



Statement of Management Responsibility

Management of the University is responsible for the preparation of the financial statements, the notes thereto and all other financial information contained in this Annual Financial Report.

Management has prepared the financial statements in accordance with Canadian accounting standards for not-for-profit organizations. Management believes the financial statements present fairly the University's financial position as at April 30, 2023 and the results of its operations, changes in net assets and its cash flows for the year ended April 30, 2023. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgements were employed. Additionally, management has ensured that financial information presented elsewhere in this Annual Financial Report has been prepared in a manner consistent with that in the financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

Mercer (Canada) Limited has been retained by the University in order to provide an estimate of the University's current year position for pension and other employee future benefits. Management has provided the valuation actuary with the information necessary for the completion of the University's report and retains ultimate responsibility for the determination and estimation of the pension and other employee future benefits liabilities reported.

The Board of Governors carries out its responsibility for review of the financial statements and this Annual Financial Report principally through the Planning and Resources Committee and its Audit and Risk Committee. No members of the Audit and Risk Committee are officers or employees of the University. The Audit and Risk Committee meets regularly with management, as well as the internal auditors and the external auditors, to discuss the results of the audit examinations and financial reporting matters, and to satisfy itself that each party is properly discharging its responsibilities. The auditors have full access to the Audit and Risk Committee with and without the presence of management.

The financial statements for the year ended April 30, 2023 have been reported on by KPMG LLP, Chartered Professional Accountants, the auditors appointed by the Board of Governors. The Independent Auditors' Report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

A handwritten signature in black ink, appearing to read "H. J. J. J. J.", written over a grid background.

Vice-President, Operations and Finance
October 26, 2023

A handwritten signature in black ink, appearing to read "D. R.", written over a grid background.

President

A handwritten signature in black ink, appearing to read "Y. S.", written over a grid background.

Interim Chief Financial Officer (CFO)



KPMG LLP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of McMaster University

Opinion

We have audited the accompanying financial statements of McMaster University (the "University"), which comprise:

- the statement of financial position as at April 30, 2023
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2023, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Financial Report document.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Annual Financial Report document as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

October 26, 2023

McMASTER UNIVERSITY

Statement of Financial Position

April 30, 2023, with comparative figures for 2022


(thousands of dollars)

	2023	2022
Assets		
Current assets:		
Cash	\$ 29,357	\$ 23,486
Short-term investments (note 2)	409,815	342,510
Accounts receivable (note 3)	172,228	152,335
Loans receivable (note 4)	42,136	26,005
Inventories	7,868	5,741
Prepaid expenses and deposits	16,473	21,686
	<u>677,877</u>	<u>571,763</u>
Investments (note 2)	1,755,574	1,667,060
Other investments (note 5)	44,661	42,546
Other assets (note 6)	1,928	2,023
Capital assets (note 7)	1,366,222	1,276,062
	<u>\$ 3,846,262</u>	<u>\$ 3,559,454</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 215,482	\$ 184,149
Deferred revenue	24,110	27,665
Current portion of long-term obligations (note 9)	858	805
	<u>240,450</u>	<u>212,619</u>
Long-term obligations (note 9)	420,375	420,390
Accrued employee future benefits (note 10)	263,756	275,714
Deferred contributions (note 11):		
Deferred for future expenses	546,838	481,991
Deferred capital contributions	457,860	462,102
	<u>1,004,698</u>	<u>944,093</u>
Net assets:		
Unrestricted	-	-
Internally restricted (note 12)	643,920	580,073
Equity in capital assets (note 13)	522,555	421,571
Endowments (note 14):		
Internal	161,076	156,615
External	589,432	548,379
	<u>1,916,983</u>	<u>1,706,638</u>
Commitments and contingencies (note 16)		
	<u>\$ 3,846,262</u>	<u>\$ 3,559,454</u>

On behalf of the Board of Governors:


 _____ Chair, Board of Governors


 _____ Chair, Audit and Risk Committee
See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Operations

Year ended April 30, 2023, with comparative figures for 2022

(thousands of dollars)

	2023	2022
Revenues:		
Operating grants	\$ 284,621	\$ 284,747
Research grants and contracts	211,116	187,315
Tuition fees	445,751	437,397
Other (note 17)	145,340	131,896
Ancillary sales and services	86,101	64,718
Investment income (loss), net	109,958	(32,252)
Donations and other grants	62,572	66,389
Research overhead grants	13,438	12,567
Amortization of deferred capital contributions	46,832	44,853
	<u>1,405,729</u>	<u>1,197,630</u>
Expenses:		
Salaries and wages	634,190	586,899
Employee benefits	149,404	138,893
Supplies and services	364,908	314,178
Interest on long-term obligations	18,185	17,392
Amortization of capital assets	89,413	87,340
	<u>1,256,100</u>	<u>1,144,702</u>
Excess of revenues over expenses	<u>\$ 149,629</u>	<u>\$ 52,928</u>

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Changes in Net Assets

Year ended April 30, 2023, with comparative figures for 2022

(thousands of dollars)

	Unrestricted	Internally restricted	Equity in capital assets	Endowments		2023 Total	2022 Total
				Internal	External		
Net assets, beginning of year	\$ -	\$ 580,073	\$ 421,571	\$ 156,615	\$ 548,379	\$ 1,706,638	\$ 1,804,678
Excess (deficiency) of revenues over expenses	192,210	-	(42,581)	-	-	149,629	52,928
External endowment contributions:							
Contributions (note 14)	-	-	-	-	32,640	32,640	20,619
Protection of capital (note 14)	-	-	-	-	8,413	8,413	(56,643)
Transfers and adjustments:							
Transfers for specific purposes (note 12)	(43,227)	44,184	(957)	-	-	-	-
Capital transactions from operating (note 13)	(144,522)	-	144,522	-	-	-	-
Transfer to internal endowments (note 14)	(4,461)	-	-	4,461	-	-	-
Remeasurements and other items (note 10)	-	19,663	-	-	-	19,663	(114,944)
	-	63,847	100,984	4,461	41,053	210,345	(98,040)
Net assets, end of year	\$ -	\$ 643,920	\$ 522,555	\$ 161,076	\$ 589,432	\$ 1,916,983	\$ 1,706,638

See accompanying notes to financial statements

McMASTER UNIVERSITY

Statement of Cash Flows

Year ended April 30, 2023, with comparative figures for 2022

(thousands of dollars)

	2023	2022
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 149,629	\$ 52,928
Adjustments for non-cash items:		
Amortization of deferred capital contributions	(46,832)	(44,853)
Amortization of capital assets	89,413	87,340
Employee future benefits	7,705	(9,158)
Equity loss of other investments (note 5)	3,985	1,859
Increase in decommissioning obligation (note 9)	845	3,560
	204,745	91,676
Net change in contributions deferred for future expenses	64,847	44,001
Net change in other non-cash working capital (note 15)	10,971	(15,770)
	280,563	119,907
Investing activities:		
Purchase of capital assets	(180,530)	(132,984)
Proceeds on recovery of capital expenditures	957	1,058
Net change in loans receivable	(16,131)	(3,016)
Net change in investments	(155,819)	(110,436)
Net change in other investments	(6,100)	(10,000)
Net change in other assets	95	112
Net change in external endowments (note 14(b))	41,053	(36,024)
Deferred capital contributions (note 11(b))	42,590	26,219
	(273,885)	(265,071)
Financing activities:		
Issuance of long-term debt	-	150,000
Principal repayments on long-term obligations (note 9)	(807)	(756)
	(807)	149,244
Net increase in cash	5,871	4,080
Cash, beginning of year	23,486	19,406
Cash, end of year	\$ 29,357	\$ 23,486

McMaster University (the "University"), which operates by authority of The McMaster University Act, 1976, is governed by a Board of Governors (the "Board") and Senate, the powers and responsibility of which are set out in the Act. The University is a comprehensive research institution offering a broad range of undergraduate, graduate and continuing education programs and degrees. The University is exempt from income taxes.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(a) Basis of presentation:

These financial statements include the accounts, transactions and operations for which the University has jurisdiction. They do not include the accounts, transactions and operations of the following entities which are independently governed and managed, and certain other related entities which carry out fundraising and other activities and are not material to these financial statements:

Independent entities:

McMaster Divinity College

McMaster Students Union, Inc.

