

Memorial University of Newfoundland

Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

1. AUTHORITY AND PURPOSE

Memorial University of Newfoundland (the "University") is a corporation operating under the authority of the *Memorial University Act*. It is a comprehensive research university offering a full range of undergraduate, graduate and continuing studies programs. The academic governance of the University is vested in the Senate. The University is a not-for-profit entity, governed by a Board of Regents, the majority of whom are appointed by the Province of Newfoundland and Labrador. The University is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

2. Significant Accounting Policies

General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting principles are summarized as follows:

(a) Use of estimates

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

(b) Consolidated statements

These financial statements have been prepared on a consolidated basis, reporting the operations and financial position of the University and the following related not-for-profit organizations:

- ⇒ C-CORE
- ⇒ The Canadian Centre for Marine Communications (CCMC)
- ⇒ The Canadian Centre for Fisheries Innovation (CCFI)
- ⇒ Genesis Group Inc.
- ⇒ The Memorial University of Newfoundland Botanical Garden Incorporated
- ⇒ Memorial University Recreation Complex (MURC)
- ⇒ Newfoundland Quarterly Foundation

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

2. Significant Accounting Policies (cont'd)

(c) Cash equivalents and short term investments

Cash equivalents and short term investments consist primarily of cash, treasury bills and bankers' acceptances. Investments with original maturities less than three months past year end are classified as cash equivalents. Investments with maturities beyond three months to one year past year end are classified as short term investments. Short term investments are carried at cost, which approximates market value.

(d) Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants. 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 are deferred and recognized as revenue in the year in which related expenses are recognized. Contributions of capital assets are recorded at fair market value at the date of the contribution and deferred and amortized to operations on the same basis as the related asset. Endowment contributions are recognized as direct increases in the net assets in the year in which they are received. Revenues from contracts and sales are recognized when the goods or services are provided and collection is reasonably assured.

(e) Contributed services

Volunteers, including volunteer efforts from the staff of the University, contribute an indeterminable number of hours per year to assist the University in carrying out its service delivery activities. The costs that would otherwise be associated with these contributed services is not recognized in these financial statements.

(f) Investments

Investments are carried at cost. Fair values have been determined on the basis described in note 7 and are considered to approximate market values.

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

2. Significant Accounting Policies (cont'd)

(g) Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of acquisition. Repairs and maintenance expenditures are charged to expense. Betterments which extend the estimated life of an asset are capitalized.

The University's permanent art collection is expensed as incurred and the value of donated art is not recognized in these financial statements.

Capital assets are amortized using the following rates. One-half year's amortization is taken in the year of acquisition and no amortization in the year of disposal.

⇒ Buildings	8% declining balance
⇒ Furniture and equipment	20% declining balance
⇒ Computers	30% declining balance
⇒ Banner Finance	20% declining balance
⇒ Vehicles	30% declining balance
⇒ Campus network	5 years straight line
⇒ Library collection	10 years straight line

(h) Employee future benefits

(i) Pension costs and obligations

The employees of the University participate in a defined benefit pension plan administered under the Memorial University Pensions Act with any deficiencies being funded by the Province of Newfoundland and Labrador. Payments to the pension plan consist of contributions from employees and contributions from the University as prescribed in the Pension Benefits Act (1997). In addition, where the plan experiences a solvency deficiency, the employer is required to contribute an amount sufficient to liquidate the deficiency within 5 years of the solvency valuation date. The University's contributions to the Pension Plan are recorded as expenditure in the Statement of Operations.

The most recent actuarial valuation prepared by Eckler Partners Ltd. Disclosed a solvency deficiency of \$137,392,000 and a going concern deficiency of \$91,344,000 at March 31, 2006. Under the Pension Benefits Act (PBA), a going concern deficiency must be funded over a period of not more than 15 years while a solvency deficiency is to be funded over a maximum 5 year period. Amortization of the going concern deficiency requires minimum special payments of \$6,859M per year. At present, the University has an exemption under the PBA from making payments relating to the solvency deficiency which expires December 31, 2010.

