



Financial Statements of

**THE CONTRIBUTORY PENSION PLAN
FOR SALARIED EMPLOYEES
OF McMASTER UNIVERSITY INCLUDING
McMASTER DIVINITY COLLEGE 2000**

Year ended June 30, 2009

Registration Number 1079920



KPMG LLP
Chartered Accountants
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Fax (905) 523-2222
Internet www.kpmg.ca

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 Salaried Employees of McMaster University including McMaster Divinity College 2000 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 Salaried Employees of McMaster University Including McMaster Divinity College 2000 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 29, 2009

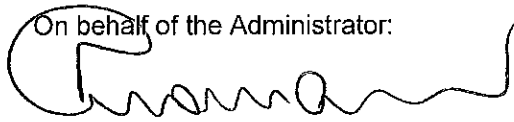
THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Statement of Net Assets Available For Benefits


June 30, 2009, with comparative figures for 2008
(in thousands of dollars)

| | 2009 | 2008 |
|--|-------------------|---------------------|
| Assets | | |
| Employer contributions receivable | \$ 3,521 | \$ 2,907 |
| Employee contributions receivable | 1,162 | 1,038 |
| Investments (note 2) | 885,731 | 1,000,991 |
| | 890,414 | 1,004,936 |
| Liabilities | | |
| Fees payable and accrued liabilities | 657 | 739 |
| Net assets available for benefits | \$ 889,757 | \$ 1,004,197 |

See accompanying notes to financial statements.

On behalf of the Administrator:


 Roger Couldrey
 Acting Vice-President, Administration
 McMaster University



 Lilian Scime
 Assistant Vice-President, Administration
 McMaster University

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Statement of Changes in Net Assets Available for Benefits

Year ended June 30, 2009, with comparative figures for 2008
(in thousands of dollars)

| | 2009 | 2008 |
|--|------------|-------------|
| INCREASE (DECREASE) IN ASSETS | | |
| Investment income allocated by the Master Trust Fund (note 4): | | |
| Investment income | \$ 31,455 | \$ 54,329 |
| Net realized gain on sale of investments | 551 | 37,708 |
| Net realized gain (loss) on sale of units in the Master Trust Fund | (8,016) | 3,133 |
| | 23,990 | 95,170 |
| Change in net unrealized gain (loss) in investments | (138,303) | (133,467) |
| | (114,313) | (38,297) |
| Contributions: | | |
| Employer | 38,431 | 35,573 |
| Employee | 13,859 | 12,633 |
| Employee transfers from other plans | 746 | 347 |
| | 53,036 | 48,553 |
| | (61,277) | 10,256 |
| DECREASE IN ASSETS | | |
| Payments to members: | | |
| Pension benefits | 41,971 | 37,436 |
| Termination payments | 7,985 | 11,772 |
| | 49,956 | 49,208 |
| Expenses: | | |
| Investment managers | 2,174 | 2,374 |
| Professional | 591 | 423 |
| Administrative | 259 | 256 |
| Trustee and custodial | 137 | 177 |
| Pension filing and assessment fees | 30 | 38 |
| Audit | 16 | 19 |
| | 3,207 | 3,287 |
| | 53,163 | 52,495 |
| Net decrease in net assets available for benefits | (114,440) | (42,239) |
| Net assets available for benefits, beginning of year | 1,004,197 | 1,046,436 |
| Net assets available for benefits, end of year | \$ 889,757 | \$1,004,197 |

See accompanying notes to financial statements.

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements

Year ended June 30, 2009

The Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College 2000 (the "Plan") is a defined benefit registered pension plan in the Province of Ontario under registration number 1079920, the Administrator of which is McMaster University.

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 differs materially 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.

McMaster University operates the Master Trust Fund to facilitate the collective management of the investment assets for pension plans of McMaster University and Divinity College. These financial statements reflect the consolidation of net assets held by the Plan directly and its share of the net assets of the Master Trust Fund.

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 these estimates.

(b) Trust agreement:

The Plan is operated in accordance with the Trust and Custodial Services Agreement dated July 1, 2000 between McMaster University and CIBC Mellon Trust Company (the "Trustee").

(c) Investments:

Investments in units of the Master Trust Fund are reported based on market values supplied by the Trustee.

Investments, including those held by the Master Trust are stated at fair value as follows:

Short-term notes and treasury bills are stated at cost, which together with accrued interest income, approximates fair value due to the short-term nature of these investments.

Stocks and bonds are valued at the reported year end closing or bid price.

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 2

Year ended June 30, 2009

1. Significant accounting policies (continued):

(c) Investments (continued):

Pooled fund investments are stated at fair value which is based on the unit values supplied by the Trustee and represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices. In determining fair values, adjustments have not been made for transaction costs as they are not considered to be significant.