McMaster University Centre Incorporated

McMaster Children's Centre, Inc.

McMaster Association of Part-Time Students (MAPS)

University Club of McMaster

Graduate Students Association (GSA)

Other entities:

The McMaster University Trust

Friends of McMaster Incorporated

The Gore District Land Trust:

The Gore District Land Trust (GORE) is controlled by the University based on Board composition. The investment is accounted for by the equity method (note 5) as permitted by accounting standards for not-for-profit organizations. Since GORE has a fiscal year end of December 31st, the University records its share of the operating results effective on that date.

The First Longwood Innovation Trust:

The First Longwood Innovation Trust (FLIT) is not controlled by the University. The investment is accounted for by the equity method (note 5 and note 16(j)) as permitted by accounting standards for not-for-profit organizations. Since FLIT has a fiscal year end of December 31st, the University records its share of the operating results effective on that date.

1000352106 Limited Partnership:

The investment in 1000352106 Limited Partnership ("Partnership") (note 5 and note 16(j)) is accounted for by the equity method as permitted by accounting standards for not-for-profit organizations. Since the Partnership has a December 31st fiscal year end, the University will record its share of the operating results effective on that date.

KCAP Hamilton Grad LP:

The investment in KCAP Hamilton Grad LP (note 5 and note 16(h)) is accounted for by the equity method as permitted by accounting standards for not-for-profit organizations. Since KCAP Hamilton Grad LP has a December 31st fiscal year end, the University will record its share of the operating results effective on that date.

Other investments in for-profit entities subject to significant influence are accounted for using the equity method, whereby the investment is initially recorded at cost, net of any impairment and adjusted thereafter for the University's share of the entity's net surplus or deficit and any further impairments. Any distributions received are accounted for as a reduction in the investment.

1. Significant accounting policies (continued):

(a) Basis of presentation (continued):

Halton McMaster Family Health Centre:

These financial statements include the University's 50% contribution to the Halton McMaster Family Health Centre (note 5). This joint venture is a project with Joseph Brant Hospital involving the construction and establishment of a family health centre and hospital clinical and administration building. The joint venture is in the process of registering the constructed building as a leasehold condominium corporation.

(b) Revenue recognition:

The University follows the deferral method of accounting for contributions which include donations and government grants. The principles under this method are summarized as follows:

- Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- Contributions externally restricted for purposes other than endowment and capital assets are deferred and recognized as revenue in the year in which the related expenses are recognized.
- Contributions externally restricted for capital asset purchases are deferred and amortized to operations on the same basis as the related capital asset.
- External endowment contributions, income preserved and activity under the endowment capital protection policy (note 1(m)) are recognized as a direct increase (decrease) in endowment net assets. Income earned from the investment thereof, to the extent it is allocated, is recorded as deferred contributions and recorded as revenue in the periods in which the related expenses are incurred.

Tuition fees which relate to academic terms or parts thereof occurring after April 30th are recorded as deferred revenue. Gifts-in-kind are recorded at their fair market value on receipt, or at nominal value when fair market value cannot be reasonably determined. Pledges from fundraising and other donations are recorded in the period in which they are collected. Ancillary sales and services revenue is recognized at point of sale or when the service has been provided.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The University has elected to carry investments in equity instruments, fixed income and other securities at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the University determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the University expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

1. Significant accounting policies (continued):

(d) Derivative financial instruments:

The University is party to an interest rate swap agreement which is used to manage the exposure to fluctuations in interest rates. The University uses the accrual basis of accounting for hedges. Gains or losses realized on the settlement of the hedging item are deferred until the settlement of the hedged item.

At the inception of the hedging relationship, the University designates that hedge accounting will be applied. The University formally documents the hedging relationship between the hedging instruments and hedged item. At the inception of the hedge and throughout its term, the terms of the hedging item and hedged item are the same.

Hedge accounting is used only when the notional amount of the swap matches the principal amount of the hedged item, the fair value of the swap at the inception is \$nil, the fixed rate is the same throughout the swap and the variable rate is based on the same index and includes the same or no adjustment and the debt instrument cannot be settled before maturity and the swap matures within two weeks of the maturity date of the debt.

(e) Investments:

Short-term investments are investments with a remaining term to maturity of one year or less and are intended to be converted to cash within one year. Short-term investments are recorded at cost plus accrued income which together approximates fair value. Short-term investments includes cash and short-term investments held within pooled fund investments.

Long-term investments are carried at fair values. Changes in fair values are included in investment income.

Investments in publicly traded research entities not subject to significant influence are carried in investments at fair values. Changes in fair values are included in other income. Investments in private research entities are carried in other assets at cost, net of any impairment.

Externally restricted investment income to the extent it is allocated is included with deferred contributions and recognized as revenue when the related expenses are incurred.

Unrestricted investment income is recognized as revenue during the period in which it is earned. Investment income from internal endowments is recorded as unrestricted revenue and transferred to internal endowments.

(f) Inventories:

Campus stores, scientific stores, and the nuclear reactor inventories are recorded at the lower of cost and net realizable value. Other inventories are recorded at cost which is a reasonable estimate of net realizable value.

(g) Capital assets:

Capital assets are recorded at cost, or if donated, at fair value on the date of receipt. Amortization is recorded on the straight-line basis at the following annual rates:

Buildings and building components	2.5% to 10%
Decommissioning retirement costs	4%
Site improvements	5%
Library materials	20%
Computing systems	5% to 10%
Equipment, furnishings and vehicles	20%
Computing equipment	33.3%
Leasehold improvements	term of lease

1. Significant accounting policies (continued):

(g) Capital assets (continued):

Capital assets in progress are carried at cost, with no amortization recorded until such time as the assets are available for their intended use. The carrying amount of capital assets is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the Statement of Operations when the asset's carrying amount is not recoverable and exceeds its fair value.

(h) Collections and works of art:

The value of collections has been excluded from the statement of financial position except for a nominal value of \$1. Donations of works of art are recorded as revenue at values based on appraisals and are expensed in the year received. Purchased collections are expensed in the year of acquisition.

(i) Contributed services:

The University acknowledges the receipt of donated services. Because of the difficulty of determining their fair value, donated services are not recognized in the financial statements.

(j) Ancillary enterprises:

Ancillary enterprises are self-sustaining operations which fund their own replacements and renovations of equipment and facilities. Substantially all of the net operating results are transferred annually from unrestricted net assets to internally restricted net assets.

(k) Employee future benefits:

The University maintains defined benefit registered pension plans, non-registered supplemental executive retirement plans (SERP), and group registered retirement savings plans. Non-pension post-retirement and post-employment benefits plans are also provided. Financial information is disclosed in note 10.

The University accrues its obligations for the defined benefit plans as the employees render the services necessary to earn the benefits. The current service cost and the finance cost for the year are charged to excess of revenues over expenses. For 2023, the actuarial method of determining the accrued benefit obligations for all defined benefit pension plans (excluding SERP) and other non-pension plans continues to use the funding valuation method, which reflects the long-term nature of the plan and reflects management's estimates of investment yields, salary inflation, benefit cost trends and other factors. Beginning with the 2023 fiscal year, obligations and related costs for SERP are accrued using the accounting valuation method (note 1(q)).