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

2. Significant Accounting Policies (cont'd)

(ii) Other post employment benefits

The University accrues its obligations for employee benefit plans. The employee future benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and administration's best estimate of salary escalation, retirement ages of employees and escalation in covered benefit expense outlays.

The University recognizes the cost of the Supplemental Retirement Income Plan (SRIP), the Voluntary Early Retirement Income Plan (VERIP) and the cost of future employee benefits which include severance, accrued vacation, group life insurance and health care benefits.

(i) Agency Obligations

The University acts as an agent which holds resources and makes disbursements on behalf of various unrelated groups. The University has no discretion over such agency transactions. Resources received in connection with such agency transactions are reported as liabilities, not revenue, and subsequent distributions are recorded as decreases to these liabilities.

3. Capital assets

	Cost	Accumulated Depreciation	2006 Net Book Value	2005 Net Book Value
Buildings	\$187,538	\$100,224	\$87,314	\$92,061
Furniture & Equipment	56,041	26,238	29,803	21,535
Computers	26,096	18,105	7,991	7,003
Banner Finance	1,722	928	794	992
Vehicles	1,982	1,098	884	573
Campus network	3,283	2,953	330	990
Library collection	106,488	76,519	29,969	29,220
	\$383,150	\$226,065	\$157,085	\$152,374

Capital assets include certain assets under capital lease with a net book value of \$3.354 million (2005 – \$4.663 million).

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

4. Deferred Contributions

(a) Expenses of future periods

Deferred contributions related to expenses of future periods represent unspent externally restricted grants and donations for research and programs.

	2006	2005
Balance, beginning of year	\$35,829	\$31,271
Revenue received during the year	54,139	46,411
Expenses incurred during the year	49,089	41,853
	\$40,879	\$35,829

(b) Capital assets

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the Statement of Operations.

	2006	2005
Balance, beginning of year	\$143,180	\$133,945
Additional contributions received	28,014	27,820
Less amounts amortized to revenue	(20,702)	(18,585)
	\$150,492	\$143,180

(c) Total deferred contributions

	2006	2005
Expenses of future periods	\$40,879	\$35,829
Capital assets	150,492	143,180
	\$ 191,371	\$179,009

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

5. Long term debt

	2006	2005
CMHC mortgage, 5.875% interest, repayable in 50 equal, blended payments of \$29,095 semi-annually, maturing in June 2019, secured	\$510	\$537
Capital leases negotiated through the Royal Bank, interest rates vary, payable in equal annual installments, secured by assets under lease	942	2,362
RBC Royal Bank, fixed term loan, 5.19% interest, repayable in 9 equal annual, blended payments of \$121,580, maturing in April 2012, unsecured	699	779
	\$2,151	\$3,678
<i>Less Short Term Portion</i>	<i>1,311</i>	<i>2,272</i>
	\$840	\$1,406

Annual repayments of long term debt over the next five years are as follows:

⇒ 2007	\$1,311
⇒ 2008	\$ 374
⇒ 2009	\$ 32
⇒ 2010	\$ 34
⇒ 2011	\$ 36

6. Bank indebtedness

Pursuant to Section 41 of the Memorial University Act, the University has received approval from the Lieutenant-Governor in Council to borrow to finance two capital projects. The projects involve the development of a training facility on the Southside for the Marine Institute and the construction of a new residence complex for Sir Wilfred Grenfell College. Currently the Sir Wilfred Grenfell College Residence debt has been negotiated using bankers' acceptances which mature during 2006. Management expects to refinance this loan through bankers' acceptance for the balance of the term of the loan. The Southside Facility debt was repaid in full in 2006.

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

7. Financial instruments

The carrying values of accounts receivable, mortgage receivable, accounts payable, accrued liabilities, short term debt and long term debt approximate their market value due to the relatively short periods to maturity of the instruments.

