Strengths

(1) McMaster's substantial funding from the Ontario government and steady student tuition revenues provide a stable revenue base totalling approximately 66% of overall revenues in 2012–2013. Successful fundraising efforts and ancillary revenues add further diversification to the University's revenue mix.

(2) The University's credit profile is strengthened by its considerable level of expendable resources, which amounted to $216.0 million, or 156% of total debt at April 30, 2013, and will likely remain sizable despite volatility in capital markets. Expendable resources consist of more than $115 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 solid academic profile and reputation, ranking among the top four universities in Canada and among the top 100 globally, according to the 2014 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.

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 3.6% per year over the past five years, with this rolling average trending downward in recent years. Compensation costs 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. On an accounting basis, total unfunded pension and post-retirement benefit liabilities total $770.8 million, among the highest in the university sector in Canada. An updated actuarial valuation as at July 1, 2014, is likely to show further deterioration in the funded status of plans, as the low interest rate environment has resulted in downward adjustments to plan discount rates resulting in large actuarial losses. 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.

(2) Starting with the 2013–2014 academic year, the cap on annual undergraduate tuition fee increases was reduced from an average of 5% to 3% for a period of four years. This policy change further limited the flexibility of a key revenue source; however, the University has made conservative assumptions in response to the revised framework. The University has raised tuition rates to the maximum amount permitted for regulated programs, and has also increased the share of international students on campus not subject to the tuition rate cap. The Province also moved to reduce operating funding beginning in 2013–2014 by approximately 1.0% through a series of policy lever reductions and other targeted grant cuts.

(3) McMaster has sizable and growing deferred maintenance needs, totalling approximately $324 million as of 2013–2014, following a full audit conducted in 2012. The considerable backlog of maintenance and critical upgrades presents risks to the University's budget and medium-term operating performance. A base annual operating funding increase of $2 million for deferred maintenance needs was approved in 2013–2014, which will rise incrementally over five years until it reaches roughly $10 million per year. Modest increases in capital renewal funding announced in the recent provincial budget will also provide some support.

Operating Performance: 2012–2013

McMaster posted a healthy $60.7 million consolidated surplus in 2012–2013, or 6.5% of revenues, a positive variance from a budgeted accrual deficit of $1.9 million. The surplus was generated largely from strong capital markets performance in 2013, which produced investment income of $47.1 million, 55% above budget and up 155.6% year over year.

Enrolment growth of 1.6% for the academic year supported higher tuition receipts and grant funding, the primary sources of university revenues. This, along with domestic student tuition fee increases at 5% for regulated programs, the maximum level permitted under the Province's previous tuition framework, led to tuition fee revenues that were 9.4% higher for the year. An increase in the number of international students paying higher fees also supported these gains, with the proportion of international students rising to 7.7% of the student population from 7.2% the prior year. Government operating grant revenue rose by 2.2% or $5.1 million, including an additional $3.2 million in undergraduate accessibility funding and $1.1 million in grants for MD and post-graduate medical education. Research grants and contracts recognized during the year were up 3.5%, reflecting a higher level of activity, while revenues from ancillary operations advanced just 0.2% as declining textbook and course material sales at the Campus Store were tempered by higher sales volume for Continuing Education programming.

Continued cost containment contributed to year-over-year growth in operating expenses of just 0.8%, as the cost of goods sold, utilities and other general corporate supplies and services were reduced. Salary and benefit expenses, comprising 64% of overall spending, rose by 3.5% year over year, generally on par with the five-year average. Despite further deterioration in the funded status of defined benefit pension plans, owing mainly to the low interest rate environment, the University has made good progress in reigning in pension-related costs through increased employee contributions and the creation of a defined contribution RRSP plan for new members of certain labour groups. Despite this progress, pension expenses for the year rose 17.5% to $60.8 million, reflecting an increase in the amortization of actuarial losses. Included in this expense is a $20.8 million net going-concern cash payment to cover the actuarial deficit in the salaried pension plan.

Operating Outlook

The University presents a consolidated budget that includes all six of its funds: operating, ancillary, research, trust, endowment and capital.

Budget & Performance: 2013–2014

The University originally budgeted an operating fund deficit of $26.2 million for 2013–2014. This significant cash deficit was produced by a number of one-time expenditures and strategic investments, including the ongoing enterprise systems renewal project and other technology upgrades. On an accrual basis, the University budgeted a modest consolidated surplus of $4.6 million for 2013–2014.