Remeasurement and other items are recognized as a direct increase (decrease) to net assets and are not reclassified to the statement of operations in subsequent periods. Remeasurement and other items comprise the aggregate of: the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation; the actuarial gains and losses; the effect of any valuation allowance in the case of a net defined benefit asset; past service costs; and any gains and losses arising from settlements and curtailments.

The University also makes regular contributions to its Group Registered Retirement Savings Plan ("RRSP"), administered by a third party, on behalf of each eligible employee. Group RRSP contributions are expensed in the year made.

1. Significant accounting policies (continued):

(l) Net assets:

Net assets are classified as follows:

Unrestricted: excess of revenues over expenses without specific restrictions.

Internally restricted:

Employee future benefits: unfunded portion of pension and other non-pension retirement and post-employment benefits, net of funds set aside to meet estimated future obligations.

Other internal reserves: as approved by the Board, amounts include unexpended departmental carry forward amounts for future expenditures or amounts set aside to settle future oriented obligations.

Equity in capital assets: funds invested in capital assets, exclusive of capital assets financed through long-term obligations or deferred capital contributions.

Internal endowments: unrestricted contributions including unspent investment income which have been restricted by action of the Board.

External endowments: external contributions, the principal of which is non-expendable pursuant to the restrictions by the donor, and income retained under the endowment capital protection policy.

(m) Endowment capital protection policy:

In order to protect the capital value of endowment investments, an endowment capital protection policy limits the amount of investment income allocated for spending to 4%, plus 1% administration spending, and requires the reinvestment of excess income earned (interest, dividends, realized and unrealized capital gains, net of investment expenses).

Should endowment spending commitments exceed allocated income, amounts will be drawn from accumulated net investment income balances to fund deficiencies.

For endowments without sufficient accumulated investment income, temporary encroachment on capital is permitted. The encroached amounts will be recovered from future investment returns.

(n) Decommissioning obligation:

The fair value of a future asset retirement obligation is recognized when a legal obligation for the retirement of tangible long-lived assets is incurred and a reasonable estimate thereof can be determined. Concurrently, the associated decommissioning costs are capitalized as a part of the carrying amount of the asset and amortized over its remaining useful life. The liability and the related asset may be adjusted periodically due to changes in estimates until settlement of the obligation.

(o) Foreign currency translation:

The University accounts for transactions in foreign currencies at the exchange rates in effect at the time of the transactions. At year end, monetary assets and liabilities in foreign currencies are translated at year end exchange rates. Foreign exchange gains and losses on investments have been included in investment income.

(p) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Items subject to the use of management estimates and assumptions include the valuation of financial instruments, the carrying amount of capital assets, the valuation allowance for receivables, the valuation of pension and other employee future benefits, provisions for contingencies, and the decommissioning obligation. Actual results could differ from

1. Significant accounting policies (continued):

(q) Accounting policy adoption:

During the year, accounting standard Section 3462 Employee Future Benefits, was amended to clarify the measurement of the defined benefit obligation for plans with a legislative, regulatory or contractual requirement to prepare a funding valuation. These amendments also apply to Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations. The amendments remove the accommodation to allow the use of a funding valuation for defined benefit plans without a funding valuation requirement. As a result, the non-registered supplemental executive retirement plans (SERP) will no longer be permitted to use the funding valuation basis and must instead be measured using plan-specific accounting valuations. There will be no change for McMaster's defined benefit registered pension plans and non-registered post-retirement and post-employment plans, each of which has a requirement (either legislative or contractual) to prepare a funding valuation and is permitted to continue using the funding valuation basis. The amendments are effective for financial statements relating to fiscal years beginning on or after January 1, 2022, and were applied to the University's financial statements for the year ended April 30, 2023. The effect of the change (related to the SERP) as at May 1, 2022 is nominal.

2. Investments:

Details of investments are as follows:

(thousands of dollars)	2023		2022	
	Fair value	Cost	Fair value	Cost
Equities:				
Canadian	\$ 150,996	\$ 136,947	\$ 153,125	\$ 140,085
United States	402,256	393,876	384,398	217,174
Non-North American	334,315	311,365	262,556	277,341
	887,567	842,188	800,079	634,600
Fixed income	612,807	655,670	677,567	733,580
Other	255,200	211,662	189,414	165,323
	1,755,574	1,709,520	1,667,060	1,533,503
Short-term investments	409,815	410,401	342,510	344,421
	\$ 2,165,389	\$ 2,119,921	\$ 2,009,570	\$ 1,877,924

Investments are exposed to foreign currency risk, interest rate risk, climate-related exposures and market volatility. The University manages these risks through policies and procedures in place outlining performance and decarbonization objectives and governing asset mix, equity and fixed income allocations, and diversification among and within categories.

Fixed income investments include medium-term investments of \$327,731,000 (2022 - \$342,835,000) which are part of working capital.

3. Accounts receivable:

(thousands of dollars)	2023	2022
Research grants	\$ 123,243	\$ 98,159
Students	15,490	13,997
Government grants	7,929	6,747
Other	31,495	39,245
	178,157	158,148
Less allowance for doubtful accounts	5,929	5,813
Balance, end of year	\$ 172,228	\$ 152,335

4. Loans receivable:

Included in loans receivable are the following items:

(thousands of dollars)	2023	2022
Gore Hamilton Spectator building acquisition loan	\$ 11,500	\$ 11,500
Gore demand loan	1,505	1,505
Gore demand loan operations	13,000	13,000
1000352106 Limited Partnership loan	15,325	-
McMaster MSF Holdings Inc.	806	-
	\$ 42,136	\$ 26,005

During the year, the University extended the \$11,500,000 (2022 - \$11,500,000) loan to Gore for an additional year. The loan has been extended to February 28, 2024. The loan bears a fixed interest rate of 2.54% (2022 - 2.54% fixed rate).

The University has a demand loan to Gore in the amount of \$1,504,803 (2022 - \$1,504,803) representing distribution of net earnings for 2021, 2020 and 2019 declared by the trust. The 2021 and 2020 loans of \$148,804 and \$313,190, respectively, bear interest at a fixed rate of 3% per annum. The 2019 loan of \$1,042,809 is interest free. All three loans are payable at any time at the sole discretion of the lender.

The University has a non-revolving demand loan to Gore in the amount of \$13,000,000 (2022 - \$13,000,000). During the year ended April 30, 2021, the University approved a \$13,000,000 non-revolving demand loan. The loan proceeds were provided in two separate draws. As of April 30, 2021, McMaster had provided \$10,000,000. The remaining \$3,000,000 was drawn during the fiscal year ended April 30, 2022. The loan bears interest at a fixed rate of 3%. The demand loan is payable at any time at the sole discretion of the lender.

During the year, the University provided interim loan financing of \$15,325,000 (2022 - \$nil) to 1000352106 Limited Partnership (note 5).

During the year, the University provided a loan to McMaster MSF Holdings Inc. (note 5) of \$806,000 (2022 - \$nil). The loan was repaid in May 2023.

5. Other investments:

Details of other investments are as follows:

(thousands of dollars)	2023	2022
The Gore District Land Trust (a)	\$ 13,478	\$ 13,598
The First Longwood Innovation Trust (b)	3,200	7,065
Halton McMaster Family Health Centre (c)	4,720	4,720
KCAP Hamilton Grad LP (d)	16,512	16,512
1000352106 Limited Partnership (e)	6,096	-
Other Investments (f)	655	651
	\$ 44,661	\$ 42,546

Details of the equity pick-up (loss) on other investments are as follows:

(thousands of dollars)	2023	2022
The Gore District Land Trust (a)	\$ (120)	\$ 149
The First Longwood Innovation Trust (b)	(3,865)	(2,008)
	\$ (3,985)	\$ (1,859)

5. Other investments (continued):

(a) The Gore District Land Trust:

The Gore District Land Trust was created by the University in 2006 to develop an entity for research, education, training, innovation and commercialization.

