McMaster University

**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, 2020 and the results of its operations, changes in net assets and its cash flows for the year ended April 30, 2020. 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, 2020 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.

| | | |
|---|---|---|
| Vice-President, Administration | President | AVP (Administration) & CFO |
| October 8, 2020 | | |

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton ON L8P 4W7
Canada
Tel 905-523-8200
Fax 905-523-2222

# INDEPENDENT AUDITORS' 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, 2020
- 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, 2020, 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 *"Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' 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.

### *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 auditors’ 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.

### *Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
October 8, 2020

**McMASTER UNIVERSITY**
Statement of Financial Position
April 30, 2020, with comparative figures for 2019
(thousands of dollars)

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 17,408 | $ 21,944 |
| Short-term investments (note 2) | 183,222 | 203,902 |
| Government grants and other accounts receivable (note 3) | 43,387 | 34,107 |
| Research grants receivable | 94,680 | 104,083 |
| Loans receivable (note 4) | 12,892 | - |
| Inventories | 6,379 | 5,571 |
| Prepaid expenses and deposits | 26,154 | 13,781 |
| | 384,122 | 383,388 |
| Investments (note 2) | 1,313,986 | 1,329,541 |
| Other investments (note 4) | 30,012 | 24,111 |
| Other assets (note 5) | 697 | 752 |
| Capital assets (note 6) | 1,208,455 | 1,158,793 |
| | $ 2,937,272 | $ 2,896,585 |
| **Liabilities, Deferred Contributions and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 7) | $ 150,058 | $ 157,702 |
| Deferred revenue | 22,192 | 23,555 |
| Current portion of long-term obligations (note 8) | 709 | 665 |
| | 172,959 | 181,922 |
| Accrued employee future benefits (note 9) | 448,446 | 357,290 |
| Long-term obligations (note 8) | 267,697 | 267,741 |
| Deferred contributions (note 10): | | |
| Deferred for future expenses | 371,100 | 363,168 |
| Deferred capital contributions | 491,662 | 505,591 |
| | 862,762 | 868,759 |
| Net assets: | | |
| Unrestricted | - | 10,755 |
| Internally restricted (note 11) | 97,679 | 159,426 |
| Equity in capital assets (note 12) | 470,378 | 399,463 |
| Endowments (note 13): | | |
| Internal | 141,333 | 150,410 |
| External | 476,018 | 500,819 |
| | 1,185,408 | 1,220,873 |
| Commitments and contingencies (note 14) | | |
| | $ 2,937,272 | $ 2,896,585 |

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, 2020, with comparative figures for 2019
(thousands of dollars)

| | 2020 | 2019 |
|---|---|---|
| Revenues: | | |
| Operating grants | $ 275,906 | $ 273,587 |
| Research grants and contracts | 173,720 | 178,022 |
| Tuition fees | 360,665 | 341,629 |
| Other (note 15) | 122,183 | 128,619 |
| Ancillary sales and services | 75,959 | 78,202 |
| Investment income, net | 26,392 | 70,820 |
| Donations and other grants | 69,809 | 67,906 |
| Research overhead grants | 15,563 | 15,390 |
| Amortization of deferred capital contributions | 40,773 | 38,835 |
| | 1,160,970 | 1,193,010 |
| Expenses: | | |
| Salaries and wages | 543,930 | 521,219 |
| Employee benefits | 132,576 | 120,623 |
| Supplies and services | 300,877 | 308,107 |
| Interest on long-term obligations | 13,257 | 13,300 |
| Amortization of capital assets | 78,260 | 72,769 |
| | 1,068,900 | 1,036,018 |
| **Excess of revenues over expenses** | $ 92,070 | $ 156,992 |

*See accompanying notes to financial statements*

**McMASTER UNIVERSITY**

Statement of Changes in Net Assets

Year ended April 30, 2020, with comparative figures for 2019

(thousands of dollars)

| | Unrestricted | Internally restricted | Equity in capital assets | Endowments Internal | Endowments External | 2020 Total | 2019 Total |
|---|---|---|---|---|---|---|---|
| Net assets, beginning of year | $ 10,755 | $ 159,426 | $ 399,463 | $ 150,410 | $ 500,819 | $ 1,220,873 | $ 1,190,923 |
| Excess (deficiency) of revenues over expenses | 129,557 | - | (37,487) | - | - | 92,070 | 156,992 |
| External endowment contributions: | | | | | | | |
| Contributions (note 13) | - | - | - | - | 8,501 | 8,501 | 10,218 |
| Protection of capital (note 13) | - | - | - | - | (33,302) | (33,302) | 7,266 |
| Transfers and adjustments: | | | | | | | |
| Transfers for specific purposes | (40,987) | 40,987 | - | - | - | - | - |
| Capital transactions from operating (note 12) | (108,402) | - | 108,402 | - | - | - | - |
| Transfer from internal endowments (note 13) | 9,077 | - | - | (9,077) | - | - | - |
| Remeasurements and other items (note 9) | - | (102,734) | - | - | - | (102,734) | (144,526) |
| | (10,755) | (61,747) | 70,915 | (9,077) | (24,801) | (35,465) | 29,950 |
| **Net assets, end of year** | $ - | $ 97,679 | $ 470,378 | $ 141,333 | $ 476,018 | $ 1,185,408 | $ 1,220,873 |

