Consolidated Financial Statements of

LAURENTIAN UNIVERSITY OF SUDBURY

Year ended April 30, 2006

KPMG

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AUDITORS' REPORT TO THE GOVERNORS

We have audited the following consolidated financial statements of **Laurentian University of Sudbury** as at April 30, 2006 and for the year then ended:

Consolidated Statement of Financial Position
Consolidated Statement of Operations
Consolidated Statement of Changes in Net Assets
Consolidated Statement of Cash Flows

These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Sudbury, Canada
June 30, 2006

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Financial Position

April 30, 2006, with comparative figures for 2005
(thousands of dollars)

	2006	2005
Assets		
Current assets:		
Cash and short-term investments	$ 37,706	23,992
Accounts receivable	12,841	8,810
Other	630	976
	51,177	33,778
Investments (note 2)	20,711	16,711
Accrued pension asset (note 3)	875	–
Capital assets (note 4)	87,355	68,748
	$ 160,118	119,237
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Bank advances (note 5)	$ 8,532	–
Accounts payable and accrued liabilities	10,528	7,733
Accrued vacation pay	1,057	983
Deferred revenue	2,225	1,914
Current portion of long-term debt	130	124
	22,472	10,754
Long-term obligations:		
Accrued early retirement program (note 6)	807	611
Long-term debt (note 7)	3,813	3,942
Employee future benefits obligation (note 3)	2,316	2,157
	6,936	6,710
Deferred contributions (note 8):		
Deferred contributions	25,448	12,724
Deferred capital contributions	51,216	42,264
	76,664	54,988
Net assets	54,046	46,785
Commitments and contingencies (note 12)		
	$ 160,118	119,237

See accompanying notes to consolidated financial statements.

On behalf of the Board of Governors:

__________________________ Governor

__________________________ Governor

LAUTRENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Operations

Year ended April 30, 2006, with comparative figures for 2005
(thousands of dollars)

		2006	2005
Revenue:			
Government grants and contracts	$	57,199	53,929
Tuition fees		27,254	26,134
Sales and services		8,374	11,995
Investment income		2,727	1,500
Research grants and contracts		14,074	14,309
Other fees and income (note 15)		17,961	8,700
Amortization of deferred capital contributions		1,935	1,728
		129,524	118,295
Expenses:			
Salaries and benefits		78,548	72,710
Operating		25,942	16,815
Scholarships and bursaries		8,066	7,195
Occupancy		5,474	5,693
Cost of ancillary sales and services		2,849	6,367
Depreciation		6,145	5,830
		127,024	114,610
Excess of revenue over expenses	$	2,500	3,685

See accompanying notes to consolidated financial statements.

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2006, with comparative figures for 2005
(thousands of dollars)

	Unrestricted	Vacation Pay and Employee Future Benefits	Internally Restricted (note 9)	Investment in Capital Assets (note 10)	Endowment	Total 2006	Total 2005
Net assets (deficiency), beginning of year	$ 1,439	(3,139)	12,547	20,905	15,033	46,785	40,681
Excess (deficiency) of revenue over expenses	6,110	(234)	834	(4,210)	–	2,500	3,685
Transfer for capital transactions (note 10)	(6,107)	–	–	6,107	–	–	–
Endowment contributions	–	–	–	–	4,761	4,761	2,419
Net assets (deficiency), end of year	$ 1,442	(3,373)	13,381	22,802	19,794	54,046	46,785

See accompanying notes to consolidated financial statements.

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Cash Flows

Year ended April 30, 2006, with comparative figures for 2005
(thousands of dollars)

	2006	2005
Cash flows from operating activities:		
Excess of revenue over expenses	$ 2,500	3,685
Adjustments for:		
Depreciation	6,145	5,830
Amortization of deferred capital contributions	(1,935)	(1,728)
	6,710	7,787
Change in non-cash working capital (note 14)	(505)	427
	6,205	8,214
Cash flows from financing and investing activities:		
Purchases of capital assets	(24,752)	(14,714)
Change in deferred contributions	12,724	(735)
Deferred capital contributions	10,887	12,631
Change in investments	(4,000)	(1,329)
Change in accrued early retirement program costs	196	235
Increase in accrued pension asset	(875)	–
Increase in employee future benefit obligation	159	171
Repayment of long-term debt	(123)	(99)
Endowment fund balance increase	4,761	2,419
Bank advances	8,532	–
	7,509	(1,421)
Net increase in cash	13,714	6,793
Cash and short-term investments, beginning of year	23,992	17,199
Cash and short-term investments, end of year	$ 37,706	23,992

See accompanying notes to consolidated financial statements.