Details of the investment are as follows:

(thousands of dollars)	2023	2022
Balance, beginning of year	\$ 13,598	\$ 13,598
Equity (loss) earnings	(120)	149
Distribution	-	(149)
Balance, end of year	\$ 13,478	\$ 13,598

Pertinent information from The Gore District Land Trust's financial statements are as follows:

(thousands of dollars)	December 31, 2022	December 31, 2021
Total assets	\$ 41,877	\$ 43,929
Total liabilities	\$ 28,399	\$ 30,331
Total trusts' equity	13,478	13,598
	\$ 41,877	\$ 43,929
Results of operations:		
Total revenues	\$ 869	\$ 783
Total expenses	989	634
Net (loss) earnings	\$ (120)	\$ 149
Cash flows:		
(Used in) provided by operating activities	\$ (2,281)	\$ 2,826
Used in financing and investing activities	(200)	-
(Decrease) increase in cash	\$ (2,481)	\$ 2,826

During the year, the University provided professional services to Gore at a fee which amounted to \$10,000 (2022 - \$10,000) and earned interest income of \$695,960 (2022 - \$550,824).

Subsequent to its year end, Gore, as the lessor, entered into a conditional land lease agreement on February 6, 2023 for the purpose of constructing and operating a hotel. A rent-free period will begin upon the commencement date up until substantial completion of the project. Lease payments will begin for a term of ninety-nine years once the rent-free period ceases. At the end of the term of the lease, and if Gore permits, there is an option for the lessee to continue operations as a monthly tenant.

(b) The First Longwood Innovation Trust:

The First Longwood Innovation Trust (FLIT) was created by the University in 2006 to develop an entity for research, education, training, innovation and commercialization.

Details of the investment are as follows:

(thousands of dollars)	2023	2022
Balance, beginning of year	\$ 7,065	\$ 9,073
Equity loss	(3,865)	(2,008)

5. Other investments (continued):

(b) The First Longwood Innovation Trust (continued):

Included in Other assets in note 6 are two loans receivable from FLIT at April 30, 2023. One loan receivable in the amount of \$1,318,370 (2022 - \$1,391,983) and another loan receivable in the amount of \$408,691 (2022 - \$434,583).

The University is party to a Debt Service Deficiency Agreement as disclosed in note 16(c). As part of the agreement, the University receives a fee of 0.5% on the monthly outstanding balance. For the year ended April 30, 2023, \$64,375 (2022 - \$89,467) in income was recorded by the University.

Included in rent expense for the University for the year ended April 30, 2023 is \$4,885,287 (2022 - \$5,034,947). Included in accounts receivable at April 30, 2023 is \$2,505,998 (2022 - \$2,277,946) receivable from FLIT. Included in note 16(f) are \$23,972,854 (2022 - \$27,209,361) in operating lease commitments with FLIT.

During the year, the University provided payroll services at a fee which amounted to \$13,200 (2022 - \$13,200) and earned interest income of \$36,196 (2022 - \$21,743) on the accounts receivable balance.

Refer to (note 16(j)) for events subsequent to year end involving equity and upfront financing associated with the OmniaBio B Project.

Pertinent information from the First Longwood Innovation Trust's financial statements are as follows:

(thousands of dollars)	December 31, 2022	December 31, 2021
Total assets	\$ 115,004	\$ 116,625
Total liabilities	\$ 111,804	\$ 109,560
Total deferred capital grants	-	-
Total trusts' equity	3,200	7,065
	\$ 115,004	\$ 116,625
Results of operations:		
Total revenues	\$ 16,364	\$ 14,634
Total expenses	20,229	16,642
Net earnings	\$ (3,865)	\$ (2,008)
Cash flows:		
(Used in) provided by operating activities	\$ (542)	\$ 6,645
Provided by (used in) financing and investing activities	326	(5,740)
(Decrease) increase in cash and short-term investments	\$ (216)	\$ 905

(c) Halton McMaster Family Health Centre:

The investment in the Halton McMaster Family Health Centre represents the University's contribution of the base costs to construct the building.

(d) KCAP Hamilton Grad LP:

McMaster holds an equity contribution of \$16,512,000 (2022 - \$16,512,000) representing a 50% interest in a partnership for two developments in downtown Hamilton. At April 30, 2023, \$12,612,000 (2022 - \$12,612,000) has been contributed to the McMaster Graduate Student Residence (note 16(h)) located at 10 Bay Street, Hamilton. The contribution is to fund construction development costs. At April 30, 2023, \$3,900,000 (2022 - \$3,900,000) is McMaster's equity contribution to acquire the property located at 22 Bay Street, Hamilton.

5. Other investments (continued):

(e) 1000352106 Limited Partnership:

During the year, the University made an equity contribution of \$6,096,000 (2022 - \$nil) to a partnership for a development (note 16(j)) located on the west quadrant of the McMaster Innovation Park lands. At April 30, 2023, the University holds 100% interest in the partnership.

(f) Other investments:

Other investments consist primarily of shares in privately held companies in which McMaster does not have significant control or influence, recorded at cost.

Also included is McMaster MSF Holdings Inc. ("MMHI"), a private company owned by the University. The company's principal activity is providing consulting services related to research investments. MMHI has a fiscal year end of December 31st and paid no financial transactions from incorporation in November 2021 to April 30, 2023. Included in loans receivable (note 4) at April 30, 2023, was an amount of \$806,000 (2022 - \$nil) owing from MMHI.

6. Other assets:

Details of other assets are as follows:

(thousands of dollars)	2023	2022
Loans receivable (a)	\$ 1,928	\$ 2,023
Collections (b)	-	-
	<u>\$ 1,928</u>	<u>\$ 2,023</u>

(a) Loans receivable:

The University has a long-term loan receivable from First Longwood Innovation Trust (FLIT), operating as McMaster Innovation Park (MIP), in the amount of \$1,318,370 (April 30, 2022 - \$1,391,933). The loan has a 15-year amortization period and bears interest at a fixed rate of 3%.

The University has a loan receivable from FLIT in the amount of \$408,691 (2022 - \$434,583). The loan bears interest at a fixed rate of 5.75% and is repayable in monthly payments of \$4,113 over 15 years, beginning in May 2019.

The University has a loan receivable from a lessee in the amount of \$196,875 (2022 - \$196,875) for lease fit-out costs as of April 30, 2023.

(b) Collections:

The McMaster Museum of Art has significant collections of works of art and coins. Donations of works of art during the year amounted to \$566,796 (2022 - \$407,310).

7. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	2023 Net
Land	\$ 89,747	\$ -	\$ 89,747
Buildings and building components	1,626,779	582,116	1,044,663
Decommissioning retirement costs	5,939	1,467	4,472
Site improvements	30,687	19,331	11,356
Leasehold improvements	81,184	35,733	45,451
Library materials	235,016	205,990	29,026
Equipment, furnishings and vehicles	459,946	364,414	95,532
Computing systems and computing equipment	147,934	101,959	45,975
	\$ 2,677,232	\$ 1,311,010	\$ 1,366,222

(thousands of dollars)	Cost	Accumulated amortization	2022 Net
Land	\$ 88,741	\$ -	\$ 88,741
Buildings and building components	1,511,602	550,345	961,257
Decommissioning retirement costs	5,967	1,279	4,688
Site improvements	30,687	18,088	12,599
Leasehold improvements	81,004	31,378	49,626
Library materials	222,939	195,043	27,896
Equipment, furnishings and vehicles	431,940	350,302	81,638
Computing systems and computing equipment	149,404	99,787	49,617
	\$ 2,522,284	\$ 1,246,222	\$ 1,276,062

Included in buildings and building components is \$209,612,000 (2022 - \$146,463,000) representing buildings currently under construction and not available for use or subject to amortization.