*See accompanying notes to financial statements*

**McMASTER UNIVERSITY**
Statement of Cash Flows
Year ended April 30, 2020, with comparative figures for 2019
(thousands of dollars)

| | 2020 | 2019 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of revenues over expenses | $ 92,070 | $ 156,992 |
| Adjustments for non-cash items: | | |
| Amortization of deferred capital contributions | (40,773) | (38,835) |
| Amortization of capital assets | 78,260 | 72,769 |
| Employee future benefits | (11,578) | (15,815) |
| Equity earnings of other investments | (5,548) | (973) |
| Increase in decommissioning obligation | 665 | 596 |
| | 113,096 | 174,734 |
| Net change in contributions deferred for future expenses | 7,932 | 3,977 |
| Net change in other non-cash working capital | (22,065) | 9,085 |
| | 98,963 | 187,796 |
| Financing and investing activities: | | |
| Purchase of capital assets | (127,922) | (148,010) |
| Net change in loans receivable | (12,892) | - |
| Net change in investments | 36,235 | (86,940) |
| Net change in other investments | (353) | - |
| Net change in other assets | 55 | 478 |
| Net change in external endowments | (24,801) | 17,484 |
| Deferred capital contributions | 26,844 | 33,124 |
| Principal repayments on long-term obligations | (665) | (624) |
| | (103,499) | (184,488) |
| **Net (decrease) increase in cash** | (4,536) | 3,308 |
| Cash, beginning of year | 21,944 | 18,636 |
| **Cash, end of year** | $ 17,408 | $ 21,944 |

*See accompanying notes to financial statements*

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)
- Graduate Students Association (GSA)

Other entities:

- The McMaster University Trust
- Friends of McMaster Incorporated

McMaster Innovation Park:

The investment in the related entity, McMaster Innovation Park ("Park") relates to two Trusts, The Gore District Land Trust (GORE) and The First Longwood Innovation Trust (FLIT). GORE is controlled by the University based on Board composition, whereas FLIT is not controlled by the University. The investment is accounted for by the equity method (note 4) as permitted by accounting standards for not-for-profit organizations. Since the Trusts which form the Park have fiscal year ends of December 31st, the University records 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.

- Adiga Life Sciences Inc. ("ALS"):

  These financial statements include the University's 50% interest in ALS (note 4). ALS is a joint venture with an unrelated pharmaceutical research company to commercialize intellectual property. ALS has a fiscal year end of August 31st and the University records its share of the operating results on that date.

- Halton McMaster Family Health Centre:

  These financial statements include the University's 50% contribution to the Halton McMaster Family Health Centre (note 4). 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.

**1. Significant accounting policies (continued):**

(a) Basis of presentation (continued):

OSCAR EMR:

OSCAR EMR ("OSCAR") is a not-for-profit technology/software company incorporated under the Ontario Corporations Act, controlled by McMaster University. OSCAR has a fiscal year end of December 31st. Financial information is disclosed in note 4. OSCAR has not been consolidated in the University's financial statements.

(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 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 |

Capital assets in progress are carried at cost, with no amortization recorded until such time as the assets are available for their intended use.

## 1. Significant accounting policies (continued):

(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 and non-registered pension plans, a retirement incentive program and group registered retirement savings plans. Non-pension post-retirement and post-employment benefits plans are also provided. Financial information is disclosed in note 9.

- 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. The actuarial method of determining the accrued benefit obligations for the defined benefit plans uses 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.
- The University has elected to accrue its obligations and related costs for unfunded plans on a basis consistent with funded plans.
- 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. Significant 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 those estimates.

**1. Significant accounting policies (continued):**

(q) Changes in accounting policies:

In March 2018, the Accounting Standards Board issued “Basis for Conclusions - Accounting Standards Improvements for Not-for-Profit Organizations” resulting in the introduction of three new handbook sections in the Accounting Standards for Not-for-Profit Organizations Part III of the Handbook, two of which applied to the University:

- Section 4433, Tangible capital assets held by not-for-profit organizations, which directs organizations to apply the accounting guidance of Section 3061, Property Plant and Equipment in Part II of the Handbook. In so doing, the new section requires that organizations annually assess for partial impairment of tangible capital assets, to be recorded where applicable, as a non-reversible impairment expense. In addition, where practical, to componentize capital assets when estimates can be made of the useful lives of the separate components. This new accounting standard policy was applied prospectively. The change did not have a material impact on these financial statements.
- Section 4441, Collections held by not-for-profit organizations, which defines a collection and directs organizations to record such assets on the statement of financial position at either cost or nominal value. This new accounting standard policy was adopted retrospectively. Collections will continue to be recorded at nominal value. The changes did not have a material impact on these financial statements.
- During the year, management has modified the accounting related to deferred contributions for capital acquisitions. All external contributions for capital programs and projects are initially recorded as Deferred Capital Contributions (note 10(b)) and are no longer recorded as Deferred Contributions. In addition, for capital acquisitions completed in 2020 and future years, amortization of Deferred Capital Contributions is allocated on the related asset rather than allocated based on proportionate spending on class of assets. The impact to prior years is not material and as such, this accounting policy change has been treated on a prospective basis.

