



Financial Statements of

**THE CONTRIBUTORY PENSION PLAN  
FOR HOURLY-RATED EMPLOYEES  
OF McMASTER UNIVERSITY INCLUDING  
McMASTER DIVINITY COLLEGE**

Year ended June 30, 2009

Registration Number 0215418



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## AUDITORS' REPORT TO THE ADMINISTRATOR

We have audited the statement of net assets available for benefits of the fund of The Contributory Pension Plan for Hourly-Rated Employees of McMaster University Including McMaster Divinity College as at June 30, 2009 and the statement of changes in net assets available for benefits for the year then ended. These financial statements have been prepared to comply with Section 76 of the Regulations to the Ontario Pension Benefits Act. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits as at June 30, 2009 and the changes in net assets available for benefits for the year then ended in accordance with the accounting principles described in note 1 (a) to the financial statements.

These pension fund financial statements, which have not been, and were not intended to be prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Administrator of The Contributory Pension Plan for Hourly-Rated Employees of McMaster University Including McMaster Divinity College and the Financial Services Commission of Ontario for complying with Section 76 of the Regulations to the Ontario Pension Benefits Act. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada  
September 18, 2009

**THE CONTRIBUTORY PENSION PLAN FOR HOURLY-  
RATED EMPLOYEES OF McMASTER UNIVERSITY  
INCLUDING McMASTER DIVINITY COLLEGE**

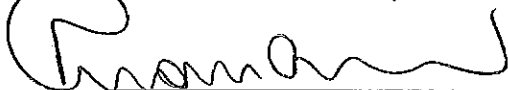
Statement of Net Assets Available for Benefits

June 30, 2009, with comparative figures for 2008

	2009	2008
<b>Assets:</b>		
Cash	\$ 184,239	\$ 166,152
Employer contributions receivable	121,158	110,685
Employee contributions receivable	30,890	31,340
Pooled fund investments (note 2)	31,471,690	33,411,055
<b>Total assets</b>	<b>31,807,977</b>	<b>33,719,232</b>
<b>Liabilities:</b>		
Fees payable	44,110	90,589
<b>Net assets available for benefits</b>	<b>\$ 31,763,867</b>	<b>\$ 33,628,643</b>

See accompanying notes to financial statements.

On behalf of McMaster University:



Roger Couldrey  
Acting Vice-President, Administration  
McMaster University



Lilian Scime  
Assistant Vice-President, Administration,  
McMaster University

# THE CONTRIBUTORY PENSION PLAN FOR HOURLY- RATED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE

Statement of Changes in Net Assets Available for Benefits

Year ended June 30, 2009, with comparative figures for 2008

	2009	2008
<b>INCREASE (DECREASE) IN ASSETS:</b>		
Change in net unrealized gain (loss) in investments	\$(3,541,927)	\$ (2,305,524)
Investment income	1,194,527	1,159,201
Net realized gain on sales of investments	253,953	1,029,326
	(2,093,447)	(116,997)
<b>Contributions:</b>		
Employer contributions – normal costs	871,727	866,737
Employer contributions – special costs	781,195	726,034
Employee contributions	413,141	410,776
	2,066,063	2,003,547
	(27,384)	1,886,550
<b>DECREASE IN ASSETS:</b>		
<b>Payments to members:</b>		
Pension benefits	1,624,537	1,512,278
Termination payments	13,853	319,296
Transfer to salary plan	–	295,916
	1,638,390	2,127,490
<b>Expenses:</b>		
Investment manager	102,537	110,193
Actuarial and consulting	76,013	109,804
Custodial	9,507	10,397
Audit	7,875	7,718
Pension filing	3,070	4,105
	199,002	242,217
	1,837,392	2,369,707
Decrease in net assets available for benefits	(1,864,776)	(483,157)
Net assets available for benefits, beginning of year	33,628,643	34,111,800
Net assets available for benefits, end of year	\$31,763,867	\$33,628,643

See accompanying notes to financial statements.