The University is incorporated by special act under the laws of Ontario.

1. Significant accounting policies:

(a) Revenue recognition:

The University follows the deferral method of accounting for contributions. The principles under this method are summarized as follows:

Unrestricted contributions and pledged donations 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 the related expenses are recognized.

Contributions restricted for capital asset purchases are deferred and amortized to operations on the same basis as the related capital asset.

Contributions of artwork are recorded at fair market value at the date of the contribution as a direct increase to net assets.

Endowment contributions consist of donations and capitalized interest and are recognized on the accrual basis as direct increases in net assets.

Student fees and tuitions are recognized as revenue in the fiscal period when the respective courses and seminars are held.

(b) Investments:

Short-term investments are invested in Cash in Action funds which are carried at cost which approximates market value.

Long-term investments are largely invested in pooled funds, which are carried at market value.

Income derived from endowment investments is allocated to the related scholarship and bursary accounts and the endowment fund balance. Investment income on non-endowment investments is allocated to the respective non-endowment fund balance in proportion to their yearly weighted average.

1. Significant accounting policies (continued):

(c) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Capital assets are depreciated on the straight-line basis over their estimated useful lives as follows:

Buildings	40 years
Equipment and furnishings	7 years
Site improvements	15 years

(d) Employee future benefits:

The University has a defined contribution pension plan in which the University contributes a set amount to the plan in respect of individual employees, with a guaranteed minimum defined benefit. All employees of the University and its federated institutions which participate in the plan, are eligible to join the plan upon entering the service of one of those employers. The benefits are based on years of service and final average salary. The University sponsors a defined benefit health care plan for substantially all retirees and employees.

The University accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefit uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the pension plans for funding purposes was as of July 1, 2004, and the next required valuation will be as of July 1, 2007.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

(e) Internally restricted net assets:

The University restricts use of portions of its operating net assets for specific future uses. When incurred, the related expenses are charged to operations, and the balance of internally restricted assets is reduced accordingly with a transfer to unrestricted net assets.

1. Significant accounting policies (continued):

(f) Related entities and basis of presentation:

MIRARCo

The consolidated financial statements are inclusive of the assets, liabilities, revenues and expenses of the Mining Innovation Rehabilitation and Applied Research Corporation, which is a wholly controlled entity.

Northern Ontario School of Medicine

The Northern Ontario School of Medicine was created in order to provide medical education in Northern Ontario. While the University, along with Lakehead University, the only voting members of the School, has significant relationships with the School, the University has no claim to the School's net assets and nor is the University liable or contingently liable for any of the School's obligations. Accordingly, the operations of the School are not included in these consolidated financial statements.

Sudbury Neutrino Observatory

The Sudbury Neutrino Observatory was created on December 2, 1997 as a joint venture of the University and three other Canadian Universities, to perform research in sub-atomic physics. The University's proportionate share of the entity's assets, liabilities, revenues and expenses to March 31, 2005 have been included in these consolidated financial statements. The 2006 financial statements are not available and accordingly, the balances and transactions will be accounted for prospectively.

(g) Use of estimates:

The preparation of consolidated 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 revenues and expenses during the period. Actual results could differ from those estimates.

(h) Derivative financial instruments:

The University is party to a derivative financial instrument, principally an interest rate swap contract. Payments and receipts under the interest rate swap contract are recognized as adjustments to interest expense on long-term debt. The carrying amount of the derivative financial instrument, which is comprised of accrued gains and losses not yet realized, is not included in the consolidated financial statements.

2. **Investments** (in thousands of dollars):

		2006	2005
Pooled funds:			
Equities	$	10,601	8,222
Fixed income		10,021	8,425
Government bonds and guaranteed investment certificates		89	64
	$	20,711	16,711

3. **Employee future benefits:**

The University provides for the reimbursement of medical expenses to retired employees provided that certain specified conditions are met. An actuarial calculation of the future liabilities thereof has been made and forms the basis for the liability reported in these consolidated financial statements.

The University operates a defined contribution pension plan with a guaranteed minimum defined benefit. The actuarial report effective July 1, 2004, indicates that the guaranteed defined benefit portion of the pension plan has a deficit of approximately $4.9 million. This has been projected to $3.073 million as at April 30, 2006. This deficit must be liquidated by a special yearly payment of $508,000 over the next 15 years.