Compensation and post-employment benefits remain the principal source of financial pressure for the University, comprising 72% of the operating fund. Rising special payments associated with actuarial deficits are forcing departments and service units to find incremental savings each year to absorb higher benefit costs within existing funding envelopes. In 2013–2014, McMaster was again required to make a net going-concern payment of $20.8 million, with special pension payments set to rise substantially in the years ahead. In 2013–2014, compensation costs were budgeted to rise by 5.6% primarily because of higher provision for post-employment benefits; however, in-year projections point to a small favourable budget variance for salaries and benefits.

Notwithstanding demographic headwinds and capacity constraints holding back more robust enrolment growth, DBRS continues to view McMaster as a flagship provincial institution with a solid academic profile, as evidenced by strong application trends and high entering grade averages. For 2013–2014, modest enrolment growth of 1.0% for undergraduate students and a 2.8% increase in graduate students was assumed. Actual FTE enrolment growth for the year was 1.2% overall, comprising undergraduate FTE growth of 1.4% and a decline in graduate enrolment of 0.3%. The Province's new tuition framework was introduced, which capped the average tuition rate increase for regulated programs to 3.0%, down from 5.0%. International students experienced a tuition rate increase of 6.0%, consistent with peer institutions. The budget also included a 1.0% reduction in the basic operating grant from the Province, including policy lever cuts, reduced grants for international students and a lower municipal tax grant, totalling $2.5 million and distributed across all envelopes. Funding growth for accessibility and additional graduate student spaces was budgeted to offset these reductions, with overall grant funding levels expected to remain flat.

Projections in the 2014–2015 budget, reflecting eight months of year-to-date performance, point to a lower operating fund cash deficit of $10.2 million for 2013–2014, with the majority of the positive variance driven by higher medical and targeted grants. However, recent updates from the University point to a materially lower operating fund cash deficit. On an accrual basis, higher-than-anticipated investment returns are again projected to lead to a healthy consolidated surplus of $42.8 million. This is consistent with recent experience at McMaster, as conservative planning assumptions and tight expense management continue to generate efficiencies in the face of $15 million in baseline inflation per year. However, audited financial results have not yet been released and results could vary materially from projections.

Budget 2014–2015

The University's 2014–2015 operating budget is again balanced before a number of significant one-time expenditures and strategic investments totalling $33.5 million, including the systems renewal project and provisions for funding of pension and the post-retirement benefit plans. These costs are budgeted to produce a sizable cash deficit in the operating fund of $32.8 million. On an accrual basis, a modest surplus of $5.1 million is anticipated.

Fiscal 2015 is the first year to fully implement a new modified activities-based budget model at McMaster, whereby faculties receive revenues based on the income they generate. Units subsequently contribute 8% of their allocated revenues to a broader University Fund (UF) for strategic initiatives across the institution. Faculties also contribute 1% to a Research Infrastructure Fund to support the indirect costs of research, to be redistributed on the basis of research intensity as determined by funding success. Following two shadow years of budgeting under the new model, the University will "hold harmless" individual faculties at 2013–2014 funding levels to avoid immediate reductions through a multi-year transitional adjustment from the UF totalling $16.2 million in 2014–2015. The new model is intended to drive efficiencies and support stronger alignment between the activities of individual faculties and departments and the broader objectives of the University based on actual enrolment trends and other key drivers.

Salary and benefit pressures persist in fiscal 2015, with total compensation expenditures budgeted to rise by 2.3%, driven primarily by negotiated wage and step increases. This would represent annual growth below the five-year average. The going-concern payment related to the actuarial plan deficit of the salaried pension plan will again be $20.8 million in 2014–2015, and payments are expected to rise to $40.7 million in fiscal 2015–2016 and remain elevated over the medium term as mandatory solvency payments begin.

Outlook:

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. McMaster anticipates that the significant changes made to date to pension plans, including contribution rate increases and the closing of defined benefit plans to new entrants of certain labour groups, should allow the Salary Plan to qualify for Stage 2 relief in fiscal 2015. The smaller Hourly pension plan, comprising approximately 3% of total pension assets as of June 2013, has already qualified for Stage 2.

Solvency Funding Relief

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.

Stage '3' – O. Reg 118/14
- For plans with a Stage 2 valuation date before 2015, creates option to make interest-only payments for the first three years of the 10-year period, amortizing the deficit balance over remaining 7 years.