Long term investments are recorded at cost. The carrying amounts and fair values of investments are summarized as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Fixed Income	\$23,405	\$24,278	\$22,565	\$22,966
Equities	25,294	29,695	24,571	27,940
	\$48,699	\$53,973	\$47,136	\$50,906

Cash in the amount of \$3 million is being carried in the pooled investment fund but for financial statements presentation, it is classified as cash and cash equivalents. Fair values are considered to approximate market values.

Details of significant terms and considerations, exposures to interest rate and credit risks on investments are as follows:

- (i) The quality of fixed income securities is supported by federal, provincial and municipal government guarantees or high quality corporate bonds. No significant weightings exist within the corporate bond category that would pose any material credit rate risk to the University.
- (ii) Interest rates on fixed income securities range from 3.9% to 7.4% with maturities ranging from 2006 to 2017.
- (iii) The income earned on the securities is used to pay scholarships and fund endowed chairs. Expenditure levels on these activities are determined based on the performance of the investments.

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

8. Memorial University Act

In accordance with the Memorial University Act, the University is normally prohibited from recording a deficit on their financial statements. During 1996, pursuant to Section 36 of the *Memorial University Act*, the University received approval from the Lieutenant-Governor in Council to record a deficit of up to \$5 million in 1996 and an additional \$10 million in 1997 as a result of the recognition of the liabilities related to Voluntary Early Retirement Plans for faculty and staff. During 2001, the University received approval from the Lieutenant-Governor in Council to exclude from the definition of a deficit, pursuant to Section 36 of the *Memorial University Act*, any amounts resulting from the recognition of the liabilities related to recording vacation pay entitlements, severance and any other post employment benefits.

9. Contingencies

(a) Reciprocal exchange of insurance risks

The University, in association with fifty-six Canadian universities, participates in a reciprocal exchange (CURIE) of insurance risks. The self-insurance cooperative involves a contractual agreement to share the insurance property and liability risks of member universities for a term of not less than five years.

The projected cost of claims will be funded through members' premiums based on actuarial projections. As of December 31, 2005, CURIE has a surplus of \$11.2 million, of which the University's prorata share is approximately 3% on an ongoing basis. In addition, the reciprocal has obtained \$645 million re-insurance with commercial insurers to cover major property claims in excess of \$5 million per occurrence.

In respect of general liability, the limit is \$10 million per occurrence. Re-insurance for liability coverage in the amount of \$10 million in excess of a \$10 million per occurrence retention is in place.

In the event that premiums are not sufficient to cover claims settlements, the member universities would be subject to an assessment in proportion to their participation.

(b) Guarantee of loan for The Memorial University of Newfoundland Students' Union

In 1994, the Board of Regents, with the authorization of the Province of Newfoundland and Labrador, guaranteed a loan in the amount of \$1.2 million for the Memorial University of Newfoundland Students' Union. The current balance outstanding on the loan is \$1.2 million.

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

10. Net assets

The University has total restricted net assets for endowment purposes as follows:

	2006	2005
Restricted Assets subject to externally imposed restrictions requiring the principal to be maintained	\$43,898	\$39,761
Restricted assets subject to externally imposed restrictions requiring the principal be loaned to students	1,268	1,238
General University Endowment Fund is an internally restricted endowment	7,948	7,621
	\$53,114	\$48,620

Investment income on the various funds is restricted as stipulated in the terms and conditions of the individual funds. Investment income on the internally restricted fund and any other unrestricted funds is recorded in the Statement of Operations.

The University has unrestricted operating net assets calculated as follows:

	2006	2005
Total net assets	(\$12,251)	(\$18,544)
Less:		
Net assets restricted for endowment purposes	53,114	48,620
Net assets invested in capital assets	(1,638)	(1,819)
Net assets internally restricted for specific purposes	3,443	3,069
Net assets invested in separately incorporated entities	7,256	6,938
Net assets invested in future employee benefits	(80,089)	(74,785)
Net assets invested in accrued vacation benefits	(8,668)	(8,906)
Unrestricted operating net assets	\$14,331	\$8,339

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

11. Opportunity fund

On March 25, 1997, the University launched a fund raising campaign with a goal to raise a combined total of \$50 million. The five-year campaign has raised \$28 million in private sector pledges to date and the Government of Newfoundland and Labrador has agreed to match donor contributions on a dollar-for-dollar basis up to \$28 million. As at March 31, 2006, the Government has contributed \$27.9 million toward their matching contributions. The balance of uncollected pledges and matching funds has not been reflected in the financial accounts of the University.