**2. Investments:**

Details of investments are as follows:

| (thousands of dollars) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Fair value | Cost | Fair value | Cost |
| Equities: | | | | |
| Canadian | $ 127,871 | $ 136,824 | $ 179,581 | $ 155,460 |
| United States | 297,946 | 159,434 | 280,600 | 138,720 |
| Non-North American | 212,248 | 192,286 | 221,138 | 176,507 |
| | 638,065 | 488,544 | 681,319 | 470,687 |
| Fixed income | 616,174 | 597,230 | 589,816 | 587,009 |
| Other | 59,747 | 47,279 | 58,406 | 45,408 |
| | 1,313,986 | 1,133,053 | 1,329,541 | 1,103,104 |
| Short-term investments | 183,222 | 183,195 | 203,902 | 203,892 |
| | $ 1,497,208 | $ 1,316,248 | $ 1,533,443 | $ 1,306,996 |

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

## 3. Government grants and other accounts receivable:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Government grants | $ 7,938 | $ 6,975 |
| Other | 41,436 | 32,548 |
| | 49,374 | 39,523 |
| Less allowance for doubtful accounts | 5,987 | 5,416 |
| Balance, end of year | $ 43,387 | $ 34,107 |

## 4. Other investments:

Details of other investments are as follows:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| McMaster Innovation Park (a) | $ 23,867 | $ 19,271 |
| Halton McMaster Family Health Centre (b) | 4,720 | 4,720 |
| Knightstone Capital Management IV Inc. (c) | 750 | - |
| Adiga Life Sciences Inc. (d) | - | 120 |
| Other investments (e) | 675 | - |
| | $ 30,012 | $ 24,111 |

(a) McMaster Innovation Park:

The First Longwood Innovation Trust and The Gore District Land Trust ("Park") were 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) | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 19,271 | $ 17,234 |
| Equity earnings | 5,668 | 2,037 |
| Distribution | (1,072) | - |
| Balance, end of year | $ 23,867 | $ 19,271 |

Included in loans receivable are the following items:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Gore Hamilton Spectator building acquisition loan | $ 11,549 | $ - |
| Gore demand loan | 1,043 | - |
| FLIT payroll deferral loan | 300 | - |
| | 12,892 | - |

During the year, the University provided a demand loan to The Gore District Land Trust in the amount of $11,500,000 (2019 - $nil). The loan bears interest at a fixed rate of 2.54% and repayment is due in full by February 28, 2021.

The University provided a demand loan during the year to The Gore District Land Trust in the amount of $1,042,809 (2019 - $nil). The demand loan is interest free and is payable at any time at the sole discretion of the lender.

**4. Other investments (continued):**

(a) McMaster Innovation Park (continued):

During the year, the University provided a non-revolving demand loan to First Longwood Innovation Trust, operating as McMaster Innovation Park, in the amount of $1,500,000 (2019 - $nil). The amounts drawn shall be limited to $150,000 per month for a period of ten months. The loan bears interest at a fixed rate of 1.65% and repayment is due in full by December 31, 2020.

Included in Other assets in note 5 is a loan receivable from McMaster Innovation Park in the amount of $482,219 at April 30, 2020 (2019 - $500,000).

The University is party to a Debt Service Deficiency Agreement as disclosed in note 14(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, 2020, $99,371 (2019 - $103,192) in income was recorded by the University.

Included in rent expense for the University for the year ended April 30, 2020 is $2,996,570 (2019 - $2,966,570). Included in accounts receivable at April 30, 2020 is $820,495 (2019 - $648,020) receivable from the Park. Included in note 14(f) are $11,387,268 (2019 - $11,445,021) in operating lease commitments with the Park.

During the year the University provided payroll services at a fee which amounted to $13,200 (2019 - $13,200) and earned interest income of $28,950 (2018 - $22,548) on the accounts receivable balance.

Pertinent information from the Park's combined financial statements are as follows:

| (thousands of dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total assets | $ 113,785 | $ 110,889 |
| Total liabilities | $ 88,319 | $ 89,041 |
| Total deferred capital grants | 1,599 | 2,606 |
| Total trusts' equity | 23,867 | 19,241 |
| | $ 113,785 | $ 110,889 |
| Results of operations: | | |
| Total revenues | $ 14,034 | $ 12,900 |
| Total expenses | 12,260 | 10,863 |
| Earnings before the undernoted item | $ 1,774 | $ 2,037 |
| Gain on exchange of land | 2,089 | - |
| Other revenue | 1,805 | - |
| Net earnings | $ 5,668 | $ 2,037 |
| Cash flows: | | |
| Provided by operating activities | $ 1,645 | $ 204 |
| Used in financing and investing activities | (1,531) | (16) |
| Increase in cash | $ 114 | $ 188 |

(b) 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.

## 4. Other investments (continued):

(c) Knightstone Capital Management IV Inc.:

The $750,000 is McMaster's equity contribution to the partnership for the Graduate Student Residence Development at 191 King Street West, Hamilton. The contribution is to fund various pre-construction development costs of the project that have been incurred for the mutual benefit of the partnership.

