



MEMORIAL UNIVERSITY OF NEWFOUNDLAND

*Consolidated Financial Statements
with Supplementary Schedules*

March 31, 2018

**MEMORIAL UNIVERSITY OF NEWFOUNDLAND
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FOR THE YEAR ENDED MARCH 31, 2018**

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STATEMENT OF MANAGEMENT RESPONSIBILITY

The accompanying consolidated financial statements of **Memorial University of Newfoundland** [the “University”] as at and for the year ended March 31, 2018 have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management’s responsibility. Management is also responsible for all the notes to the consolidated financial statements and schedules.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management developed and maintains systems of internal control to provide reasonable assurance that transactions are properly authorized and recorded, proper records are maintained, assets are safeguarded, and the University complies with applicable laws and regulations.

The Board of Regents of the University [the “Board”] is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit and Risk Committee [the “Committee”]. The Committee meets with management and the external auditors to review any significant accounting and auditing matters, to discuss the results of audit examinations, and to review the financial statements and the external auditors’ report. The Committee reports its findings to the Board for consideration when approving the financial statements.

The external auditor, Ernst & Young LLP, conducts an independent examination in accordance with Canadian generally accepted auditing standards and expresses an opinion on the consolidated financial statements for the year ended March 31, 2018.

”SIGNED”

Kent Decker, CPA,CA
Vice President, Administration &
Finance

”SIGNED”

Deborah Collis, CPA,CA
Director, Department of Financial and
Administrative Services

INDEPENDENT AUDITORS' REPORT

To the Board of Regents of
Memorial University of Newfoundland

We have audited the accompanying consolidated financial statements of **Memorial University of Newfoundland** which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of operations, remeasurement gains and losses, changes in net deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of **Memorial University of Newfoundland** as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

EY
Ernst + Young LLP

Chartered Professional Accountants

St. John's, Canada
March 22, 2019

**CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

As at March 31
[thousands of dollars]

	2018	2017
ASSETS		
Current		
Cash and cash equivalents	33,824	27,997
Restricted cash [note 4]	1,399	922
Short-term investments	109,345	92,811
Accounts receivable	64,398	57,220
Other current assets	7,794	7,979
Total current assets	216,760	186,929
Portfolio investments [note 6]	131,763	112,779
Assets under development [note 8]	114,488	63,119
Tangible capital assets [note 7]	353,827	335,461
Total assets	816,838	698,288
LIABILITIES		
Current		
Bank indebtedness [note 5]	7,473	8,797
Accounts payable and accrued liabilities [note 4]	63,046	42,396
Deferred revenue	27,037	34,954
Deferred contributions - grants and donations [note 10]	92,246	92,295
Current portion of long term debt [note 11]	33,491	774
Total current liabilities	223,293	179,216
Long term debt [note 11]	60,695	10,346
Derivative liability [note 5]	375	933
Post-employment benefits [note 12]	233,006	217,894
Deferred capital contributions [note 9]	374,178	367,020
Total liabilities	891,547	775,409
NET DEFICIENCY		
Net assets externally restricted for endowments [note 16]	103,612	92,933
Net assets related to remeasurement gains and losses	138	7,434
Unrestricted net deficiency	(178,459)	(177,488)
Total net deficiency	(74,709)	(77,121)
Total liabilities and net deficiency	816,838	698,288

See accompanying notes
Contingencies [note 13]

On behalf of the Board:

"SIGNED"

Chair of the Board of Regents

"SIGNED"

Chair of the Finance Committee

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended March 31
[thousands of dollars]

	<u>2018</u>	<u>2017</u>
REVENUE		
Government grants	422,265	403,235
Student fees	73,109	63,896
Other income	56,117	55,900
Amortization of deferred capital contributions <i>[note 9]</i>	39,016	37,468
Sales and services	15,040	15,715
Investment income	13,187	6,912
	<u>618,734</u>	<u>583,126</u>
EXPENSES		
Salaries and employee benefits	411,254	418,132
Amortization of tangible capital assets	38,102	36,953
Scholarships, bursaries and awards	32,382	30,191
Utilities	24,954	20,129
Materials and supplies	23,204	26,854
Externally contracted service	19,629	19,396
Repairs and maintenance	19,255	19,132
Travel and hosting	15,806	16,233
Other operating expenses	14,060	13,216
Professional fees	9,139	10,669
Equipment rentals	3,382	4,375
Interest expense	420	826
Post-employment benefits <i>[note 12]</i>	15,112	13,496
External cost recoveries	(15,183)	(15,689)
	<u>611,516</u>	<u>613,913</u>
Excess of revenue over expenses (expenses over revenue)	<u>7,218</u>	<u>(30,787)</u>