Further relief provisions were announced in 2013 that would allow those with a Stage 2 valuation date before 2015 to elect to make interest-only payments for three years of the ten-year payment period, before amortizing the remaining solvency deficit over a period of seven years. An updated pension valuation to be filed as at July 1, 2014, is likely to revise the final amounts of going-concern and solvency payments; however, outlays are expected to rise materially from current levels over the medium term. DBRS is encouraged by the changes made on the pension front and the plan put in place to fund obligations, requiring that operating units absorb substantially all pension costs.

The University's labour negotiation mandates continue to be lean as it pursues additional cost savings. The Faculty Association has a collective agreement in place until 2017, providing some stability to the largest component of the University's compensation expenses. McMaster is currently in protracted negotiations with the union representing approximately 260 custodial and maintenance staff. A contract offer from the University presented in a meeting with a provincial conciliator in July 2014 was rejected by the union, and the University has made contingency plans, including the option to contract out services to private operators. The negotiation is currently under review with the Ontario Labour Board. The union has requested binding arbitration to settle the dispute.

Although the budget outlook is structurally balanced, DBRS notes that recent reliance on prior surplus appropriations to fund one-time investments is likely to be unsustainable as additional needs arise over the long term. The University will need to continue emphasizing cost containment while seeking revenue sources to fund extraordinary items and rising benefit obligations. In light of the constrained funding environment and limited fee-setting autonomy, addressing capacity constraints while balancing the quality of the student experience will be critical to maintaining a sound financial outlook. DBRS notes that the University's Strategic Mandate Agreement (SMA) with the Province was recently released, outlining strategic priorities that will differentiate McMaster within the provincial system. Although the SMA will not immediately affect funding policy, program approvals and expansion will be guided by the targeted growth areas identified.

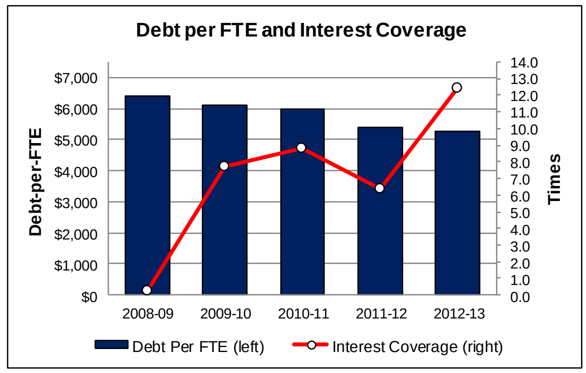
Capital Plan

Capital spending in 2012–2013 more than doubled year over year to $127.8 million, coming in slightly below budget. Capital expenditures will continue to be elevated for the next few years as the University continues to implement its $55 million multi-year systems renewal project, Mosaic, which will provide a new enterprise resource planning platform for human resources, business intelligence, finance, research and student administration.

Currently, the University has $861 million in ongoing or approved capital spending over the next ten years. Projects include the downtown McMaster Health Campus, Boris Family Centre in Human Stem Cell Therapies, the Centre for Advanced Nuclear Systems, the Fitzhenry Studio in the Liberal Arts Building and a comprehensive Energy Management Plan. Beyond current approvals, the University is currently contemplating a number of capital planning scenarios and is likely to move forward with a mix of priority projects from a larger list of approximately $600 million in other identified capital needs. These projects would be funded through a mix of internal loans, fundraising, government grants and new long-term borrowing. A flagship project under consideration is a new Living Learning Centre that would house academic, administrative, residence and childcare facilities, in addition to ancillary services, and would generate some revenues to offset the higher interest charges associated new long-term financing. DBRS expects to gain additional clarity on the capital and debt strategy in the fall of 2014 following Board of Governors approvals, and expects that borrowing would likely be undertaken in 2015–2016, although no decisions have been made on timing or the form of financing.

McMaster also has sizable and growing deferred maintenance needs, totalling approximately $324 million in 2013–2014. A full campus audit was conducted in 2012, which included all buildings and infrastructure rather than the normal audit of one third of the tangible capital asset base. A funding plan has been put in place that includes modest annual increases of $2 million per year until operating base funding reaches $10.2 million per year; however, the backlog presents risks to the operating budget over the medium term, as infrastructure failures could cause unforeseen and unbudgeted expenditures. The cost of maintaining and operating physical infrastructure represents 5.8% of the 2014–2015 operating budget.