(d) Adiga Life Sciences Inc.:

During the year, the investment in Adiga Life Sciences Inc. ("Adiga") of $120,000 was written off. Adiga has ceased operations and distributed its remaining net assets in 2019. The University's share of dividends from Adiga during the year ended April 30, 2020 amounted to $nil (2019 - $883,000). McMaster has no financial liability associated with the Adiga wind-up.

Financial information from Adiga Life Sciences Inc.'s financial statements are as follows:

| (thousands of dollars) | August 31, 2019 | August 31, 2018 |
|---|---|---|
| Total assets | $ 11 | $ 246 |
| Total liabilities | $ 17 | $ 6 |
| Total equity | (6) | 240 |
| | $ 11 | $ 246 |
| Results of operations: | | |
| Total revenue | $ 2 | $ 10 |
| Total expenses | 63 | 370 |
| Net loss | $ (61) | $ (360) |

(e) Other investments:

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

(f) OSCAR EMR:

Financial information from OSCAR EMR's financial statements are as follows:

| (thousands of dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total assets | $ 226 | $ 294 |
| Total liabilities | $ 1,685 | $ 1,766 |
| Net deficiency | (1,459) | (1,472) |
| | $ 226 | $ 294 |
| Results of operations: | | |
| Total revenue | $ 636 | $ 682 |
| Total expenses | 623 | 594 |
| Net earnings | $ 13 | $ 88 |

## 4. Other investments (continued):

(f) OSCAR EMR (continued):

Oscar EMR (the "Organization") has a plan in place to dissolve prior to the end of its upcoming fiscal year. This plan has been approved by the Directors of the Organization and is expected to be carried out during fiscal 2020. Based on the nature of the Organization's remaining assets and liabilities, there are no indications that would suggest impairment indicators exist. The amounts owing to McMaster from the Organization have either been repaid or expensed in prior years. McMaster's investment in the Organization has been carried at a zero value, and there is no liability as a result of the Organization's dissolution. Any amount realized on dissolution is not expected to be material.

## 5. Other assets:

Details of other assets are as follows:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Loans receivable (a) | $ 697 | $ 752 |
| Collections (b) | - | - |
| | $ 697 | $ 752 |

(a) Loans receivable:

The University has a loan receivable from a lessee in the amount of $214,912 for lease fit out costs as at April 30, 2020 (2019 - $251,754). The loan bears interest at a rate of 0% per annum and is payable over 10 years beginning in February 2016.

The University has a loan receivable from McMaster Innovation Park in the amount of $482,219 (2019 - $500,000). 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.

(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 $5,000 (2019 - $170,000).

## 6. Capital assets:

| (thousands of dollars) | Cost | Accumulated amortization | 2020 Net |
|---|---|---|---|
| Land | $ 87,040 | $ - | $ 87,040 |
| Buildings and building components | 1,407,219 | 486,154 | 921,065 |
| Decommissioning retirement costs | 3,214 | 968 | 2,246 |
| Site improvements | 30,128 | 15,632 | 14,496 |
| Leasehold improvements | 62,500 | 21,364 | 41,136 |
| Library materials | 199,418 | 174,874 | 24,544 |
| Equipment, furnishings and vehicles | 414,500 | 351,484 | 63,016 |
| Computing systems and computing equipment | 145,510 | 90,598 | 54,912 |
| | $ 2,349,529 | $ 1,141,074 | $ 1,208,455 |

## 6. Capital assets (continued):

| (thousands of dollars) | Cost | Accumulated amortization | 2019 Net |
|---|---|---|---|
| Land | $ 84,389 | $ - | $ 84,389 |
| Buildings building components | 1,336,490 | 456,823 | 879,667 |
| Decommissioning retirement costs | 3,188 | 858 | 2,330 |
| Site improvements | 29,166 | 14,434 | 14,732 |
| Leasehold improvements | 59,691 | 16,530 | 43,161 |
| Library materials | 189,618 | 165,609 | 24,009 |
| Equipment, furnishings and vehicles | 409,650 | 356,876 | 52,774 |
| Computing systems and computing equipment | 143,236 | 85,505 | 57,731 |
| | $ 2,255,428 | $ 1,096,635 | $ 1,158,793 |

Included in buildings is $62,576,000 (2019 - $152,125,000) representing buildings currently under construction and not available for use or subject to amortization. Included in computing systems and computing equipment is $nil (2019 - $1,770,000) representing software currently under development and not available for use or subject to amortization.

