



Financial Statements of

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

Year ended June 30, 2011

Registration Number 1079920



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INDEPENDENT AUDITORS' REPORT

To the Administrator of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000

We have audited the accompanying financial statements of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000, which comprise the statement of net assets available for benefits as at June 30, 2011, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario), 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.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000 as at June 30, 2011 and its changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario).



Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 1 (a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Administrator of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000 to meet the requirements of the Financial Services Commission of Ontario. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for 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 and should not be used by any other parties for any other purpose.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada

November 17, 2011

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

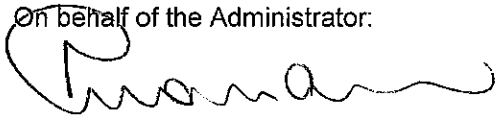
Statement of Net Assets Available For Benefits

June 30, 2011, with comparative figures for 2010
(in thousands of dollars)

	2011	2010
Assets		
Employer contributions receivable	\$ 3,593	\$ 3,435
Employee contributions receivable	1,351	1,248
Investments (note 2)	1,102,202	950,168
	<u>1,107,146</u>	<u>954,851</u>
Liabilities		
Fees payable and accrued liabilities	846	659
Net assets available for benefits	\$ 1,106,300	\$ 954,192

See accompanying notes to financial statements.

On behalf of the Administrator:



Roger Couldrey
Vice-President (Administration)
McMaster University



Debra Henne
Assistant Vice-President (Administration) & CFO
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, 2011, with comparative figures for 2010
(in thousands of dollars)

	2011	2010
INCREASE (DECREASE) IN ASSETS		
Investment income allocated by the Master Trust Fund (note 4):		
Investment income	\$ 28,030	\$ 28,310
Net realized gain on sale of investments	139	50
Net realized loss on sale of units in the Master Trust Fund	(1,311)	(4,730)
	26,858	23,630
Change in net unrealized gain in investments	120,318	37,564
	147,176	61,194
Contributions:		
Employer	43,355	40,684
Employee	15,904	14,961
Employee transfers from other plans	78	568
	59,337	56,213
	206,513	117,407
DECREASE IN ASSETS		
Payments to members:		
Pension benefits	46,078	44,453
Termination payments	4,533	5,169
	50,611	49,622
Expenses:		
Investment managers	2,832	2,374
Professional	441	509
Administrative	268	262
Trustee and custodial	174	147
Pension filing	60	42
Audit	19	16
	3,794	3,350
	54,405	52,972
Net increase in net assets available for benefits	152,108	64,435
Net assets available for benefits, beginning of year	954,192	889,757
Net assets available for benefits, end of year	\$1,106,300	\$ 954,192

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, 2011

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 Pension Benefits Act (Ontario). 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, 2011

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, 2011

1. Significant accounting policies (continued):

(i) Capital disclosures:

Section 1535, "Capital Disclosures", establishes guidelines for the disclosure of both qualitative and quantitative information regarding an entity's capital and how it is managed. As the Plan manages net assets rather than capital, the adoption of this section is applicable to the Plan's management of its net assets. The main objective of the Plan is to sustain a certain level of net assets to meet the pension obligations of the University, which are not presented or discussed in these specified-purpose financial statements. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the University (or Pension Trust Committee). The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (contributions) in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the University. The main use of net assets is for benefit payments to eligible Plan members. The Plan is required to file financial statements with the Financial Services Commission of Ontario.

(j) Future changes in accounting policies:

The Accounting Standards Board's ("AcSB") April 2008 Exposure Draft, Adopting IFRSs in Canada, proposed that, upon adoption of International Financial Reporting Standards ("IFRS") by publicly accountable enterprises, pension plans would continue to prepare their financial statements in accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 4100, Pension Plans ("Section 4100"), rather than International Accounting Standard 26 "Accounting and Reporting by Retirement Benefit Plans." On July 30, 2009, the AcSB issued an Exposure Draft that proposed changes to existing Section 4100 in the areas of presentation and disclosure. It also provided more guidance on how to measure fair value of investment assets and investment liabilities. In February, 2010, the AcSB approved CICA Handbook Section 4600, Pension Plans, as part IV of the CICA Handbook. The new Section 4600 was released in April 2010 and is based on existing Section 4100 with substantive modifications and will be effective for annual financial statements for fiscal years beginning on or after January 1, 2011. Early adoption is permitted. The Administrator is currently assessing the impact on the Plan's financial statements.

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

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Year ended June 30, 2011

2. Investments:

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

	2011		2010	
	Cost	Fair value	Cost	Fair value
Canadian short-term notes and treasury bills	\$ 12,599	\$ 12,599	\$ 11,247	\$ 11,247
Foreign short-term notes and treasury bills	998	986	979	1,001
Canadian common and preferred stocks	96,266	149,896	91,907	125,848
Foreign common and preferred stocks	92,295	87,476	88,987	74,803
Canadian bonds and debentures	108,235	109,023	99,183	102,926
Canadian fixed income pool funds	282,901	289,561	268,457	269,932
Canadian equity pool fund investments	8,817	10,214	9,247	9,064
Foreign equity pool fund investments	481,134	438,381	470,106	362,379
Net foreign exchange contracts receivable	-	1,670	-	(7,525)
	1,083,245	1,099,806	1,040,113	949,675
Cash	55	55	(160)	(160)
Receivables	2,625	2,625	115	115
Accrued investment income	1,599	1,597	3,516	3,538
Accounts payable	(382)	(382)	(1,759)	(1,759)
	\$1,087,142	\$1,103,701	\$1,041,825	\$ 951,409

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

	2011		2010	
	Units	Fair value	Units	Fair value
The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000	6,601,402	\$1,102,202	6,550,089	\$ 950,168
The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College	8,980	1,499	8,552	1,241
		\$1,103,701		\$ 951,409

The book value of the investments in the Plan at June 30, 2011 was \$1,090,867 (2010 - \$1,059,151).