12. Employee Future Benefits

The University has a number of defined benefit and defined contribution plans providing group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses. In addition, the University pays a severance payment, to certain employee groups, upon termination, retirement or death, provided they meet certain eligibility criteria.

In May 1996, the Board of Regents approved a Supplemental Retirement Income Plan to provide benefits to employees of the University whose salaries exceed the Canada Revenue Agency maximum pensionable salary and whose defined benefit pension, therefore, exceeds the maximum benefit payable from the Plan.

In February and May 1996, the University offered faculty and staff, who reached the age 55 and attained a minimum of 10 years pensionable service, an opportunity to take an early retirement under the provisions of the Voluntary Early Retirement Incentive Plan.

Subject to eligibility criteria, the Plan provided an incentive of enhanced pension benefits of up to five years pensionable service and waiver of actuarial reduction, if applicable, or a lump sum early retirement payment. The early retirement incentive is being funded from operations.

The significant actuarial assumptions used in measuring the University's accrued benefit obligation under each plan are as follows:

Future employee benefits

Include a discount rate of 5.2% and an average rate of compensation increase of 4.5%.

Supplemental retirement income plan (SRIP)

Include a discount rate of 7% and an average compensation increase of 4.5%.

Voluntary early retirement income plan (VERIP)

Include a discount rate of 8%.

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

12. Employee Future Benefits (cont'd)

	SRIP		VERIP		Other benefits	
	2006	2005	2006	2005	2006	2005
Accrued Benefit Obligation						
Balance, beginning of year	\$4,051	\$3,966	\$5,893	\$6,001	\$64,841	\$61,644
Current service cost	172	182	-	-	3,112	2,434
Interest cost	284	278	471	456	4,061	3,741
Benefits paid	(163)	(133)	(598)	(600)	(2,498)	(2,973)
Actuarial (gain) loss	(653)	(242)	(40)	36	1,156	(5)
	\$3,691	\$4,051	\$5,726	\$5,893	\$70,672	\$64,841
Current Plan Expense						
Current service expense	\$172	\$182	\$ -	\$ -	\$3,112	\$2,434
Interest cost	284	278	471	456	4,061	3,741
Actuarial (Gain) loss	(653)	(242)	(40)	36	1,156	(5)
	\$(197)	\$218	\$431	\$492	\$8,329	\$6,170

A summary of these accrued benefit obligations are as follows:

	2006	2005
Future employee benefits	\$70,672	\$64,841
Supplemental retirement income plan	3,691	4,051
Voluntary early retirement income plan	5,726	5,893
Accrued Vacation	8,668	8,906
Sub Total	\$88,757	\$83,691
Less current portion	9,390	9,672
Long term benefit obligation	\$79,367	\$74,019

Memorial University of Newfoundland
Notes to Consolidated Financial Statements

Year ended March 31, 2006
(thousands of dollars)

13. Subsequent events

(a) Agreement with Memorial University of Newfoundland Student Union

On April 28, 2006, the University signed a lease agreement with Memorial University of Newfoundland's Student Union (MUNSU), under which the university will take ownership and control of MUNSU's daycare center, as well as restaurants, vending machines and bank machines in the University Center. The University will also assume the debt related to these areas. The University expects it will assume responsibility for operating these facilities on July 31, 2006.

(b) Western Sports and Entertainment Incorporated

On March 23, 2006 the University signed an agreement to take over the lease of the Pepsi Center in Corner Brook, Newfoundland, effective May 1, 2006. A separately incorporated entity has been established to operate the facility.

14. Comparative figures

Certain of the 2005 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2006.