## 7. 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 $3,257,000 (2019 - $4,415,000).

## 8. Long-term obligations:

Details of long-term obligations are as follows:

| (thousands of dollars) | Maturity | Interest rate | Current portion | Non-current portion | 2020 Total outstanding | 2019 Total outstanding |
|---|---|---|---|---|---|---|
| Long term debt: | | | | | | |
| Bank term loan (a) | May 2033 | floating | 709 | 13,314 | 14,023 | 14,688 |
| Debentures (b) | Oct 2052 | 6.15% | - | 120,000 | 120,000 | 120,000 |
| Debentures (c) | Nov 2065 | 4.105% | - | 120,000 | 120,000 | 120,000 |
| | | | 709 | 253,314 | 254,023 | 254,688 |
| Decommissioning obligations (d) | | | - | 14,383 | 14,383 | 13,718 |
| | | | $ 709 | $ 267,697 | $ 268,406 | $ 268,406 |

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

| | |
|---|---|
| 2021 | $ 709 |
| 2022 | 756 |
| 2023 | 805 |
| 2024 | 858 |
| 2025 | 915 |

(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%.

## 8. Long-term obligations (continued):

(b) 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 11(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, 2020 amounted to $21,531,000 (2019 - $22,021,000).

(c) 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 11(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, 2020 amounted to $12,421,000 (2019 - $12,712,000).

(d) 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, 2020, the fair value of the trust funds amounted to $11,701,000 (2019 - $11,697,000). The net present value of the estimated cost for decommissioning at April 30, 2020 is $13,594,000 (2019 - $12,955,000) 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, 2020, the amount of the obligation was $789,000 (2019 - $763,000), an increase of $26,000 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.

(e) 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 8(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) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Notional value | Fair value | Notional value | Fair value |
| 30-year interest rate swap | $ 14,023 | $ (5,468) | $ 14,688 | $ (4,609) |

The change in fair value of the swap for the year ended April 30, 2020 is ($859,000) (2019 - ($168,000)).

## 9. 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.

## 9. Employee future benefits (continued):

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.

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) | 2020 | | | |
|---|---|---|---|---|
| | Pension | | | |
| | Registered | Supplemental | Other | Total |
| Accrued benefit obligation | $ 2,317,672 | $ 72,237 | $ 277,215 | $ 2,667,124 |
| Fair value of plan assets | 2,218,678 | - | - | 2,218,678 |
| Funded status - deficiency | $ (98,994) | $ (72,237) | $ (277,215) | $ (448,446) |

| (thousands of dollars) | 2019 | | | |
|---|---|---|---|---|
| | Pension | | | |
| | Registered | Supplemental | Other | Total |
| Accrued benefit obligation | $ 2,242,188 | $ 67,609 | $ 274,681 | $ 2,584,478 |
| Fair value of plan assets | 2,227,188 | - | - | 2,227,188 |
| Funded status - deficiency | $ (15,000) | $ (67,609) | $ (274,681) | $ (357,290) |

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

| (thousands of dollars) | 2020 | | | |
|---|---|---|---|---|
| | Pension | | | |
| | Registered | Supplemental | Other | Total |
| Current service cost | $ 34,104 | $ 35 | $ 7,675 | $ 41,814 |
| Interest cost, net | 886 | 3,816 | 15,274 | 19,976 |
| | $ 34,990 | $ 3,851 | $ 22,949 | $ 61,790 |

| (thousands of dollars) | 2019 | | | |
|---|---|---|---|---|
| | Pension | | | |
| | Registered | Supplemental | Other | Total |
| Current service cost | $ 33,373 | $ 37 | $ 7,631 | $ 41,041 |
| Interest (income) cost, net | (4,493) | 3,458 | 13,769 | 12,734 |
| | $ 28,880 | $ 3,495 | $ 21,400 | $ 53,775 |

**9. Employee future benefits (continued):**

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

| (thousands of dollars) | 2020 | | | |
|---|---|---|---|---|
| | Pension | | | |
| | Registered | Supplemental | Other | Total |
| Investment loss | $ (112,877) | $ - | $ - | $ (112,877) |
| Actuarial gain (loss) on accrued benefit obligation | 3,399 | (6,590) | 13,334 | 10,143 |
| | $ (109,478) | $ (6,590) | $ 13,334 | $ (102,734) |

| (thousands of dollars) | 2019 | | | |
|---|---|---|---|---|
| | Pension | | | |
| | Registered | Supplemental | Other | Total |
| Investment gain | $ 44,427 | $ - | $ - | $ 44,427 |
| Actuarial loss on accrued benefit obligation | (167,128) | (8,918) | (12,907) | (188,953) |
| | $ (122,701) | $ (8,918) | $ (12,907) | $ (144,526) |

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

| | Percentage of fair value of total plan | Target allocation percentage |
|---|---|---|
| Equity securities | 64.7% | 65.0% |
| Debt securities | 34.8% | 35.0% |
| Other | 0.5% | 0.0% |

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

| | Pension | Other |
|---|---|---|
| Discount rate | 5.58% | 5.54% |
| Rate of compensation increase | 3.98% | - |

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

| | Pension | Other |
|---|---|---|
| Discount rate | 5.58% | 5.56% |
| Rate of compensation increase | 3.98% | - |

**9. Employee future benefits (continued):**

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

| (thousands of dollars) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Pension | Other | Pension | Other |
| Employer contributions | $ 66,306 | $ 7,081 | $ 62,243 | $ 7,347 |
| Employee contributions | 28,286 | - | 27,580 | - |
| Benefits paid | 115,221 | 7,081 | 106,380 | 7,347 |

(h) For measurement purposes, a 4.61% annual rate of increase in per capita medical cost was assumed for 2019, grading down to 4.0% per annum in and after 2031. For per capita dental costs, an annual rate of increase of 4.0% per annum was assumed.

