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

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 services are provided or the goods are sold.

(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.

(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 charges 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
⇒ Vehicles	30% declining balance
⇒ Campus network	20% declining balance
⇒ 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 guaranteed 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 Pensions Benefit 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 $132,421,000 and a going concern deficiency of $83,330,000 at March 31, 2005. 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 $6.745M per year for 15 years. At present, the University has an exemption under the PBA from making payments relating to the solvency deficiency which expires December 31, 2005.

The University's contributions to the Pension Plan are recorded as an expenditure within the Statement of Operations.

(thousands of dollars)

2. Significant Accounting Policies (cont'd)

(h) Employee future benefits (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	2005 Net Book Value	2004 Net Book Value
Buildings	$184,789	$92,728	$92,061	$84,115
Furniture & Equipment	44,267	22,732	21,535	18,482
Computers	24,785	16,790	7,995	8,217
Vehicles	1,414	841	573	516
Campus network	3,283	2,293	990	1,649
Library collection	99,958	70,738	29,220	29,074
	$358,496	**$206,122**	**$152,374**	**$142,053**

Capital assets include certain assets under capital lease with a net book value of $4.663 million (2004 – $5.840 million).

(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.

	2005	2004
Balance, beginning of year	$31,262	$34,535
Revenue received during the year	46,411	43,013
Expenses incurred during the year	41,853	46,286
	$35,820	**$31,262**

(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.

	2005	2004
Balance, beginning of year	$135,343	$129,784
Additional contributions received	27,821	23,987
Less amounts amortized to revenue	(18,585)	(18,428)
	$144,579	**$135,343**

The balance of deferred capital contributions related to capital assets consists of the following:

	2005	2004
Unamortized deferred capital contributions	$143,180	$130,601
Unspent capital contributions	1,399	4,742
	$144,579	**$135,343**

(thousands of dollars)

4. Deferred Contributions (cont'd)

(c) Total deferred contributions

	2005	2004
Expenses of future periods	$35,820	$31,262
Capital assets	144,579	135,343
	$180,399	**$166,605**

5. Long term debt

	2005	2004
CMHC, 5.875% interest, repayable in equal payments of $29,095 semi-annually, which commenced on December 1, 1994	$ 536	$ 563
Capital leases negotiated through the Royal Bank, interest rates vary, payable in equal annual installments, secured by assets under lease	2,362	3,568
RBC Royal Bank, fixed term loan, 5.19% interest, repayable in equal annual of payments of $122,000	780	858
	$3,678	**$4,989**
Less Short Term Portion	***1,573***	***1,501***
	$2,105	**$3,488**

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

- ⇒ 2006 $1,573
- ⇒ 2007 $ 531
- ⇒ 2008 $ 496
- ⇒ 2009 $ 154
- ⇒ 2010 $ 156

(thousands of dollars)

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 cons truction of a new residence complex for Sir Wilfred Grenfell College. Currently the debt has been negotiated using bankers' acceptances at rates of 3.24% to 3.55% which matures during 2005. Management expects to refinance these loans through bankers' acceptance for the balance of the term of the loans.

7. Financial instruments

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

The carrying value of long term debt financing approximates its fair value based on current borrowing rates available to the University.

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

	2005		2004	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Fixed Income	$22,565	$22,966	$22,690	$23,812
Equities	24,571	27,940	20,307	21,356
	$47,136	**$50,906**	**$42,997**	**$45,168**

Cash in the amount of $770 thousand 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.

7. Financial instruments (cont'd)

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 3.11% to 7.60% with maturities ranging from 2005 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.

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, 2004, CURIE has a surplus of $5.995 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.

(thousands of dollars)

9. Contingencies (cont'd)

(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 $1.173 million.

10. Net assets

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

	2005	2004
Restricted Assets subject to externally imposed restrictions requiring the principal to be maintained	$39,762	$38,248
Restricted assets subject to externally imposed restrictions requiring the principal be loaned to students	1,238	1,221
General University Endowment Fund is an internally restricted endowment	7,620	7,375
	$48,620	**$46,844**

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.

(thousands of dollars)

10. Net assets (cont'd)

The University has unrestricted operating net assets calculated as follows:

	2005	2004
Total net assets	($18,544)	($21,993)
Less:		
Net assets restricted for endowment purposes	48,620	46,844
Net assets invested in capital assets	(1,823)	(1,712)
Net assets internally restricted for specific purposes	3,069	3,185
Net assets invested in separately incorporated entities	6,938	5,831
Net assets invested in future employee benefits	(74,785)	(71,611)
Net assets invested in accrued vacation benefits	(8,799)	(8,537)
Unrestricted operating net assets	**$8,236**	**$3,421**

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, 2005, the Government has contributed $27.4 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 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 Customs and Revenue Agency maximum pensionable salary and whose defined benefit pension, therefore, exceeds the maximum benefits 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 Program.

(thousands of dollars)

12. Employee Future Benefits (cont'd)

Subject to eligibility criteria, the Program 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 5.8% and an average rate of compensation increase of 4.5%. In addition, in determining the expected cost of health care benefits, it was assumed that health care costs will increase by 8% in year one and decrease gradually to 3% in 2011 and remain level thereafter.

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%.

	SRIP		VERIP		Other benefits	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Accrued Benefit Obligation						
Balance, beginning of year	**$3,646**	**$3,376**	**6,001**	**$6,153**	**$61,964**	**$38,275**
Current service cost	182	172	-	-	2,434	1,346
Interest cost	278	251	456	492	3,741	2,629
Benefits paid	(133)	(85)	(600)	(629)	(2,973)	(1,556)
Actuarial (gain) loss	(262)	(68)	36	(15)	15	21,270
	$3,711	**$3,646**	**$5,893**	**$6,001**	**$65,181**	**$61,964**
Current Plan Expense						
Current service expense	$182	$172	$ -	$ -	$2,434	$1,346
Interest cost	278	251	456	492	3,741	2,629
Actuarial (Gain) loss	(262)	(68)	36	(15)	15	21,270
	$198	**$355**	**$492**	**$477**	**$6,190**	**$25,245**

(thousands of dollars)

12. Employee Future Benefits (cont'd)

A summary of these accrued benefit obligations are as follows:

	2005	**2004**
Future employee benefits	$65,181	$61,964
Supplemental retirement income plan	3,711	3,646
Voluntary early retirement income plan	5,893	6,001
Sub Total	**$74,785**	**$71,611**
Less current portion	**766**	**781**
Long term benefit obligation	**$74,019**	**$70,830**

13. Comparative figures

Certain of the 2004 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2005.

The prior year figures, as presented for comparative purposes, were reported on by another auditor who expressed their opinion without reservation in their report dated June 11, 2004.