See accompanying notes

**CONSOLIDATED STATEMENT OF
REMEASUREMENT GAINS AND LOSSES**

Year ended March 31
[thousands of dollars]

	2018	2017
Accumulated remeasurement gains at beginning of year	7,434	2,628
Unrealized gains (losses) attributable to:		
Portfolio investments	(1,845)	8,295
Derivative liability <i>[note 5]</i>	634	376
Realized (gains) losses reclassified to consolidated statement of operations:		
Portfolio investments	(6,085)	(3,865)
Accumulated remeasurement gains at end of year	138	7,434

See accompanying notes

**CONSOLIDATED STATEMENT OF CHANGES
IN NET DEFICIENCY**

As at March 31
[thousands of dollars]

	Net Assets Externally Restricted for Endowment Purposes <i>[note 16]</i>	Net Assets Related to Remeasurement Gains	Unrestricted Net Deficiency	2018	2017
Balance, beginning of year	92,933	7,434	(177,488)	(77,121)	(53,426)
Change in remeasurement gains for the current year	-	(7,296)	-	(7,296)	4,806
Excess of revenue over expenses (expenses over revenue)	-	-	7,218	7,218	(30,787)
Transfers to restricted net assets for endowment purposes	8,189	-	(8,189)	-	-
Endowment contributions	2,490	-	-	2,490	2,286
Balance, end of year	103,612	138	(178,459)	(74,709)	(77,121)

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31
[thousands of dollars]

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)	7,218	(30,787)
Items not affecting cash:		
Amortization of tangible capital assets	38,102	36,953
Amortization of deferred capital contributions	(39,016)	(37,468)
Loss on disposal of tangible capital assets	768	437
Increase in post-employment benefits, net	15,112	13,496
Change in non-cash working capital [note 8]	(18,834)	12,766
Cash provided by (used in) operating activities	<u>3,350</u>	<u>(4,603)</u>
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	(57,236)	(40,746)
Assets under development [note 8]	(26,840)	4,048
Contributions received for capital purposes	46,174	26,624
Cash used in capital activities	<u>(37,902)</u>	<u>(10,074)</u>
INVESTING ACTIVITIES		
(Increase) decrease in short-term investments, net	(16,534)	30,133
(Increase) decrease in restricted cash, net	(477)	955
(Increase) in portfolio investments, net	(26,842)	(4,879)
Cash (used in) provided by investing activities	<u>(43,853)</u>	<u>26,209</u>
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(1,324)	(1,300)
Endowment contributions	2,490	2,286
Principal repayment of long-term debt	(771)	(782)
Increase in long-term debt	83,837	-
Cash provided by financing activities	<u>84,232</u>	<u>204</u>
Net change in cash and cash equivalents during the year	<u>5,827</u>	<u>11,736</u>
Cash and cash equivalents, beginning of year	27,997	16,261
Cash and cash equivalents, end of year	<u>33,824</u>	<u>27,997</u>
Cash and cash equivalents represented by:		
Cash	33,824	27,997
Cash equivalents	-	-
	<u>33,824</u>	<u>27,997</u>

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

1. AUTHORITY AND PURPOSE

Memorial University of Newfoundland [the “University”] is a corporation operating under the authority of the *Memorial University Act*. The University is an inclusive community dedicated to innovation and excellence in teaching and learning, research, scholarship, creative activity, service and public engagement. 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 government not-for-profit organization [“GNPO”], governed by a Board of Regents, the majority of whom are appointed by the Government of Newfoundland and Labrador. The University is a registered charity under the *Income Tax Act [Canada]* and, accordingly, is exempt from income taxes, provided certain requirements of the *Income Tax Act [Canada]* are met.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the University have been prepared by management in accordance with Canadian public sector accounting standards for GNPO’s, including the 4200 series of standards, as issued by the Public Sector Accounting Board [“PSAB”].

Adoption of new accounting standards

During the year, the University adopted new accounting standards PS 2200, related party disclosures, and PS 3420 inter-entity transactions. These new standards are effective for fiscal years beginning on or after April 1, 2017.

PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government’s reporting entity from both a provider and recipient perspective.

The new accounting policy was applied on a prospective basis and did not have any impact on the financial statements.

Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the University and the following not-for-profit organizations, which are controlled by the University:

C-CORE
Campus Childcare Inc.
The Canadian Centre for Fisheries Innovation
Genesis Group Inc.
Memorial University Recreation Complex

All intercompany assets and liabilities, revenues and expenses have been eliminated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses during the year at the date of the consolidated financial statements. Actual results could differ from these estimates. Estimates are reviewed periodically, and as adjustments become necessary, they are reported in the earnings of the period during which they became known. Areas of key estimation include actuarial assumptions for post-employment benefits, allowance for doubtful accounts, amortization rates and cost of assets under construction.

Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants, as follows:

Contributions are recorded in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognized as revenue when initially recorded in the accounts.

Contributions externally restricted for purposes other than endowment are initially deferred when recorded in the accounts and recognized as revenue in the year during which the related expenses are incurred.

Restricted contributions for the purchase of capital assets are deferred and amortized to operations on the same basis as the related asset.

Endowment contributions are recorded as direct increases in net assets in the year during which they are received.

Revenues from contracts, sales and other ancillary services [parking, residence, sundry sales, etc.] are recognized when the goods or services are provided and collection is reasonably assured.

Student fees are recognized as revenue when courses or seminars are held.

Investment income (loss) recorded in the statement of operations consists of interest, dividends, income distributions from pooled funds and realized gains and losses, net of related fees. Unrealized gains and losses are recorded in the statement of remeasurement gains, except to the extent they relate to deferred contributions and to endowments, in which case they are added to the respective balance.

Restricted investment income [interest, dividends, realized gains and losses] is initially deferred and recognized in the year in which the related expenses are incurred.

Restricted investment income [interest, dividends, realized gains and losses] that must be maintained as an endowment is recorded as a direct increase/decrease to net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Endowments

Endowments consist of internally and externally restricted donations received by the University. The endowment principal is required to be maintained intact, with the investment income generated used for the purposes established by the donors. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided. The University has established a policy with the objective of protecting the real value of the endowments. The amount of income made available for spending is prescribed annually and an amount is added to endowment net assets for capital preservation every three years.

Expense recognition

Expenses are recorded on the accrual basis as they are incurred and measurable based on receipt of goods or services and obligation to pay.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit, investments in money-market funds and short-term investments with original terms to maturity of 90 days or less. Cash and cash equivalents held by external investment managers for investing rather than liquidity purposes are classified as investments.

Tangible capital assets

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of acquisition. Repairs and maintenance expenses are charged to operations as incurred. Betterments which meet certain criteria are capitalized.

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

The University's library collection is capitalized and recorded at cost.

Assets under development are recorded as such in the consolidated statement of financial position until the asset is ready for productive use, at which time it is transferred to tangible capital assets and amortized.

Assets under capital lease are recorded as tangible capital assets and amortized on the same basis as the underlying asset.

Tangible capital assets are amortized over their useful lives using the following methods and rates.

<u>Asset</u>	<u>Rate</u>	<u>Method</u>
Buildings	8%	Declining balance
Furniture and equipment	20%	Declining balance
Computers	30%	Declining balance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Software	20%	Declining balance
Vehicles and vessels	30%	Declining balance
Library collection	10 years	Straight line

Impairment of long-lived assets

Tangible capital assets are written down when conditions indicate they no longer contribute to the University's ability to provide goods and services, or when the value of the future economic benefits associated with the tangible capital assets is less than their net book value. The net write-downs are accounted for as an expense in the consolidated statement of operations. Any associated unamortized deferred capital contributions related to the derecognized assets is recognized in income.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year end. Operating revenue and expenses are translated at exchange rates prevailing on the transaction dates. Realized gains or losses arising from these translations are included in the statement of operations. Unrealized gains or losses are included in the statement of remeasurement gains, except to the extent they relate to deferred contributions, in which case they are added to the balance.

Post-employment benefits

Pension plan

The employees of the University participate in a defined benefit pension plan [the Plan] administered under the *Memorial University Pensions Act*. The Plan is underwritten by the Province of Newfoundland and Labrador. Payments to the Plan consist of contributions from employees together with matching amounts from the University plus any additional amounts required to be paid by an employer as prescribed in the *Pension Benefits Act (1997)* [PBA]. For the period April 1, 2015 to March 31, 2017 the University was exempt from the going concern funding requirements of the PBA thereby allowing deferral of the 2015/16 and 2016/17 special payments against the Plan's unfunded liability. The University was also granted a deferral of the special payment otherwise required for 2017/18.

With respect to a solvency deficiency, the PBA requires that an employer contribute an amount sufficient to liquidate the deficiency within five years of the solvency valuation date. The University is exempt from this solvency funding provision to December 31, 2018. Where the solvency ratio is below prescribed limits the University will, however, make special payments into the fund representing the solvency deficiency on refunds and transfers paid out of the fund.