(i) Details of actuarial valuation completion for funding purposes and filing dates of the respective plans are as follows:

- hourly rated employee pensions: completed as at July 1, 2019. An additional valuation was completed as at January 1, 2020 to include additional employer contributions and improve required payments over the next three years.
- salaried employees' pensions: completed as at July 1, 2018, the next required filing date is July 1, 2021.
- other (post-retirement benefit): completed as at March 31, 2019; the next valuation date is March 31, 2022.
- other (post-employment and retirement allowance): completed as at April 30, 2020.

The results of valuations not completed as of April 30, 2020, have been extrapolated to April 30, 2020, which is the measurement date used to determine the accrued benefit obligation for all employee future benefit plans.

The July 1, 2018 valuation of salaried plans was completed using the Pension Benefit Act definition of closed plan. The definition of closed plan was amended under the Act in 2019 such that Plan 2000 no longer meets the closed plan definition and will be filed as an open plan at July 1, 2021. This change is expected to reduce the plan liabilities and the funding requirements for the Provision for Adverse Deviation upon filing the next actuarial valuation.

(j) In 2008, the University created a group RRSP for certain types of new employees. University and employees' contributions in 2020 amounted to $4,144,000 (2019 - $3,356,000).

(k) The University has internal reserves set aside in the amount of $116,252,000 (2019 - $93,816,000) for the accrued benefit obligation of the non-pension post-retirement benefit plan included in note 11(b).

## 10. 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) | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 363,168 | $ 359,191 |
| Deferred and capital contributions (2019 only) received | 334,774 | 345,175 |
| | 697,942 | 704,366 |
| Less: | | |
| Amounts recognized as revenue | (304,637) | (308,074) |
| Deferred capital contributions transfer | (22,205) | (33,124) |
| Balance, end of year | $ 371,100 | $ 363,168 |

Deferred contributions consist of the following:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Research grants and contracts | $ 233,612 | $ 226,036 |
| Donations, other grants and investment income | 114,511 | 106,505 |
| Capital grants and donations | - | 7,911 |
| Other restricted funds | 22,977 | 22,716 |
| | $ 371,100 | $ 363,168 |

(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) | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 505,591 | $ 511,302 |
| Add: contribution received and transfers | 26,844 | 33,124 |
| Less: amount amortized to revenue | (40,773) | (38,835) |
| Balance, end of year | $ 491,662 | $ 505,591 |

Deferred capital contributions consist of the following:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Amounts subject to amortization | $ 484,980 | $ 505,591 |
| Amounts not subject to amortization | 6,682 | - |
| | $ 491,662 | $ 505,591 |

## 11. Internally restricted net assets:

Details of internally restricted net assets are as follows:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Pensions (a) | $ (198,301) | $ (106,244) |
| Other retirement and post employment benefit plans (net) (b) | (160,963) | (180,865) |
| Employee future benefits | (359,264) | (287,109) |
| Unexpended departmental carryforwards (c) | 196,580 | 167,657 |
| Unexpended research funds (d) | 44,836 | 44,271 |
| Employee benefit (e) | 10,360 | 11,630 |
| Ancillaries (f) | 10,300 | 9,642 |
| Specific purpose (g) | 82,787 | 98,497 |
| Research investments (h) | 1,769 | 3,405 |
| MIP investment (i) | 4,965 | - |
| Other (j) | 14,834 | 14,491 |
| Sinking funds (k) | 33,952 | 34,733 |
| Internally financed capital projects (l) | (110,535) | (69,860) |
| Capital reserves (m) | 64,495 | 112,444 |
| Facilities services projects (n) | 102,600 | 19,625 |
| Other internal reserves | 456,943 | 446,535 |
| | $ 97,679 | $ 159,426 |

(a) Pensions: the net unfunded pension liabilities, determined by a third party actuary, using the funding methodology.

(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 $277,215,000 (2019 - $274,681,000), net of internal reserves of $116,252,000 (2019 - $93,816,000) for the accrued benefit obligation of the non-pension post-retirement benefit plan (note 9(k)).

(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) | 2020 | 2019 |
|---|---|---|
| Unexpended departmental carryforwards (c) | $ 196,580 | $ 167,657 |
| Ancillaries (f) | 10,300 | 9,642 |
| Employee benefit (e) | 10,360 | 11,630 |
| Pensions (a) | (198,301) | (106,244) |
| Other retirement and post employment benefit plans (b) | (160,963) | (180,865) |
| | $ (142,024) | $ (98,180) |

(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: funds accumulated to maintain existing infrastructure and/or invest in new infrastructure or projects associated with ancillary operations.

## 11. Internally restricted net assets (continued):

(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 2020, $15 million was transferred to each of the post-retirement benefit reserve and 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 from the investment in MIP.

(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.

(l) Internally financed capital projects: long term loans for capital projects which have been internally financed by capital reserves as outlined in note 11(m).