During the year, capital asset additions amounted to \$180,530,000 (2022 - \$132,984,000). Of these additions, \$143,715,000 (2022 - \$109,591,000) were financed with internally restricted net assets (note 13), \$36,800,000 (2022 - \$20,700,000) were financed with deferred capital contributions (note 11), and \$nil (2022 - \$2,700,000) were financed with decommissioning obligations (note 9).

8. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable, which includes amounts payable for payroll related taxes of \$5,877,000 (2022 - \$4,919,000).

9. Long-term obligations:

Details of long-term obligations are as follows:

(thousands of dollars)				2023	2022	
	Maturity	Interest rate	Current portion	Non-current portion	Total outstanding	Total outstanding
Long term debt:						
Bank term loan (a)	May 2033	floating	858	10,893	11,751	12,558
Debentures (b)	Jun 2051	3.255%	-	25,000	25,000	25,000
Debentures (c)	Oct 2052	6.15%	-	120,000	120,000	120,000
Debentures (d)	Nov 2065	4.105%	-	120,000	120,000	120,000
Debentures (e)	Jun 2071	3.405%	-	125,000	125,000	125,000
			858	400,893	401,751	402,558
Decommissioning obligations (f)			-	19,482	19,482	18,637
			\$ 858	\$ 420,375	\$ 421,233	\$ 421,195

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

2024	858
2025	915
2026	975
2027	1,039
2028	1,107

- (a) The bank term loan is unsecured and is being amortized over 30 years. The outstanding loan amount is subject to a 30 year interest rate swap agreement on an original notional principal of \$20,954,441 with the banker whereby the University receives a floating interest rate while paying a fixed (10 year) rate of 6.384%.
- (b) In June 2021, the Board approved the issuance of up to \$25 million in Senior Unsecured Series C Debentures. The \$25 million debentures, which are unsecured, bear interest at 3.255% per annum payable semi-annually in June and December. The proceeds of the issue are being used to finance and/or re-finance various green projects as directed or approved by the Board of Governors.

A voluntary sinking fund in internally restricted net assets, under other internal reserves (note 12(k)), has been established to provide funds to repay the debenture principal upon maturity. An annual increase to the sinking fund is charged to operations and other annual increases represent interest income of the fund. The value of the fund at April 30, 2023 amounted to \$6,391,000 (2022 - \$5,945,000).

- (c) The debentures, which are unsecured, bear interest at 6.15% payable semi-annually in April and October. The proceeds of the issue are being used to finance various capital projects.

A voluntary sinking fund in internally restricted net assets, under other internal reserves (note 12(k)), has been established to provide funds to repay the debenture principal upon maturity. An annual increase to the sinking fund is charged to operations and other annual increases represent interest income of the fund. The value of the fund at April 30, 2023 amounted to \$27,628,000 (2022 - \$25,727,000).

9. Long-term obligations (continued):

- (d) The debentures, which are unsecured, bear interest at 4.105% payable semi-annually in May and November. The proceeds of the issue are being used to finance various capital projects.

A voluntary sinking fund in internally restricted net assets, under other internal reserves (note 12(k)), has been established to provide funds to repay the debenture principal upon maturity. An annual increase to the sinking fund is charged to operations and other annual increases represent interest income of the fund. The value of the fund at April 30, 2023 amounted to \$15,950,000 (2022 - \$14,846,000).

- (e) In June 2021, the Board approved the issuance of up to \$125 million in Senior Unsecured Series B Debentures. The \$125 million debentures, which are unsecured, bear interest at 3.405% payable semi-annually in June and December. The proceeds will be used to fund capital projects and for general corporate purposes of the University as directed or approved by the Board of Governors.

A voluntary sinking fund in internally restricted net assets, under other internal reserves (note 12(k)), has been established to provide funds to repay the debenture principal upon maturity. An annual increase to the sinking fund is charged to operations and other annual increases represent interest income of the fund. The value of the fund at April 30, 2023 amounted to \$8,722,000 (2022 - \$8,115,000).

- (f) It is expected that the nuclear reactor will be decommissioned at some undeterminable future date. Under an agreement with the Canadian Nuclear Safety Commission (CNSC), a trust fund has been established which requires annual funding contributions to provide for the decommissioning costs. As at April 30, 2023, the fair value of the trust funds amounted to \$15,893,000 (2022 - \$14,452,000). The net present value of the estimated cost for decommissioning at April 30, 2023 is \$18,675,000 (2022 - \$17,802,000) using risk free rates ranging between 4.0% and 5.1%.

During fiscal 2015, an additional decommissioning obligation related to non-reactor radioactive materials was recognized. The obligation was recognized based on an estimated useful life of 25 years and using a risk free rate of 4.0%. At April 30, 2023, the amount of the obligation was \$807,000 (2022 - \$835,000), a decrease of \$28,000 to reflect changes in the number of non-reactor radioactive materials in service. The CNSC does not require that a trust fund be established to satisfy this obligation, however, an internal reserve to offset this obligation is included in other internal reserves.

- (g) The University has in place an interest rate swap agreement for 30 years which expires in 2033. Under the terms of the agreement, the University agrees to receive a floating interest rate on the loan (note 9(a)) while paying a fixed rate of 6.384%. The use of the agreement effectively enables the University to convert the floating rate interest obligation of the loan into a fixed rate obligation and thus manage its exposure to interest rate risk.

The notional and fair values of the interest rate swap agreement is as follows:

(thousands of dollars)	2023		2022	
	Notional value	Fair value	Notional value	Fair value
30-year interest rate swap	\$ 11,751	\$ (1,750)	\$ 12,558	\$ (2,236)

The change in fair value of the swap for the year ended April 30, 2023 is \$486,000 (2022 - \$1,721,000).

10. Employee future benefits:

The University maintains three contributory defined benefit registered pension plans, one for full-time hourly employees and two for salaried employees (Plan 2000 and Original Plan). The plan for hourly employees was closed to new members on March 15, 2010. The Original Plan was closed to new members on January 14, 2003 and Plan 2000 remains open to new members. The defined benefit registered pension plans provide a pension for life based on the best average earnings of the member and years of pensionable service in the plan. The University also maintains both defined contribution and non-contributory defined benefit supplementary non-registered pension plans, a retirement incentive program and a group RRSP.

The University additionally maintains a non-pension post-retirement benefit plan which provides health, dental and life insurance benefits to retirees, a post-employment benefit plan which provides health benefits to employees on long-term disability and a special retirement arrangement for some senior administrators. In order to satisfy its funding commitment to plan members and determine the level of required funding contributions, the University must prepare actuarial funding valuations on an ongoing and periodic basis.

The accrued benefit obligations are determined by independent actuaries and the fair values of the plans' assets are recorded as at April 30th.