The reconciliation of the funded status of the defined benefit plan to the amounts recorded in the financial statements is as follows:

		Pension benefit plan		Post-employment benefit obligation	
(in thousands of dollars)		2006	2005	2006	2005
Accrued benefit obligation	$	(52,122)	(55,328)	(4,416)	(3,035)
Fair value of plan assets		49,049	51,616	821	737
Funded status - plan surplus (deficit)		(3,073)	(3,712)	(3,595)	(2,298)
Balance of unamortized amounts		3,948	3,712	1,279	141
Accrued benefit asset (liability)	$	875	–	(2,316)	(2,157)

3. Employee future benefits (continued):

The significant assumptions used are as follows (weighted-average):

	Pension benefit plan		Post-employment benefit obligation	
	2006	2005	2006	2005
Discount rate	6.5%	6.5%	5.5%	6.5%
Rate of compensation/inflation increases	3.5%	4.0%	3.0%	3.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	5.0%	5.0%
Health care cost trend rate	–	–	3.0%	3.0%

The retiree health benefit plan expense for 2006 amounted to $217,000 (2005 - $223,000) and the benefit payments included therein made on behalf of retirees amounted to $58,000 (2005 - $55,000).

Total cash amounts recognized as paid or payable for pension benefits in 2006, consisting of employer contributions to the defined pension plan were $5,218,000 (2005 - $4,809,000).

4. Capital assets (in thousands of dollars):

	2006		2005	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Buildings	$ 119,432	46,237	98,940	44,138
Equipment and furnishings	79,462	67,166	75,347	63,282
Land and site improvements	7,809	5,945	7,664	5,783
	206,703	119,348	181,951	113,203
Less accumulated depreciation	119,348		113,203	
	$ 87,355		68,748	

5. Bank advances:

The bank advances represent bankers' acceptances used for construction of the new residence, which bear interest from 4.21% to 4.54%, are secured by a general security agreement and may be renewed from May 2006 to September 2006.

6. **Accrued early retirement program costs** (in thousands of dollars):

The University offers a voluntary early retirement program to all University academic staff. The estimated accrued liability, which amounts to approximately $1,535 represents salaried costs owed to the participating staff members.

These retirement costs will be paid out approximately as follows:

2007	$ 728
2008	405
2009	257
2010	128
2011	17
	1,535
Less current portion included in accrued liabilities	728
Non-current portion	$ 807

7. **Long-term debt** (in thousands of dollars):

	2006	2005
Long-term debt	$ 3,943	4,066
Less current portion	130	124
	$ 3,813	3,942

The University entered into an interest rate derivative agreement to manage the volatility of interest rates. The University converted floating rate debt for fixed rate debt at 5.14%. The related derivative agreement is in place until the maturity of the debt in 2024.

The principal repayments estimated in each of the next five years are as follows:

2007	$ 130
2008	137
2009	144
2010	152
2011	159
Thereafter	3,221
	$ 3,943

8. **Deferred contributions** (in thousands of dollars):

(a) Deferred contributions:

Deferred contributions represent external contributions restricted for research and trust expenditures to be incurred in subsequent fiscal years. Details of the change in deferred contributions are as follows:

	2006	2005
Balance, beginning of year	$ 12,724	13,459
Add contributions received in the year	40,135	17,450
Less amounts recognized as revenue	(27,411)	(18,185)
Balance, end of year	$ 25,448	12,724

(b) Deferred capital contributions:

Deferred capital contributions represent the unspent and unamortized amount of donations and grants received for the purchase of capital assets. Details of the change in deferred capital contributions are as follows:

	2006	2005
Unspent:		
Balance, beginning of year	$ 2,288	27
Add contributions received in the year	10,887	12,631
Less amounts utilized	(10,837)	(10,370)
Balance, end of year	$ 2,338	2,288
Unamortized:		
Balance, beginning of year	$ 39,976	31,334
Add contributions received in the year	10,837	10,370
Less amount amortized to revenue	(1,935)	(1,728)
Balance, end of year	48,878	39,976
Total unspent and unamortized capital contributions	$ 51,216	42,264

9. **Internally restricted net assets** (in thousands of dollars):