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

| (thousands of dollars)<br>Project | Funding source | April 30, 2020<br>balance |
|---|---|---|
| Stadium and Parking Project | Parking fees, pledges, fundraising | $ (12,931) |
| Les Prince Residence | Ancillary operations | (12,644) |
| David Braley Athletic Centre | Student levies, pledges, fundraising | (3,473) |
| Peter George Centre for Living and Learning | Ancillary operations | (46,094) |
| McMaster Automotive Resource Centre (MARC) | Various | (5,647) |
| McMaster University Medical Centre (MUMC) | Various | (2,938) |
| Comprehensive Energy Reduction Program | Various | (24,482) |
| Biomedical Engineering and Advanced Manufacturing (BEAM) | Various | (889) |
| Other | Various | (1,437) |
| | | $ (110,535) |

| (thousands of dollars)<br>Project | Funding source | April 30, 2019<br>balance |
|---|---|---|
| Stadium and Parking Project | Parking fees, pledges, fundraising | $ (14,046) |
| Les Prince Residence | Ancillary operations | (13,416) |
| David Braley Athletic Centre | Student levies, pledges, fundraising | (4,781) |
| McMaster Automotive Resource Centre (MARC) | Various | (6,112) |
| McMaster University Medical Centre (MUMC) | Various | (3,437) |
| Comprehensive Energy Reduction Program | Various | (25,051) |
| Biomedical Engineering and Advanced Manufacturing (BEAM) | Various | (1,089) |
| Other | Various | (1,928) |
| | | $ (69,860) |

(m) Capital reserves: funds for planned capital projects committed and confirmed by governance approvals, as outlined in note 14(d).

(n) Facilities services projects: holding accounts for temporarily unspent funds for construction projects in progress.

## 12. Equity in capital assets:

The equity in capital assets is calculated as follows:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Capital assets | $ 1,208,455 | $ 1,158,793 |
| Less amounts financed by: | | |
| Net long-term obligations | (253,097) | (253,739) |
| Deferred capital contributions subject to amortization | (484,980) | (505,591) |
| | $ 470,378 | $ 399,463 |

Details of the transfer for capital transactions are as follows:

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Repayment of long-term debt | $ 665 | $ 624 |
| Capital asset purchases from operating, net of disposals | 107,737 | 114,894 |
| | $ 108,402 | $ 115,518 |

## 13. Endowments:

(a) Internal:

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

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 150,410 | $ 145,777 |
| Donations | 248 | 142 |
| Investment (loss) income | (3,840) | 8,029 |
| Net transfers and expenses | (5,485) | (3,538) |
| Balance, end of year | $ 141,333 | $ 150,410 |

Included in internal endowments is an amount of $64,392,000 (2019 - $68,977,000) reflecting the legacy of Dr. H. L. Hooker and $60,435,000 (2019 - $64,141,000) 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.

## 13. Endowments (continued):

(b) External:

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

| (thousands of dollars) | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 500,819 | $ 483,335 |
| External contributions | 8,501 | 10,218 |
| Income (withdrawn) retained - capital protection policy | (33,302) | 7,266 |
| Balance, end of year | $ 476,018 | $ 500,819 |

Investment loss on external endowments amounted to $14,671,000 (2019 - $24,240,000 income). In accordance with the endowment capital protection policy, this loss/income is withdrawn from/added to net endowment assets, together with reduction of the amount made available for spending of $18,759,000 (2019 - $17,680,000), plus net transfers of $129,000 (2019 - $706,000). The amount made available for spending is recorded as investment income in the statement of operations.

## 14. 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, 2020 was $19.3 million (2019 - $20.2 million). Since the agreement may expire without being drawn upon, it does not necessarily represent future cash requirements. As of April 30, 2020, 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 $294.4 million at April 30, 2020 (2019 - $276.3 million). The major commitments are as follows: DeGroote School of Business expansion ($81.4 million), Athletics and Recreation expansion ($48.7 million) and Commercialization of Research ($42.7 million).

## 14. Commitments and contingencies (continued):

(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, 2020, the University's remaining share of the costs are estimated to be $8.6 million (2019 - $9.5 million). Payments to HHSC will take place up to 2029.

(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) | |
|---|---|
| 2021 | $ 4,341 |
| 2022 | 2,933 |
| 2023 | 3,629 |
| 2024 | 3,701 |
| 2025 | 3,707 |

(g) McMaster Main Street Student Residence:

The University is working with a private developer 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. At April 30, 2020, $16.3 million (2019 - $16.3 million) is recorded in land. The project is expected to be completed by 2023/24. The residence will be managed, operated and used by the University to support its mission.

(h) Grad Residence and Parking Garage:

The University is working with a private developer to provide a new graduate residence with approximately 630 beds and a 265 space parking garage in downtown Hamilton. The residence project is designed to be a public-private partnership project, for which the University is in ongoing negotiations. The project is expected to be completed by 2022/23. To support this project the University has entered into a 99 year land lease effective October 1, 2019, with four 25 year renewal options.

(i) Research Commercialization:

In June 2017 the Board approved an investment of up to $25 million in 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. The Board approved additional investments of up to $25 million in June 2018 and up to $13 million in June 2020. These facilities investments are in support of research commercialization opportunities for early stage commercialization and established businesses. Construction on this space has begun and third party tenants will begin to move into the space in 2020. $17.3 million of the total $63 million approved investment has been spent as of April 30, 2020 (2019 - $4.3 million).