- (a) Information on the accrued benefit liability is as follows:

(thousands of dollars)	2023			
	Pension		Other	Total
	Registered	Supplemental		
Accrued benefit obligation	\$ 2,433,082	\$ 54,590	\$ 277,648	\$ 2,765,320
Fair value of plan assets	2,501,564	-	-	2,501,564
Funded status - surplus (deficiency)	\$ 68,482	\$ (54,590)	\$ (277,648)	\$ (263,756)

(thousands of dollars)	2022			
	Pension		Other	Total
	Registered	Supplemental		
Accrued benefit obligation	\$ 2,369,309	\$ 65,371	\$ 268,882	\$ 2,703,562
Fair value of plan assets	2,427,848	-	-	2,427,848
Funded status - surplus (deficiency)	\$ 58,539	\$ (65,371)	\$ (268,882)	\$ (275,714)

- (b) Information on the benefit expense is as follows:

(thousands of dollars)	2023			
	Pension		Other	Total
	Registered	Supplemental		
Current service cost	\$ 38,064	\$ 37	\$ 7,036	\$ 45,137
Interest cost (income), net	(2,977)	3,030	13,665	13,718
	\$ 35,087	\$ 3,067	\$ 20,701	\$ 58,855

(thousands of dollars)	2022			
	Pension		Other	Total
	Registered	Supplemental		
Current service cost	\$ 40,665	\$ 39	\$ 7,100	\$ 47,804
Interest cost (income), net	(10,481)	3,845	15,932	9,296
	\$ 30,184	\$ 3,884	\$ 23,032	\$ 57,100

10. Employee future benefits (continued):

(c) Information on remeasurements and other items is as follows:

(thousands of dollars)	2023			
	Pension		Other	Total
	Registered	Supplemental		
Investment gain (loss)	\$ (47)	\$ -	\$ -	\$ (47)
Valuation allowance	(4,333)	-	-	(4,333)
Actuarial gain (loss) on accrued benefit obligation	13,658	8,106	2,279	24,043
	\$ 9,278	\$ 8,106	\$ 2,279	\$ 19,663

(thousands of dollars)	2022			
	Pension		Other	Total
	Registered	Supplemental		
Investment gain (loss)	\$ (262,982)	\$ -	\$ -	\$ (262,982)
Valuation allowance	5,950	-	-	5,950
Actuarial gain (loss) on accrued benefit obligation	105,864	2,899	33,325	142,088
	\$ (151,168)	\$ 2,899	\$ 33,325	\$ (114,944)

(d) Information on the pension plan assets includes the following:

	Percentage of fair value of total plan	Target allocation percentage
Equity securities	67.0%	65.0%
Debt securities	32.7%	35.0%
Other	0.3%	0.0%

(e) The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	Pension	Other
Discount rate	5.10%	5.13%
Rate of compensation increase	3.9%	-

(f) The significant actuarial assumptions adopted in measuring the net benefit expense are as follows:

	Pension	Other
Discount rate	5.08%	5.08%
Rate of compensation increase	3.98%	-

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

(thousands of dollars)	2023		2022	
	Pension	Other	Pension	Other
Employer contributions	\$ 41,494	\$ 9,656	\$ 58,146	\$ 8,112
Employee contributions	32,078	-	30,161	-
Benefits paid	119,346	9,656	124,302	8,112

10. Employee future benefits (continued):

- (h) The respective plans actuarial valuation for funding purposes completion and filing dates are as follows:
- hourly rated employee pensions: completed as at July 1, 2022, the next required filing date is July 1, 2025.
 - salaried employees' pensions: completed as at July 1, 2021, the next required filing date is July 1, 2024.
 - other (post-retirement benefit): completed as at March 31, 2023; the next valuation date is March 31, 2024.
 - other (post-employment and retirement allowance): completed as at April 30, 2023.

The results of valuations not completed as of April 30, 2023 have been extrapolated to April 30, 2023, which is the measurement date used to determine the accrued benefit obligation for all employee future benefit plans.

- (i) In 2008, the University created a group RRSP for certain types of new employees. University and employees' contributions in 2023 amounted to \$6,659,000 (2022 - \$5,453,000). In 2023, the University had 835 members (2022 - 704).
- (j) The University has internally restricted reserves set aside in the amount of \$212,729,000 (2022 - \$191,955,000) for the accrued benefit obligation of the non-pension post-retirement benefit plan included in (note 12(b)).

11. Deferred contributions:

- (a) Deferred for future expenses:

Deferred contributions represent external contributions restricted for research and trust expenses to be incurred in subsequent fiscal years. Details of the change in deferred contributions are as follows:

(thousands of dollars)	2023	2022
Balance, beginning of year	\$ 481,991	\$ 437,990
Deferred contributions received	448,272	378,356
	930,263	816,346
Less:		
Amounts recognized as revenue	(346,805)	(315,111)
Deferred capital contributions transfer	(36,620)	(19,244)
Balance, end of year	\$ 546,838	\$ 481,991

Deferred contributions consist of the following:

(thousands of dollars)	2023	2022
Research grants and contracts	\$ 366,249	\$ 307,693
Donations, other grants and investment income	158,207	151,655
Other restricted funds	22,382	22,643
	\$ 546,838	\$ 481,991

11. Deferred contributions (continued):

(b) Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. Unspent deferred capital contributions are recorded as amounts not subject to amortization until such time as the capital expenditures are incurred. Details of the change in the unamortized deferred capital contributions are as follows:

(thousands of dollars)	2023	2022
Balance, beginning of year	\$ 462,102	\$ 480,736
Add: contribution received and transfers	42,590	26,219
Less: amount amortized to revenue	(46,832)	(44,853)
Balance, end of year	\$ 457,860	\$ 462,102

Deferred capital contributions consist of the following:

(thousands of dollars)	2023	2022
Amounts subject to amortization	\$ 440,115	\$ 450,105
Amounts not subject to amortization	17,745	11,997
	\$ 457,860	\$ 462,102

12. Internally restricted net assets:

Details of internally restricted net assets are as follows:

(thousands of dollars)	2023	2022
Pensions (a)	\$ (15,687)	\$ (45,518)
Other retirement and post employment benefit plans (net) (b)	(64,919)	(76,927)
Employee future benefits	(80,606)	(122,445)
Unexpended departmental carryforwards (c)	261,672	226,774
Unexpended research funds (d)	67,760	58,506
Employee benefit (e)	6,300	9,850
Ancillaries (f)	278	(3,277)
Specific purpose (g)	89,111	61,517
Research investments (h)	3,101	2,102
MIP investment (i)	(1,763)	2,223
Other (j)	15,135	12,243
Sinking funds (k)	58,691	54,633
Internally financed capital projects (l)	(102,623)	(103,205)
Capital reserves (m)	282,688	258,898
Facilities services projects (n)	44,176	122,254
Other internal reserves	724,526	702,518
	\$ 643,920	\$ 580,073

12. Internally restricted net assets (continued):

- (a) Pensions: the net pension funding position, determined by a third party actuary.
- (b) Other retirement and post employment benefit plans (net): unfunded portion of health, dental and life insurance benefits for retirees and employees on long term disability of \$277,648,000 (2022 - \$268,882,000), net of employer committed funding held in internal reserves of \$212,729,000 (2022 - \$191,955,000) for the accrued benefit obligation of the non-pension post-retirement benefit plan (note 10(j)).
- (c) Unexpended departmental carryforwards: departmental operating reserves available for spending by faculties to protect against possible adverse circumstances such as changes in student enrolment (tuition fee impacts) and/or operating grant reductions.

Departmental and ancillary carryforwards in (c) and (f) do not reflect the share of future obligations to the related employees for settlement of pensions and other post-employment benefits costs as outlined in items (a) and (b). Allocation of these obligations to the related carryforward would reduce the available balances as follows:

(thousands of dollars)	2023	2022
Unexpended departmental carryforwards (c)	\$ 261,672	\$ 226,774
Ancillaries (f)	278	(3,277)
Employee benefit (e)	6,300	9,850
Pensions (a)	(15,687)	(45,518)
Other retirement and post employment benefit plans (b)	(64,919)	(76,927)
	\$ 187,644	\$ 110,902

- (d) Unexpended research funds: represent research residual funds and other research contributions specifically to fund research operations, facilities and projects.
- (e) Employee benefit: funds collected from departments toward benefit related pension and non-pension payments not yet due in the fiscal period.
- (f) Ancillaries: deficits accumulated are repaid by the ancillaries and surplus funds accumulated are for reinvestment into ancillary infrastructure or systems projects to advance ancillary operations.
- (g) Specific purpose: funds to mitigate the risks associated primarily with volatility in income from equity investments, representing accumulated realized and unrealized investment earnings (losses) after commitments to the operating fund. The primary use of this reserve is to supplement endowment funding to support student bursaries, scholarships, and other expenditures when investment income is insufficient. It may also be used to fund other strategic reserves such as the post-retirement benefits and capital reserves. In fiscal 2023, \$7.5 million (2022 - \$7.5 million) was transferred to the capital reserve as part of the long term funding strategy for these commitments.
- (h) Research investments: represents the fair value of publicly held research entities, including accumulated realized and unrealized investment earnings, as well as the cost of privately held research entities.
- (i) MIP investment: represents accumulated investment earnings (loss) from the investment in The Gore District Land Trust and The First Longwood Innovation Trust.
- (j) Other: non-cash reserve which primarily represents timing differences between cash accounting and accrual accounting.
- (k) Sinking funds: funds set aside to settle debt bullet repayments of \$120 million due in each of 2052 and 2065, \$25 million due in 2051 and \$125 million due in 2071.