	2006	2005
Sudbury Neutrino Observatory	$ 169	204
Future budget provisions	3,547	2,907
Departmental trust funds	3,308	2,144
Scholarship and bursary funds	244	129
Departmental research funds	2,485	2,268
Departmental carry forwards	3,721	3,427
Outstanding purchase orders	1,217	487
Self-insurance funds	250	250
Reserve for early retirement	(1,536)	(1,192)
Ancillaries (deficit)	(105)	(639)
Replacement reserve - ancillaries	416	416
Unexpended (overexpended) capital fund	(1,710)	1,646
Provision for pension plan liabilities	1,375	500
	$ 13,381	12,547

10. **Investment in capital assets (in thousands of dollars):**

The investment in capital assets is calculated as follows:

	2006	2005
Capital assets	$ 87,355	68,748
Less amounts financed by:		
Long-term debt	(3,943)	(4,066)
Internal financing (note 11)	(3,200)	(3,801)
Bank advances	(8,532)	–
Unamortized deferred capital contributions	(48,878)	(39,976)
	$ 22,802	20,905

Details of the transfer for capital transactions are as follows:

	2006	2005
Repayment of long-term debt	$ 123	99
Repayment of internal financing	601	703
Internally funded capital assets	5,383	4,344
	$ 6,107	5,146

11. **Internal financing** (in thousands of dollars):

Details of capital asset internal financing activities are as follows:

		April 30, 2005	Repayments	April 30, 2006
University press	$	70	(28)	42
Heating plant		661	(133)	528
Energy retrofit		1,952	(257)	1,695
Telephone system and copier equipment		1,118	(183)	935
	$	3,801	(601)	3,200

The internal loans bear interest at a floating rate equal to the return earned on short-term investments and are to be repaid over a period ranging from five to ten years.

12. **Commitments and contingencies:**

(a) The University participates in a reciprocal exchange of insurance risks in association with forty other Canadian universities. This self-insurance co-operative involves a contractual agreement to share the insurance property and liability risks of member universities.

(b) The University has contracted to construct a new school of education building. The total cost of the project is estimated at $19,250,000 and as of April 30, 2006 the University has spent $205,000.

(c) The University has contracted to construct a 223 bed residence at a cost of $14.5 million, to be completed by September 2006. The debt incurred to build this facility will be repaid through residence fees. As at April 30, 2006 the University has spent $10.4 million.

(d) The University is involved in certain legal matters and litigation, 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 resolved. Management is of the opinion that these matters are mitigated by adequate insurance coverage.

13. Ontario Student Opportunity Trust Fund:

During 1997, Laurentian University held a fundraising campaign to raise capital for student financial aid pursuant to a trust fund established by the Province of Ontario. Under the program, every dollar raised will be matched by the Province. Details of the Ontario Student Opportunity Trust Fund are as follows:

	2006	2005
Endowment balance, beginning of year	$ 8,391,201	8,391,144
Donations	–	57
Capitalized interest	262,675	–
Endowment balance, end of year	8,653,876	8,391,201
Funds available for awards, beginning of year	142,694	97,079
Investment income	379,597	481,333
Bursaries awarded (total number: 380; 2005 - 379)	(437,603)	(435,718)
Funds available for awards, end of year	84,688	142,694
Total funds	$ 8,738,564	8,533,895

14. Change in non-cash working capital (in thousands of dollars):

	2006	2005
Cash flows from operating activities:		
Accounts receivable	$ (4,031)	(965)
Other assets	346	343
Accounts payable and accrued liabilities	2,795	801
Accrued vacation pay	74	16
Deferred revenue	311	232
	$ (505)	427

15. **Other fees and income** (in thousands of dollars):

Details of the other fees and income are as follows:

	2006	2005
Sponsored students	$ 1,497	1,545
Compulsory ancillary and other	2,634	2,272
Administrative fees:		
Federated institutions	480	522
Ancillary operations	468	360
Overhead on research contract and other trust accounts	210	200
Scholarships, bursaries and other trust account contributions	12,672	3,801
	$ 17,961	8,700

16. Fair value of financial assets and financial liabilities:

The carrying values of the University's cash and short-term investments, accounts receivable, bank advances, accounts payable and accrued liabilities and accrued vacation pay approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

Information concerning investments is provided in note 2; the fair value approximates the carrying value.

Information concerning the long-term debt is provided in note 7. The fair value of the debt is $3.943 million, and the related derivative instrument is $82,000.