Debt & Liquidity



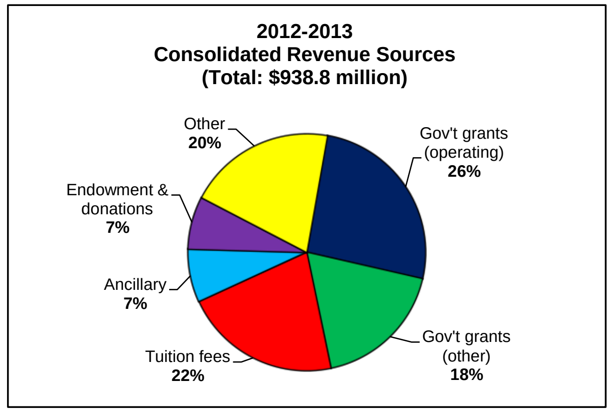
The University's debt burden fell by a modest $1.0 million in 2012–2013, in line with scheduled amortization, reducing long-term debt to $138.4 million, comprising mainly a $120 million long-term debenture. A sinking fund has been established for debenture principal repayment in 2052, and totalled $11.9 million in 2012–2013. Long-term debt per FTE fell to $5,251 from $5,376, a level considered manageable for the rating and comparing favourably with similarly rated peers. Interest costs as a percentage of operating expenditures remained low and stable at 1.0% , and interest coverage improved considerably, rising from 6.4 times to 12.5 times because of a considerably larger consolidated surplus position. Should McMaster proceed with new borrowing related to its capital plan, DBRS expects debt per FTE to peak at nearly $9,400 in 2015–2016, while interest coverage would likely decline to the 4.0 to 5.0 times range. Although this higher leverage would exhaust much of the room in the rating, these metrics are viewed as manageable. DBRS notes that McMaster also guarantees the debt of its research park, First Longwood Innovation Trust, which totalled $23 million in 2012–2013, although this figure is not included in the calculation of long-term debt.

McMaster enjoys a high level of liquidity, providing further support to the credit profile. The University's base of expendable resources, comprising internal sinking funds, unrestricted cash reserves and internally restricted endowments, which could be unendowed by the Board of Governors if necessary, stood at $216.0 million in 2012–2013, a slight decrease from the prior year. At 156% of total debt, these expendable resources provide a material degree of financial flexibility to the institution. Cash and cash equivalents total 100% of current liabilities. In 2012–2013, the market value of total endowment assets grew by 6.5% to $553.1 million or $20,988 per FTE, one of the highest levels among DBRS-rated universities.

According to the latest actuarial valuation of the University's 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. The University will file an updated funding valuation as of July 1, 2014, which is likely to show a sizable increase in solvency and going-concern deficits, given recent reductions in the discount rate used to calculate actuarial liabilities, driven by the low interest rate environment, as well as updated mortality tables.

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 72.6% of total revenues in 2012–13.



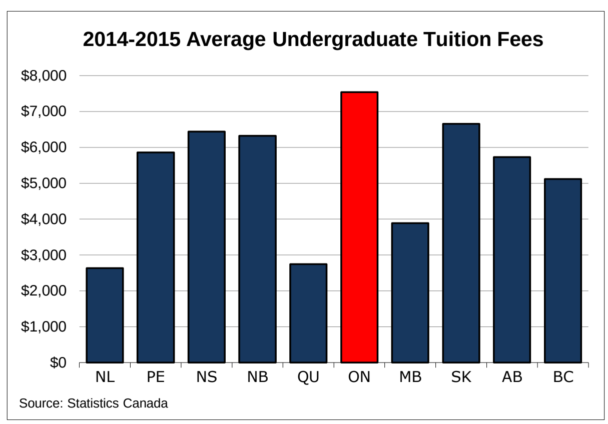
Provincial government funding remains the primary source of revenue for universities across the country, although its relative importance remains under pressure in most provinces as a result of accelerating costs in competing areas of provincial responsibility, notably health care. In Ontario, the lack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

Government Funding (provincial and federal, 43.9%): 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. Operating grants are provided exclusively by the Province, totalling $242 million for McMaster in fiscal 2013, 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 2015–2016 (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 has led to cuts to basic operating and other grants, making cost containment at universities that much more crucial.