12. Internally restricted net assets (continued):

- (l) Internally financed capital projects: long term loans for capital projects which have been internally financed by capital reserves as outlined in note 12(m).

Details of the internally financed capital projects which have various recovery terms and periods are as follows:

(thousands of dollars)		April 30, 2023
Project	Funding source	balance
Stadium	Pledges, fundraising	\$ (6,074)
Les Prince Residence	Ancillary operations	(11,925)
David Braley Athletic Centre	Student levies, pledges, fundraising	-
Peter George Centre for Living and Learning	Ancillary operations	(45,236)
Parking Consolidation Loan	Parking	(9,829)
McMaster Automotive Resource Centre (MARC)	Various	(4,297)
McMaster University Medical Centre (MUMC)	Various	(1,438)
Comprehensive Energy Reduction Program	Various	(22,294)
Biomedical Engineering and Advanced Manufacturing (BEAM)	Various	(522)
Other	Various	(1,008)
		\$ (102,623)

(thousands of dollars)		April 30, 2022
Project	Funding source	balance
Stadium	Pledges, fundraising	\$ (6,660)
Les Prince Residence	Ancillary operations	(12,411)
David Braley Athletic Centre	Student levies, pledges, fundraising	(638)
Peter George Centre for Living and Learning	Ancillary operations	(45,885)
Parking Consolidation Loan	Parking	(5,648)
McMaster Automotive Resource Centre (MARC)	Various	(4,747)
McMaster University Medical Centre (MUMC)	Various	(1,938)
Comprehensive Energy Reduction Program	Various	(23,109)
Biomedical Engineering and Advanced Manufacturing (BEAM)	Various	(597)
Other	Various	(1,572)
		\$ (103,205)

- (m) Capital reserves: funds for planned capital projects committed and confirmed by governance approvals, as outlined in note 16(d). During the year, \$1.0 million (2022 - \$136.1 million) was transferred to capital reserves from equity in capital assets.
- (n) Facilities services projects: holding accounts for temporarily unspent funds for construction projects in progress.

13. Equity in capital assets:

The equity in capital assets is calculated as follows:

(thousands of dollars)	2023	2022
Capital assets	\$ 1,366,222	\$ 1,276,062
Less amounts financed by:		
Net long-term obligations	(403,552)	(404,386)
Deferred capital contributions subject to amortization	(440,115)	(450,105)
	<u>\$ 522,555</u>	<u>\$ 421,571</u>

Details of the transfer for capital transactions are as follows:

(thousands of dollars)	2023	2022
Repayment of long-term debt	\$ 807	\$ 756
Capital asset purchases from operating, net of disposals	143,715	109,591
	<u>\$ 144,522</u>	<u>\$ 110,347</u>

14. Endowments:

(a) Internal:

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

(thousands of dollars)	2023	2022
Balance, beginning of year	\$ 156,615	\$ 171,813
Donations	151	40
Investment income (loss)	10,360	(9,510)
Net transfers and expenses	(6,050)	(5,728)
Balance, end of year	<u>\$ 161,076</u>	<u>\$ 156,615</u>

Included in internal endowments is an amount of \$72,425,000 (2022 - \$70,778,000) reflecting the legacy of Dr. H. L. Hooker and \$69,527,000 (2022 - \$67,406,000) related to the Salaried Pension Plan surplus withdrawal from 2003. A portion of annual investment income generated from this capital is used to fund programs that enrich the academic achievements of the University as approved annually by the Board.

(b) External:

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

(thousands of dollars)	2023	2022
Balance, beginning of year	\$ 548,379	\$ 584,403
External contributions	32,640	20,619
Income retained (withdrawn) - capital protection policy	8,413	(56,643)
Balance, end of year	<u>\$ 589,432</u>	<u>\$ 548,379</u>

Investment income (loss) on external endowments amounted to \$31,608,000 (2022 - \$(36,431,000)). In accordance with the endowment capital protection policy, this income/loss is added/withdrawn to/from net endowment assets, together with reduction of the amount made available for spending of \$23,197,000 (2022 - \$20,214,000), plus net transfers of \$3,000 (2022 - \$2,000). The amount made available for spending is recorded as investment income in the statement of operations.

15. Net change in other non-cash working capital:

Details of the change in other non-cash working capital is as follows:

(thousands of dollars)	2023	2022
Accounts receivable	\$ (19,893)	\$ (27,854)
Inventories	(2,127)	616
Prepaid expenses and deposits	5,213	(4,719)
Accounts payable and accrued liabilities	31,333	13,807
Deferred revenue	(3,555)	2,380
Balance, end of year	\$ 10,971	\$ (15,770)

16. Commitments and contingencies:

(a) Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange "CURIE", a self-insurance cooperative comprised of approximately sixty Canadian universities and colleges. CURIE insures property damage, general liability and errors and omissions risks. If premiums collected are insufficient to cover expenses and claims, the University may be requested to pay additional amounts.

(b) Legal claims:

The University is involved in certain legal matters and litigation in the normal course of operations, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the periods in which the matters are determined. Management is of the opinion that these matters are mitigated by adequate insurance coverage.

(c) Debt Service Deficiency Agreement:

The University has guaranteed the scheduled principal and interest payments, up to \$23 million of long-term debt extended to The First Longwood Innovation Trust, in the event of default. The total amount of debt outstanding and subject to the Debt Service Deficiency Agreement at April 30, 2023 was \$16.4 million (2022 - \$17.4 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2023, no obligation exists under the agreement and as a result, no amount has been recognized as a liability on the statement of financial position.

(d) Capital commitments:

The estimated cost to complete approved major capital and system projects amounted to \$209.4 million at April 30, 2023 (2022 - \$249.1 million). The major commitments are as follows: McLean Centre (\$98.1million), PeakShavers and Boilers project (\$17.0 million) and ETC Boiler Replacement (\$15.3 million).

(e) Energy Retrofit Agreement:

In 2007, the University signed a multi-year agreement with Hamilton Health Sciences Corporation ("HHSC") when HHSC undertook a significant energy retrofit project at the McMaster University Medical Centre. Under the terms of the agreement, the University is required to pay approximately 40% of the related costs of the retrofit project. At April 30, 2023, the University's remaining share of the costs are estimated to be \$5.7 million (2022 - \$6.7 million). Payments to IHS will take place up to 2029.