Foreign exchange forward contracts are reported based on market values supplied by the Trustee.

(d) Net realized gain (loss):

The net realized gain on sale of investments represents the difference between proceeds received and the average cost of investments sold in the Master Trust Fund.

The net realized gain (loss) on sale of units in the Master Trust Fund represents the difference between the proceeds received and the average cost of the units sold.

(e) Change in net unrealized gain (loss) in investments:

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

(f) Investment income:

Investment income includes interest and dividends.

(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) Foreign currency translation:

The fair values of foreign currency denominated investments are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from transactions are included in the change in net unrealized gain (loss) in investments.

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 3

Year ended June 30, 2009

1. Significant accounting policies (continued):

(i) Change in accounting policy:

Effective July 1, 2008, the Plan adopted Canadian Institute of Chartered 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 had 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 6.

(j) 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 Administrator is currently assessing the impact of the standard.

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 4

Year ended June 30, 2009

2. Investments:

Details of the Master Trust Fund investments are as follows (in thousands of dollars):

| | 2009 | | 2008 | |
|--|------------|------------|------------|--------------|
| | Cost | Fair value | Cost | Fair value |
| Canadian short-term notes and treasury bills | \$ 14,749 | \$ 14,749 | \$10,971 | \$ 10,971 |
| Foreign short-term notes and treasury bills | 1,011 | 1,024 | 312 | 313 |
| Canadian common and preferred stocks | 86,786 | 120,102 | 83,584 | 147,926 |
| Foreign common and preferred stocks | 88,409 | 70,033 | 98,483 | 80,408 |
| Canadian bonds and debentures | 94,700 | 96,348 | 90,614 | 90,096 |
| Canadian fixed income security pool funds | 256,082 | 245,699 | 262,690 | 256,621 |
| Canadian equity pool fund investments | 9,570 | 7,524 | 10,084 | 10,196 |
| Foreign equity pool fund investments | 437,829 | 336,186 | 431,195 | 405,697 |
| Cash | 59 | 59 | 130 | 130 |
| Receivables | 14 | 14 | 4,625 | 4,625 |
| Accrued investment income | 1,264 | 1,267 | 2,570 | 2,571 |
| Accounts payable | (961) | (962) | (476) | (477) |
| Net foreign exchange contracts payable | - | (5,238) | - | (6,920) |
| | \$ 989,512 | \$ 886,805 | \$ 994,782 | \$ 1,002,157 |

The allocation of the investment in the Master Trust Fund to the respective pension plans is as follows (in thousands of dollars):

| | 2009 | | 2008 | |
|--|-----------|------------|-----------|-------------|
| | Units | Fair value | Units | Fair value |
| The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000 | 6,507,589 | \$ 885,731 | 6,490,843 | \$1,000,991 |
| The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College | 7,888 | 1,074 | 7,562 | 1,166 |
| | | \$ 886,805 | | \$1,002,157 |

The book value of the investments in the Plan at June 30, 2009 was \$1,032,278 (2008 - \$1,009,235).

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF MCMASTER UNIVERSITY INCLUDING MCMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 5

Year ended June 30, 2009

3. Statutory disclosures:

The following information is provided in respect of individual investments in the Master Trust Fund with a fair value in excess of 1% of the Master Trust Fund as at June 30, 2009 as required by the Ontario Pension Benefits Act (in thousands of dollars).

a) Pooled fund investments:

| Fund name | Fund operator | Nature of investments held | Fair value |
|--|--------------------|-------------------------------|------------|
| BGICL Long Bond Index Class A | BGI | Canadian bonds and debentures | \$ 143,979 |
| BGI Russell 1000 Alpha Tilts Fund B | BGI | U.S. stocks | 127,685 |
| GMO International Opportunities Equity Allocation Fund | GMO | Non-North American stocks | 74,141 |
| Walter Scott & Partners International Fund | Walter Scott | Non-North American stocks | 72,433 |
| Templeton International Equity Trust | Franklin Templeton | Non-North American stocks | 61,928 |
| BGICL Universe Bond Index Class A | BGI | Canadian bonds and debentures | 58,303 |
| BGICL Real Return Bond Index Class A | BGI | Canadian bonds and debentures | 43,417 |

b) Canadian bonds and debentures:

| Issuer | Cost | Fair value |
|----------------------|-----------|------------|
| Government of Canada | \$ 17,365 | \$ 18,077 |
| Province of Ontario | 9,836 | 10,067 |