The University's contributions to the pension plan are recorded as an expense in the consolidated statement of operations. The assets and obligations of the plan are not recorded in these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

An actuarial valuation of the Plan was performed as at December 31, 2017. The results of this valuation and those of the December 31, 2016 valuation have been extrapolated to March 31, 2018 and 2017 for financial statement reporting.

The extrapolation revealed that the going concern unfunded liability is \$252.2 million at March 31, 2018 based on current Plan provisions and PBA requirements. Under the PBA, a going concern unfunded liability must be funded over a period of not more than 15 years while a solvency deficiency must be funded over a maximum five-year period. A portion of the going concern unfunded liability relates to the past service cost of indexing, introduced under the Plan, effective July 1, 2004. A funding arrangement was implemented coincident with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. At March 31, 2018, approximately 26.25 years are remaining in the amortization schedule. The indexing liability is amortized on a declining balance basis along with recognition that if the indexing contributions (i.e., an additional 0.6% of payroll being made by both the University and employees) exceed the originally scheduled amortization payment, then 15 years' worth of these excess contributions can be accounted for when determining the University's special payments.

The plan is currently being funded based upon the December 31, 2015 actuarial valuation which disclosed a going concern unfunded liability of \$297.2 million. The University is required to make special payments to amortize the unfunded liability over a period of not more than 15 years. The portion of the going concern unfunded liability (after accounting for the indexing liability) to be amortized was \$218.4 million and the required amortization payment for fiscal 2018/2019 is estimated to be \$30.8 million [or 9.8% of pensionable payroll]. The next actuarial valuation for funding is due no later than December 31, 2018 (i.e. within three years of the December 31, 2015 actuarial valuation).

Other post-employment benefits

In addition to the University's pension plan, the University also has defined benefit plans for other post-employment benefits. These benefits are actuarially determined using the projected benefit method prorated on service and the administration's best estimate of salary escalation, retirement ages of employees and escalation on covered benefit expense outlays. Liabilities are measured using a discount rate determined by reference to the University's cost of borrowing. Actuarial gains and losses will be amortized over the average remaining service life of employees, which is 13 years.

The post-employment benefits are:

- Supplemental Retirement Income Plan (SRIP)
- Voluntary Early Retirement Income Plan (VERIP)
- Other benefits [severance, group life insurance and health care benefits]

Financial instruments

The University classifies its financial instruments as either fair value or amortized cost. The University determines the classification of its financial instruments at initial recognition. The accounting policy for each category is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Fair value

This category includes cash and cash equivalents, restricted cash, bank indebtedness, derivatives and equity investments quoted in an active market as well as investments in pooled funds for identical assets or liabilities using the last bid price. The University has designated its bond portfolio that would otherwise be classified into the amortized cost category at fair value as the University manages and reports performance of it on a fair value basis.

Transaction costs related to these financial instruments are expensed as incurred.

Unrealized changes in fair value are recognized in the consolidated statement of remeasurement gains and are reclassified to the consolidated statement of operations upon disposal or settlement.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement gains and recognized in the consolidated statement of operations. If the loss subsequently reverses, the writedown to the consolidated statement of operations is not reversed until the investment is sold.

Amortized cost

This category includes short term investments, accounts receivable, accounts payable and accrued liabilities and debt. They are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses.

Transaction costs related to financial instruments in the amortized cost category are capitalized and amortized over the term of the instrument.

Short term investments consist of investments in debt securities, whether or not quoted in an active market, initially recorded at fair value plus financing fees and transaction costs that are directly attributable to their acquisition or disposal. These debt securities are thereafter carried at amortized cost using the straight line amortization method.

Write-downs of financial assets in the amortized cost category are recognized when the amount of the loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the consolidated statement of operations.

Derivative financial instruments

Derivative financial instruments are utilized by the University in the management of interest rate exposure related to its bank indebtedness. The University may also enter into foreign exchange forward contracts to eliminate the risk of fluctuating foreign exchange rates on future commitments. The University does not utilize derivative financial instruments for trading or speculative purposes.

The University enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its floating rate bank indebtedness. These swap agreements require the periodic exchange of payments without the exchange of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

the notional principal amount on which the payments are based. These swap agreements are recorded on a mark-to-market basis.

Contributed materials and services

If contributed materials meet the definition of a tangible capital asset, and fair value is determinable, the University capitalizes and amortizes the tangible capital asset. All other contributed materials are not recognized in these consolidated financial statements.