16. Commitments and contingencies (continued):

(f) Leases:

The University has entered into operating lease agreements for office equipment and buildings. The total annual minimum lease payments in each of the next five years are approximately as follows:

(thousands of dollars)

2024	\$ 8,694
2025	8,629
2026	8,620
2027	6,842
2028	6,885

(g) McMaster Main Street Student Residence:

The University has agreed to acquire a 16% interest in Hamilton Undergrad Limited Partnership to provide an approximately 1,400 bed undergraduate residence that includes learning, research and additional ancillary university spaces along Main Street West on lands McMaster owns. The project land once developed will be an extension of main campus. The residence project is designed to be a public-private partnership project. At April 30, 2023, \$16.4 million (2022 - \$16.3 million) is recorded in land, which will be contributed to the partnership. The project is expected to be completed by the fall of 2026. The residence will be managed, operated and used by the University to support its mission as part of the housing ancillary operation.

(h) Grad Residence and Parking Garage:

The University has a 50% interest in KCAP Hamilton Grad LP (note 5(d)), a public-private partnership to provide a new graduate residence with approximately 640 beds and a 265 space parking garage in downtown Hamilton. The residence will open in September 2023 and will be managed, operated and used by the University to support its mission as part of the housing ancillary operation. To support this project the University has entered into a 99 year land lease effective October 1, 2019, with four 25 year renewal options.

The parking garage is being constructed as part of the residence and will be 100% McMaster owned, internally financed and maintained as part of the parking ancillary operation. Construction costs on the parking garage at April 30, 2023 amounted to \$20.9 million (April 30, 2022 - \$10.1 million).

(i) Research Commercialization:

In June 2017, the Board approved an investment of up to \$25 million in leasehold improvements to facilities at MIP, including up to \$5 million in in-kind rental space and rent subsidies over the next five years in exchange for leases and other financial arrangements, which may include equity interest in one or more of the entities renting the space. Since then, the Board has approved additional investments up to \$45 million. These facilities investments are in support of research commercialization opportunities for early stage commercialization and established businesses. Construction on this space continues and third party tenants moved into the space in fiscal 2021. Of the total \$70 million approved investment, \$66.7 million has been spent and included in capital assets, as of April 30, 2023 (2022 - \$48.2 million).

16. Commitments and contingencies (continued):

(j) McMaster Innovation Park:

In June 2023, the Board of Governors approved the investment of up to \$16.5 million in equity in the 1000352106 Limited Partnership, for the OmniaBio B Project. In June 2023, the Board of Governors approved an increase to a maximum of \$85 million for the interim loan financing to 1000352106 Limited Partnership to complete the project.

Pursuant to the 2022 approval of the Board of Directors, the University will enter into a letter of intent to acquire a leasehold interest in the existing Portal Project from MIP for \$14 million, with a closing date no later than December 31, 2024.

17. Other income:

Details of other income are as follows:

(thousands of dollars)	Major Sources	2023	2022
Faculty of Health Sciences	Non-degree educational fees, specifically funded programs, international postgraduates stipends, space/equipment rentals, other student fees	\$ 70,143	\$ 64,483
Other Faculties	Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees	12,299	6,984
Academic Services	Contracts and patent royalties, registrar administration fees	13,842	14,354
Student Services	Athletics and Recreation memberships and user fees	25,082	21,669
Miscellaneous	Nuclear reactor sales, application fees, late payment fees, sales of utilities and other departmental sales	25,066	22,500
Other Investment Income	Gore, FLIT and all private or publicly traded entities	(1,092)	1,906
		\$ 145,340	\$ 131,896

18. Related party transactions:

In addition to certain transactions and balances disclosed in note 5, the University received funds of approximately \$3,736,000 (2022 - \$10,880,000) during the year from Friends of McMaster Incorporated.

19. Financial risks and concentration of credit risk:

(a) Liquidity risk:

Liquidity risk is the risk that the University will be unable to fulfill its obligations on a timely basis or at a reasonable cost. In managing liquidity risk, the University focuses on liquid resources available for operations. The University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of its annual and capital budgets and by monitoring and forecasting of cash flows. The University has a \$75 million line of credit. The credit facility can be used for general corporate purposes including shorter term funding in the event of a short-term deficiency in cash flow. The line of credit was not used in 2023. In addition, the University could issue unsecured debentures or enter into other long term debt to assist in the financing of capital projects. There has been no material change to the risk exposure from 2023.

19. Financial risks and concentration of credit risk (continued):

(b) Credit risk:

Credit risk refers to the risk that a counterpart may default on its contractual obligations resulting in a financial loss. The University is exposed to credit risk with respect to accounts receivable. The University assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts (note 3).

(c) Interest rate risk:

The University is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate investments are included in note 2 and the long-term obligations are included in note 9.

(d) Currency risk:

Investments denominated in foreign currency are exposed to currency risk as the price in local terms in foreign markets is converted to Canadian dollars to determine fair value. The University's overall currency positions are monitored on a daily basis by the portfolio manager. There has been no material change to the risk exposure from 2022.

20. Ontario student opportunity trust fund:

External endowments include grants for funding student aid provided by the Government of Ontario's Student Opportunity Trust Fund matching program. Under the program, the Province has matched qualifying external endowment donations received with equal contributions.

(a) Ontario Student Opportunity Trust Fund - Phase I

The following schedule represents the changes for the years ended April 30th, in the first phase of the Ontario Student Opportunity Trust Fund (OSOTF I) balance:

(thousands of dollars)	2023	2022
Endowment balance, beginning of year	\$ 33,402	\$ 31,179
Investment income retained for protection of capital	3,025	2,463
Investment income transferred to expendable income	(296)	(240)
Endowment balance, end of year	36,131	33,402
Funds available for awards, beginning of year	-	-
Investment income	1,769	1,670
Bursaries awarded (2023 - 1,714 awards; 2022 - 1,384 awards)	(2,064)	(1,910)
Investment income transferred from endowment balance	295	240
Funds available for awards, end of year	-	-
Total funds at book value	\$ 36,131	\$ 33,402

The market value of the endowment as at April 30, 2023 was \$42,142,000 (2022 - \$41,019,000).

20. Ontario student opportunity trust fund (continued):

(b) Ontario Student Opportunity Trust Fund - Phase II

The Ontario government requires separate reporting of balances as at April 30th, and details of the changes in the balances for the period then ended with respect to the second phase of the Ontario Student Opportunity Trust Fund (OSOTF II) of McMaster University including Divinity College.

The following is the schedule of changes for the years ended April 30th:

(thousands of dollars)	2023	2022
Endowment balance, beginning of year	\$ 6,744	\$ 6,182
Investment income retained for protection of capital	1,220	562
Endowment balance, end of year	7,964	6,744
Funds available for awards, beginning of year	120	79
Investment income for expenditures	316	299
Bursaries awarded (2023 - 486 awards; 2022 - 263 awards)	(326)	(258)
Funds available for awards, end of year	110	120
Total funds at book value	\$ 8,074	\$ 6,864

The market value of the endowment as at April 30, 2023 was \$7,648,000 (2022 - \$7,534,000).

21. Ontario trust for student support:

External endowments include grants for funding student aid provided by the Government of Ontario's Ontario Trust for Student Support (OTSS) matching program. Under the program, the Province will provide an equivalent matching contribution for external endowment contributions made to a specified ceiling.

The following is the schedule of changes in the endowment and expendable balances for the years ended April 30th:

(thousands of dollars)	2023	2022
Endowment balance, beginning of year	\$ 44,235	\$ 40,307
Investment income retained for protection of capital	8,281	3,928
Endowment balance, end of year	52,516	44,235
Funds available for awards, beginning of year	732	753
Investment income for expenditures	1,889	1,793
Bursaries awarded (2023 -742 awards; 2022 - 563 awards)	(2,038)	(1,814)
Funds available for awards, end of year	583	732
Total funds at book value	\$ 53,099	\$ 44,967

The market value of the endowment as at April 30, 2023 was \$56,418,000 (2022 - \$55,130,000).

22. Pledges:

Outstanding but unrecorded pledges for donations and other fund raising amounted to approximately \$105,000,000 (2022 - \$97,000,000) (Unaudited).

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