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 6

Year ended June 30, 2009

4. Investment income:

Details of the investment income (loss) earned by the Master Trust Fund are as follows (in thousands of dollars):

| | 2009 | 2008 |
|--------------------------------------|-------------------|------------------|
| Short-term notes and treasury bills | \$ 690 | \$ 223 |
| Canadian common and preferred stocks | 4,128 | 12,529 |
| Foreign common and preferred stocks | (8,205) | 5,269 |
| Bonds and debentures | 5,254 | 4,111 |
| Pooled fund investments | (6,184) | 63,808 |
| Foreign exchange losses | (2,233) | (1,744) |
| | <u>\$ (6,550)</u> | <u>\$ 84,196</u> |

The allocation of the investment income (loss) to the respective pension plans is as follows:

| | 2009 | 2008 |
|---|-------------------|------------------|
| The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000 | \$ 23,990 | \$ 95,170 |
| The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College | 37 | 106 |
| | <u>24,027</u> | <u>95,276</u> |
| Timing difference between the realization of investment loss in the Master Trust Fund and its allocation to the participating Pension Trust Funds | (30,577) | (11,080) |
| | <u>\$ (6,550)</u> | <u>\$ 84,196</u> |

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 7

Year ended June 30, 2009

5. Related party transactions:

McMaster University provides certain administrative services to the Plan which is recorded at the amount agreed to by the parties. The cost for these services for the year ended June 30, 2009 was approximately \$259,000 (2008 - \$256,000), and is included in administrative fees in the statement of changes in net assets available for benefits.

6. 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) The fair value of investments is as described in note 1(c). The fair value of the Plan's other financial assets and liabilities, being employer and employee contributions receivable, fees payable and accrued liabilities 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 through construction of a diversified portfolio of instruments traded on various markets and across various industries.

As at June 30, 2009, had the unit prices of all equity and pooled fund securities increased or decreased by 1% and assuming there is a perfect positive correlation between the Plan's equity and pooled fund securities with all other variables held constant, the value of the Plan's total equities would have increased or decreased by approximately \$5.3 million or 0.60% of total net assets. The unit price of the Plan's equity and pooled fund securities are affected by changes in market values, foreign exchange rates and interest rates impacting the underlying equity and debt instruments held within the Plan.

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 8

Year ended June 30, 2009

6. Financial instruments (continued):

(b) Associated risks (continued):

(ii) Interest rate risk:

The Plan is exposed to the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. The Plan mitigates this risk by diversifying the maturity schedule of its fixed income securities, see note 6(c).

As at June 30, 2009, had prevailing interest rates increased or decreased by 1%, with all other variables held constant, the value of the debt securities component of the Plan would have decreased or increased, respectively, by approximately \$33.8 million or 3.8% of total net assets.

(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 the 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 Administrator.

As at June 30, 2009 had the foreign exchange rate increased or decreased by a 1% change, the value of the Plan's foreign currency equities and pooled funds would have decreased or increased approximately by \$2 million or 0.23% of total net assets.

(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. Investments are recorded at fair value. This represents the maximum credit risk exposure to the Plan.

THE CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 9

Year ended June 30, 2009

6. Financial instruments (continued):

(b) Associated risks (continued):

(iv) Credit risk (continued):

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 | 14.6 | 8.0 | 13.0 | 18.0 |
| U.S. Equities | 22.3 | 21.0 | 26.0 | 31.0 |
| International Equities | <u>23.7</u> | 21.0 | <u>26.0</u> | 31.0 |
| Total Equities | 60.6 | 55.0 | 65.0 | 75.0 |
| Fixed Income | 38.8 | 25.0 | 35.0 | 45.0 |
| Cash | 0.6 | 0.0 | 0.0 | 10.0 |
| Total | 100.0 | | 100.0 | |

(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 CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES OF McMASTER UNIVERSITY INCLUDING McMASTER DIVINITY COLLEGE 2000

Notes to Financial Statements, page 10

Year ended June 30, 2009

6. Financial instruments (continued):

(c) Interest-bearing investments:

The following information is provided in respect of interest-bearing investments in the Master Trust Fund (in thousands of dollars).

Term to maturity classifications of interest-bearing investments are based on the remaining term to maturity of the securities.

| | Term to maturity | | | 2009 | | 2008 | |
|--|------------------|-----------------|-----------------|-----------|-------------------------------|-----------|-------------------------------|
| | Within 1 year | 1 to 5 years | Over 5 years | Total | Average effective yield | Total | Average effective yield |
| Short-term notes and treasury bills | \$15,773 | \$ - | \$ - | \$ 15,773 | 0.4% | \$ 11,284 | 1.7% |
| Canadian bonds and debentures | 2,901 | 32,350 | 61,097 | 96,348 | 3.7% | 90,096 | 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.