Student Fees (21.5%): From 2006–2007 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 could be increased by 4.5% for the first year of study and 4% for the following years, while graduate and professional program tuition fees could be increased by 8% for the first year of study and 4% per year thereafter. 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 would be reduced to 3%. Additionally, tuition fee



increases for graduate and professional programs were also reduced and are now capped at 5%. Total tuition revenue at McMaster has risen by an average of 8.7% per year over the last five years.

Fundraising and Endowment Contributions (7.2%): 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, 2013, endowment assets stood at $553.1 million or $20,988 per FTE, up 6.5% following very strong investment performance during the year. 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 2012–2013, $22.8 million in new pledges and gifts were received, as well as $6.9 million in discounted future gifts, for a total of $29.7 million. This surpassed the internal goal of $21.5 million set by University Advancement for the year. 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

Report Date:
September 18, 2014

McMaster University

Consolidated Balance Sheet

($ thousands)	As at April 30				
Assets	**2013**	**2012***	**2011**	**2010**	**2009**
Cash and short-term investments	156,914	184,153	167,916	170,506	76,182
Receivables	158,553	140,888	144,456	135,170	148,369
Inventories and prepaid expenses	11,412	12,447	9,997	10,783	10,643
Deferred pension asset	197,356	200,230	198,995	212,108	220,811
Long-term investments	740,359	673,311	658,020	573,779	563,211
Other investments	14,888	14,687	13,436	13,318	13,318
Capital assets	854,422	789,980	744,235	715,161	683,777
Total Assets	2,133,904	2,015,696	1,937,055	1,830,825	1,716,311
Liabilities and Equity					
Payables and other current liabilities	156,975	156,365	146,432	155,968	153,502
Employee future benefits (1)	280,894	273,156	261,142	245,250	224,891
Deferred contributions - endowment (2)	72,617	73,815	68,990	65,063	72,125
Other deferred contributions	229,736	244,492	247,747	238,360	210,554
Deferred capital contributions	399,105	362,589	354,979	332,668	314,333
Long-term debt	138,371	139,400	152,143	153,270	154,331
Other long-term liabilities (3)	9,155	8,720	13,405	10,992	12,504
Total liabilities	1,286,853	1,258,537	1,244,838	1,201,571	1,142,240
Fund balances					
Unrestricted	8,125	8,298	2,268	2,174	(146)
Committed (4)	39,193	13,187	6,416	(1,740)	9,794
Endowment - internally restricted	115,733	109,806	114,833	107,817	98,832
Endowment - externally restricted	364,739	335,562	329,272	287,854	246,139
Equity in capital assets	319,261	290,306	239,428	233,149	219,452
Total Liabilities and Equity	2,133,904	2,015,696	1,937,055	1,830,825	1,716,311
Contingencies and Commitments	**2013**	**2012***	**2011**	**2010**	**2009**
Capital commitments	208,187	208,240	102,965	115,085	70,395
Legal claims	31,000	31,000	31,000	31,000	31,000
	239,187	239,240	133,965	146,085	101,395

*As of the transition date of May 1, 2011, the Univeristy adopted accounting standards for not-for-profit organizations, electing to re-value land at fair value and adopt hedge accounting for interest rate swap agreements.

(1) After adjustments for unamortized losses.

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

(3) Nuclear reactor decommissioning costs.

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

McMaster University

Report Date:
September 18, 2014

McMaster University

Consolidated Financial Summary (DBRS-Adjusted)

($ thousands)	For the year ended April 30			
	2012-2013	**2011-2012**	**2010-2011**	**2009-2010**
Total revenue	938,829	880,532	857,398	828,373
Total expenditures	878,114	871,429	835,447	816,723
Recurring Surplus (Deficit)	60,715	9,103	21,951	11,650
Unusual items	-	-	-	-
Net contributions from (to) endowments	(5,927)	5,027	(7,016)	(8,985)
Net contributions from (to) committed funds (1)	(26,006)	(6,771)	(8,156)	11,534
Change in investment in capital assets	(28,955)	(6,427)	(6,279)	(13,697)
Net change in unrealized losses on interest rate swaps	-	-	(406)	1,818
Net change in unrestricted assets	(173)	932	94	2,320
Revenue	9.37%	10.03%	8.26%	9.46%
Tuition fees	201,542	184,275	167,474	154,696
Government operating grants	242,374	237,248	232,938	222,865
Research grants and contracts	186,536	180,165	170,235	164,918
Ancillary operations	68,123	68,006	67,922	68,756
Investment income	47,103	18,428	40,306	48,748
Donations & other grants	44,789	44,903	35,527	33,817
Earned capital contributions	35,779	33,840	34,688	36,386
Other revenue	112,583	113,667	108,308	98,187
Total Revenue	938,829	880,532	857,398	828,373
Expenditures				
Salaries and benefits	558,420	539,317	524,929	507,687
Student aid	48,236	42,970	43,512	43,161
Cost of goods sold	14,365	11,972	13,428	12,837
Utilities	25,290	24,276	24,792	25,346
Other supplies and expenses	159,866	183,201	159,880	155,249
Amortization	63,317	60,999	61,115	62,474
Interest	8,620	8,694	9,900	9,969
Total Expenditures	878,114	871,429	835,447	816,723
Gross Capital Expenditures	127,759	62,293	90,189	93,858