# THE CONTRIBUTORY PENSION PLAN FOR HOURLY-RATED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE

Notes to Financial Statements

Year ended June 30, 2009

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The Contributory Pension Plan for Hourly-Rated Employees of McMaster University Including McMaster Divinity College (the "Plan") is a defined benefit registered pension plan in the Province of Ontario under registration number 0215418.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Commission of Ontario for financial statements under Section 76 of the Regulations to the Ontario Pension Benefits Act. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because it excludes the actuarial liabilities of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from those estimates.

### (b) Trust agreement:

The Plan is operated in accordance with the Trust and Custodial Services Agreement dated June 30, 1999, between McMaster University ("Administrator") and CIBC Mellon Trust Company ("CIBC Mellon"), as Trustee.

### (c) Pooled fund investments:

Pooled fund investments are stated at fair value which is based on the unit values supplied by the pooled fund administrator and represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

### (d) Change in net unrealized gain (loss) in investments:

The change in net unrealized gain (loss) in investments is the change in the difference between the fair value and cost of investments from the beginning to the end of the year.

# THE CONTRIBUTORY PENSION PLAN FOR HOURLY-RATED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE

Notes to Financial Statements, page 2

Year ended June 30, 2009

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## 1. Significant accounting policies (continued):

### (e) Investment income:

Investment income, which is recorded on the accrual basis, includes interest and dividends.

### (f) Net realized gain on sales of investments:

The net realized gain on sales of investments is the difference between proceeds received and the average cost of investments sold.

### (g) Income taxes:

The Plan is not subject to income taxes since it is a Registered Pension Trust as defined by the Income Tax Act.

### (h) Changes in accounting policies:

Effective July 1, 2008, the Plan adopted Canadian Institute of Charter Accountants ("CICA") Handbook Section 1535 "Capital Disclosures", Section 3862, "Financial Instrument Disclosures", and Section 3863, "Financial Instruments Presentation".

Section 1535, "Capital Disclosures" establishes guidelines for the disclosure of both qualitative and quantitative information regarding the Plan's capital and how it is managed. As the Plan manages net investments rather than capital, the adoption of this section has no impact on the financial statements.

Section 3862, "Financial Instruments Disclosures" revises and enhances the disclosure requirements of Section 3861, "Financial Instruments Disclosure and Presentation". Section 3862 requires the Plan to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments for the Plan's financial position and performance, the nature and extent of risks arising from financial instruments to which the Plan is exposed during the period and at the statement of net assets available for benefits date, and how the Plan manages those risks. Section 3863, "Financial Instruments Presentation" carried forward unchanged presentation requirements of Section 3861.

The additional disclosures as a result of adopting these sections have been detailed in Note 4.

# THE CONTRIBUTORY PENSION PLAN FOR HOURLY-RATED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE

Notes to Financial Statements, page 3

Year ended June 30, 2009

## 1. Significant accounting policies (continued):

### (i) Future changes in accounting policies:

In January 2009, the Canadian Institute of Chartered Accountants' Emerging Issues Committee ("EIC") issued Abstract No. 173 ("EIC-173"), Credit and Fair Value of Financial Assets and Liabilities, which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities including derivatives. EIC-173 will be effective for annual periods beginning on or after January 1, 2009. The Plan is currently assessing the impact of the standard.

## 2. Pooled fund investments:

The following summary of pooled fund investments includes information provided in respect of individual investments with a book value or fair value in excess of 1% of the book or fair value of the Plan as at June 30, 2009 as required by the Ontario Pension Benefits Act, with comparative figures for 2008.

Fund name	Nature of investments held	2009 Fair value	2008 Fair value
Jarislowky Fraser Bond Fund	Canadian Bonds	\$ 14,411,178	\$ 13,752,242
Jarislowky Fraser Canadian Equity Fund	Canadian Equities	9,788,669	12,316,475
Jarislowky Fraser U.S. Equity Fund	U.S. Equities	4,423,621	3,951,632
Jarislowky Fraser International Equity Fund	Foreign Equities	2,848,222	3,390,706
		\$ 31,471,690	\$ 33,411,055

The book value of pooled fund investments at June 30, 2009 was \$32,790,986 (2008 - \$31,188,424).