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, 2011

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, 2011 as required by the Pension Benefits Act (Ontario) (in thousands of dollars).

a) Pooled fund investments:

Fund name	Fund operator	Nature of investments held	Fair value
BlackRock Russell 1000 Alpha Tilts Fund B	BlackRock	U.S. stocks	\$ 182,486
BlackRock Long Bond Index Class A	BlackRock	Canadian bonds and debentures	169,838
GMO International Opportunities Equity Allocation Fund	GMO	Non-North American stocks	98,788
Walter Scott & Partners International Fund	Walter Scott	Non-North American stocks	84,523
Templeton International Equity Trust	Franklin Templeton	Non-North American stocks	72,584
BlackRock Universe Bond Index Class A	BlackRock	Canadian bonds and debentures	65,305
BlackRock Real Return Bond Index Class A	BlackRock	Canadian bonds and debentures	54,417

b) Canadian bonds and debentures:

Issuer	Cost	Fair value
Government of Canada	\$ 49,877	\$ 49,710

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

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Year ended June 30, 2011

4. Investment income:

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

	2011	2010
Short-term notes and treasury bills	\$ 66	\$ 23
Canadian common and preferred stocks	4,566	5,455
Foreign common and preferred stocks	2,725	(1,194)
Bonds and debentures	7,649	5,246
Pooled fund investments	19,792	17,556
Foreign exchange gains	9,703	19,976
	\$ 44,501	\$ 47,062

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

	2011	2010
The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000	\$ 26,858	\$ 23,630
The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College	37	30
	26,895	23,660
Timing difference between the realization of investment income in the Master Trust Fund and its allocation to the participating Pension Trust Funds	17,606	23,402
	\$ 44,501	\$ 47,062

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, 2011 was approximately \$268,000 (2010 - \$262,000), and is included in administrative expenses in the statement of changes in net assets available for benefits.

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

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Year ended June 30, 2011

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) Fair Value:

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 and fees payable and accrued liabilities approximate carrying value due to the short-term nature of the instruments.

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

Level 3 – inputs for assets and liabilities that are not based on observable market data.

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

2011	Level 1	Level 2	Level 3	Total
Canadian short-term notes and treasury bills	\$ -	\$12,599	\$ -	\$ 12,599
Foreign short-term notes and treasury bills	-	986	-	986
Canadian common and preferred stocks	149,896	-	-	149,896
Foreign common and preferred stocks	87,476	-	-	87,476
Canadian bonds and debentures	-	109,023	-	109,023
Canadian fixed income pool funds	-	289,561	-	289,561
Canadian equity pool fund investments	-	10,214	-	10,214
Foreign equity pool fund investments	-	438,381	-	438,381
Net foreign exchange contracts receivable	-	1,670	-	1,670
	\$ 237,372	\$ 862,434	\$ -	\$ 1,099,806

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

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Year ended June 30, 2011

6. Financial instruments (continued):

(a) Fair Value (continued):

2010	Level 1	Level 2	Level 3	Total
Canadian short-term notes and treasury bills	\$ -	\$ 11,247	\$ -	\$ 11,247
Foreign short-term notes and treasury bills	-	1,001	-	1,001
Canadian common and preferred stocks	125,848	-	-	125,848
Foreign common and preferred stocks	74,803	-	-	74,803
Canadian bonds and debentures	-	102,926	-	102,926
Canadian fixed income pool funds	-	269,932	-	269,932
Canadian equity pool fund investments	-	9,064	-	9,064
Foreign equity pool fund investments	-	362,379	-	362,379
Net foreign exchange contracts payable	-	(7,525)	-	(7,525)
	\$ 200,651	\$ 749,024	\$ -	\$ 949,675

(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, 2011, 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 \$6.9 million or 0.62% 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 9

Year ended June 30, 2011

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, 2011, 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 increased or decreased, respectively, by approximately \$40.6 million or 3.67% 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, 2011 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 increased or decreased approximately by \$2.8 million or 0.25% of total net assets.

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, 2011

6. Financial instruments (continued):

(b) Associated risks (continued):

(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 following is a summary of the June 30, 2011 weighted average of funds invested, and the respective allocation targets:

	Asset Mix %	Policy Asset Mix %		
		Minimum	Benchmark	Maximum
Canadian Equities	14.7	8.0	13.0	18.0
U.S. Equities	24.9	21.0	26.0	31.0
International Equities	<u>23.4</u>	21.0	<u>26.0</u>	31.0
Total Equities	63.0	55.0	65.0	75.0
Fixed Income	36.3	25.0	35.0	45.0
Cash	0.7	0.0	0.0	10.0
Total	100.0		100.0	

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

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Year ended June 30, 2011

6. 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.

(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			2011		2010	
	Within 1 year	1 to 5 years	Over 5 years	Total	Average effective yield	Total	Average effective yield
Short-term notes and treasury bills	\$13,585	\$ -	\$ -	\$ 13,585	0.4%	\$ 12,248	0.6%
Canadian bonds and debentures	10,666	54,286	44,071	109,023	2.8%	\$102,926	3.4%

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.