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

Statement of Cash Flow (DBRS-Adjusted)

($ thousands)	For the year ended April 30				
	2012-13	**2011-12**	**2010-11**	**2009-10**	**2008-09**
Operating balance before fund contributions	60,715	9,103	21,951	11,650	(53,953)
Amortization	63,317	60,999	61,115	62,474	62,659
Other non-cash adjustments	(25,167)	(23,061)	(5,683)	(7,324)	(15,842)
Cash flow from operations	98,865	47,041	77,383	66,800	(7,136)
Change in working capital	(28,026)	12,621	(4,722)	36,269	26,068
Operating cash flow after working capital	70,839	59,662	72,661	103,069	18,932
Net capital expenditures*	(55,464)	(20,843)	(33,190)	(39,137)	(49,702)
Free cash flow	15,375	38,819	39,471	63,932	(30,770)

*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				
	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009
Total Enrolment (FTE) (1)	26,353	25,929	25,399	25,007	24,104
- Undergraduate	86%	86%	86%	87%	88%
- Graduate	14%	14%	14%	13%	12%
- Total annual change	1.6%	2.1%	1.6%	3.7%	2.4%
Total Employees (2)	5,120	5,041	4,932	4,837	4,721
- Full-time faculty	1,394	1,377	1,330	1,306	1,253
Operating Results		1.6%			
Surplus (deficit) ($ millions)	60.7	9.1	22.0	11.7	(54.0)
- As % of revenues	6.5%	1.0%	2.6%	1.4%	(7.4%)
Revenue Mix (as % of total DBRS-adjusted revenue)					
- Government funding (federal+provincial)	43.9%	46.9%	44.5%	44.6%	49.2%
- Tuition fees	21.5%	20.9%	19.5%	18.7%	19.3%
- Ancillary	7.3%	7.7%	7.9%	8.3%	9.0%
- Endowment and expendable donations	7.2%	6.4%	6.3%	6.7%	1.4%
- Other	20.1%	18.0%	21.8%	21.7%	21.1%
Debt and Liquidity Analysis					
Total long-term debt ($ millions)	138.4	139.4	152.1	153.3	154.3
- Per FTE student ($)	5,251	5,376	5,990	6,129	6,403
Long-term debt, contingencies & commitments ($ millions	658.5	651.8	547.3	544.6	480.6
- Per FTE student ($)	24,986	25,138	21,546	21,778	19,939
Cash and cash equivalents ($ millions)	156.9	184.2	167.9	170.5	76.2
- As % of total expenditures	18%	21%	20%	21%	10%
- As % of current liabilities	100%	118%	115%	109%	50%
Expendable Resources	216.0	222.7	217.7	196.6	179.4
- As % of total debt	156%	160%	143%	128%	116%
Interest costs as % of total expenditures	1.0%	1.0%	1.2%	1.2%	1.3%
Interest coverage ratio (times)	12.5	6.4	8.8	7.7	0.3
Endowment Funds					
Total market value ($ millions)	553.1	519.2	513.1	460.7	417.1
- Per FTE student ($)	20,988	20,023	20,201	18,424	17,304
- Annual change	6.5%	1.2%	11.4%	10.5%	(14.9%)
- 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.

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Ratings

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

Rating History

	Current	2013	2012	2011	2010	2009
Issuer Rating	AA (low)	AA (low)	AA (low)	NR	NR	NR
Senior Unsecured Debt	AA (low)	AA (low)	AA (low)	AA (low)	AA (low)	AA

Related Research

- Canadian University Peer Comparison Sheet, May 23, 2014.
- Rating Public Universities, June 12, 2014.

Note:
All figures are in Canadian dollars unless otherwise noted.