## 3. Related party transaction:

The Administrator has provided administrative services without charge.

# THE CONTRIBUTORY PENSION PLAN FOR HOURLY-RATED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE

Notes to Financial Statements, page 4

Year ended June 30, 2009

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## 4. Financial instruments:

The investment objectives of the Plan are to efficiently fund the benefits of the participating plan members. As part of the risk management process, the Administrator has established a diversification policy, set rate of return objectives and developed specific investment guidelines.

### (a) Fair value:

The fair value of investments is described in note 1(c). The fair value of the Plan's other financial assets and liabilities, being employer and employee contributions receivable, and fees payable approximate carrying value due to the short-term nature of the instruments.

### (b) Associated risks:

#### (i) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market. As all of the Plan's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly affect the net increase (decrease) in net assets available for benefits. Market price risk is managed by the Administrator through construction of a diversified portfolio of instruments traded on various markets and across various industries.

As of June 30, 2009, had the value of the pooled fund investments increased or decreased by 1% with all other variables remaining unchanged, net assets of the Plan would have increased or decreased respectively, by approximately \$314,717 or 1% of net assets.

#### (ii) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. The value of the Plan's assets is affected by short-term changes in interest rates and equity markets. Interest rate changes directly impact the value of fixed income securities held in the Investment Funds. The sensitivity to interest rate risk is included in the market price risk analysis.

# THE CONTRIBUTORY PENSION PLAN FOR HOURLY- RATED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE

Notes to Financial Statements, page 5

Year ended June 30, 2009

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## 4. Financial instruments (continued):

### (b) Associated risks (continued):

#### (iii) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Plan invests in financial instruments denominated in various foreign currencies, other than its measurement currency. Consequently, the Plan is exposed to risks that the exchange of various currencies may change in a manner that has an adverse effect on the value of the portion of the Plan's assets denominated in currencies other than the Canadian dollar. The Plan's overall currency positions and exposures are monitored on a regular basis by the investment manager. The sensitivity to foreign currency risk is included in the market price analysis.

#### (iv) Credit risk:

Credit risk arises from the potential for a bond issuer to default on its securities. The Plan policy does not permit investments in below investment grade securities. The credit risk is minimized by dealing with borrowers considered to be of high quality and by monitoring their credit risk. The Plan records all investments at fair value and therefore the values reflected in the statement of net assets available for benefits represent the maximum credit exposure to the Plan. The following is a summary of the June 30, 2009 weighted average of funds invested, and the respective allocation targets:

	Asset Mix %	Policy Asset Mix %		
		Minimum	Benchmark	Maximum
Canadian equities	30.9	20.0	30.0	40.0
U.S. equities	14.0	10.0	15.0	20.0
International equities	9.0	5.0	10.0	15.0
Total equities	53.9	40.0	55.0	70.0
Fixed income	45.5	30.0	45.0	60.0
Cash	0.6	0.0	0.0	10.0
<b>Total</b>	<b>100.0</b>		<b>100.0</b>	

# THE CONTRIBUTORY PENSION PLAN FOR HOURLY- RATED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE

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Year ended June 30, 2009

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#### 4. Financial instruments (continued):

##### (b) Associated risks (continued);

##### v) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its obligations as they fall due. The Plan maintains an investment policy, as approved by the Administrator, which contains asset mix guidelines which help to ensure the Plan is able to liquidate investments to meet its pension benefit or other obligations.

The accrued expenses of the plan are all due within 90 days or less.

##### (c) Interest bearing investments:

The following information is provided in respect of interest-bearing investments.

	2009		2008	
	Total Bond Pooled Fund	Average effective yield	Total Bond Pooled Fund	Average effective yield
Cash & Equivalents	\$184,239	0.6%	\$166,152	0.1%
Jarislowsky Fraser Bond Fund	\$14,411,178	3.7%	\$13,752,242	4.8%

The average effective yield is the rate at which the future cash flows of the instrument must be discounted to arrive at the fair value of the instrument.