## 15. Other income:

Details of other income are as follows:

| (thousands of dollars) | Major Sources | 2020 | 2019 |
|---|---|---|---|
| Faculty of Health Sciences | Non-degree educational fees, specifically funded programs, international postgraduates stipends, space/equipment rentals, other student fees | $ 57,821 | $ 58,963 |
| Other Faculties | Non-degree educational fees, international postgraduate stipends, space/equipment rentals, other student fees | 10,218 | 10,542 |
| Academic Services | Contracts and patent royalties, registrar administration fees | 10,724 | 14,098 |
| Student Services | Athletics and Recreation memberships and user fees | 20,237 | 21,533 |
| Miscellaneous | Nuclear reactor sales, application fees, late payment fees, sales of utilities and other departmental sales | 19,800 | 22,510 |
| Other Investment Income | McMaster Innovation Park, Adiga Life Sciences Inc. and all private or publicly traded entities. | 3,383 | 973 |
| | | $ 122,183 | $ 128,619 |

## 16. Related party transactions:

In addition to certain transactions and balances disclosed in note 4, the University received funds of approximately $2,142,000 (2019 - $1,199,000) during the year from fundraising entities.

## 17. 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 2020. 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 2019.

(b) Credit risk:

Credit risk refers to the risk that a counterparty 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 8.

(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 2019.

## 18. 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) | 2020 | 2019 |
|---|---|---|
| Endowment balance, beginning of year | $ 32,163 | $ 32,147 |
| Investment income retained for protection of capital | 540 | 333 |
| Investment income transferred to expendable income | (432) | (317) |
| Endowment balance, end of year | 32,271 | 32,163 |
| Funds available for awards, beginning of year | - | - |
| Investment income | 1,583 | 1,546 |
| Bursaries awarded (2020 - 1,993 awards; 2019 - 1,775 awards) | (2,015) | (1,863) |
| Investment income transferred from endowment balance | 432 | 317 |
| Funds available for awards, end of year | - | - |
| Total funds at book value | $ 32,271 | $ 32,163 |

The market value of the endowment as at April 30, 2020 was $37,157,000 (2019 - $39,727,000).

(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) | 2020 | 2019 |
|---|---|---|
| Endowment balance, beginning of year | $ 6,178 | $ 6,143 |
| Investment income (transferred to) retained for protection of capital | (160) | 35 |
| Endowment balance, end of year | 6,018 | 6,178 |
| Funds available for awards, beginning of year | 72 | 69 |
| Investment income for expenditures | 289 | 279 |
| Bursaries awarded (2020 - 377 awards; 2019 - 353 awards) | (305) | (276) |
| Funds available for awards, end of year | 56 | 72 |
| Total funds at book value | $ 6,074 | $ 6,250 |

The market value of the endowment as at April 30, 2020 was $6,894,000 (2019 - $7,398,000).

**19. 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) | 2020 | 2019 |
|---|---|---|
| Endowment balance, beginning of year | $ 39,915 | $ 39,539 |
| Investment income (transferred to) retained for protection of capital | (893) | 376 |
| Endowment balance, end of year | 39,022 | 39,915 |
| Funds available for awards, beginning of year | 935 | 1,056 |
| Investment income for expenditures | 1,746 | 1,644 |
| Bursaries awarded (2020 - 774 awards; 2019 - 732 awards) | (1,840) | (1,765) |
| Funds available for awards, end of year | 841 | 935 |
| Total funds at book value | $ 39,863 | $ 40,850 |

The market value of the endowment as at April 30, 2020 was $49,994,000 (2019 - $53,051,000).

**20. Pledges:**

Outstanding but unrecorded pledges for donations and other fund raising amounted to approximately $79,062,000 (2019 - $78,871,000).

**21. COVID-19:**

In March 2020, the World Health Organization declared the spread of coronavirus (“COVID19”) to constitute a global pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of and within Canada, barring gathering of people and requirements to stay at home. These restrictions impacted the operations of the University and resulted in the closure of physical premises of all post-secondary institutions. The impact of COVID-19 also adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

The extent of such adverse effects on the University’s business and financial and operational performance are uncertain and difficult to assess. The financial impacts will depend on future developments, including the duration, spread and severity of the outbreak, physical distancing requirements, the duration and geographic scope of related travel advisories and restrictions, and the extent of disruptions to businesses globally and its related impact on the economy.

As at April 30, 2020, the University did not have significant adjustments to reflect the possible future impact of COVID-19. Investments are recorded at fair value which included the impact on financial markets as at year-end and extra emphasis was put on the collectability of receivables and other estimates within the financial statements as at April 30, 2020. Management has assessed the going concern assumptions and believes there are no issues, given the University has a strong working capital base and access to liquid resources to support operations in the coming year. Given the outcome and timeframe to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect on future operations at this time.

**22. Comparative figures:**

Certain comparative figures for 2019 have been reclassified to conform with the financial statement presentation adopted in the current year.