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 cost that would otherwise be associated with these contributed services is not recognized in these consolidated financial statements.

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 and subsequent distributions are recorded as decreases in these liabilities.

3. MEMORIAL UNIVERSITY ACT

In accordance with the *Memorial University Act*, the University is normally prohibited from recording a deficit on its consolidated financial statements in excess of $\frac{1}{4}$ of 1% of its total revenue.

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 \$5.0 million in 1996 and an additional \$10.0 million in 1997 as a result of the recognition of the liabilities related to VERIP 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 other post-employment benefits.

4. RESTRICTED CASH

Restricted cash consists of premiums paid to Manulife Financial on behalf of employees which are held in an interest-bearing bank account to be used to fund future rate increases or enhancements in the long-term disability and basic term life insurance plans. The related liability is included in accounts payable and accrued liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

5. 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 involved the construction of a new residence complex for Grenfell Campus [Project 1] and the implementation of an energy performance program in five buildings on the University’s main campus in St. John’s [Project 2]. The debt has been negotiated using bankers’ acceptances [BA’s] which mature during the 2018/19 fiscal year. Management expects to refinance these loans through BA’s for the balance of the term of the loan. Disclosure related to interest rate risk is provided in *note 14*.

Derivative liability

Project 1 interest rate swap transaction involves the exchange of the underlying floating rate Canadian BA for a fixed interest rate of 1.58% expiring May 3, 2022 with a notional amount of \$1.2 million. The fair value of this interest rate swap is \$0.01 million [2017 - \$0.03 million].

Project 2 interest rate swap transaction involves the exchange of the underlying floating rate Canadian BA for a fixed interest rate of 5.12% expiring October 1, 2022 with a notional amount of \$6.3 million. The fair value of this interest rate swap is \$0.5 million [2017 - \$0.9 million].

6. FINANCIAL INSTRUMENT CLASSIFICATION

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each valuation. The fair value hierarchy is made up of the following levels:

Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities using the last bid price.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

[thousands of dollars]	2018				2017
	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	33,824	-	-	33,824	27,997
Restricted cash	1,399	-	-	1,399	922
Investments					
Publicly traded equity – CDN	37,970	-	-	37,970	27,701
Publicly traded equity – USD	-	-	-	-	10,830
Publicly traded equity – Global	34,875	-	-	34,875	10,654

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Mortgages	-	3,356	-	3,356	-
Real Estate	-	-	623	623	-
Fixed income	-	54,939	-	54,939	63,594
Bank indebtedness	-	7,473	-	7,473	8,797
Derivative liability	-	-	375	375	933
Total	108,068	65,768	998	174,834	151,428

There have been no significant transfers between levels for all reporting periods presented.

7. TANGIBLE CAPITAL ASSETS

Cost of Tangible Capital Assets					
	Beginning Balance	Additions	Disposals	Prior Period Adjustments	Ending Balance
Buildings	458,554	41,105			499,659
Furniture and equipment	165,652	6,743			172,395
Computers	25,127	4,449	3,248		26,328
Software	4,841	509			5,350
Vehicles and vessels	6,624	462			7,086
Library collection	165,137	4,133			169,270
Total	825,935	57,401	3,248	-	880,088

Accumulated Amortization					
	Beginning Balance	Additions	Disposals	Prior Period Adjustments	Ending Balance
Buildings	215,047	22,221			237,268
Furniture and equipment	109,551	7,594			117,145
Computers	16,495	2,737	2,479		16,753
Software	3,497	258			3,755
Vehicles and vessels	5,716	354			6,070
Library collection	140,168	5,102			145,270
Total	490,474	38,266	2,479	-	526,261

Net Book Value		
	2017	2018
Buildings	243,507	262,391
Furniture and equipment	56,101	55,250
Computers	8,632	9,575
Software	1,344	1,595
Vehicles and vessels	908	1,016
Library collection	24,969	24,000
Total	335,461	353,827

Amortization expense for the year is \$38.1 million (2017 - \$37.0 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

8. ASSETS UNDER DEVELOPMENT

Assets under development represent costs incurred to date on the construction of new facilities, the upgrade of current facilities to new energy performance standards and the implementation of new software. Assets under development are as follows:

[thousands of dollars]	<u>2018</u>	<u>2017</u>
Project Description		
Core Science Facility	89,538	26,615
Energy Performance Project	14,621	971
Animal Resource Center	6,930	2,034
100 Signal Hill Road	1,691	21,132
Engineering High Bay Labs	567	519
Document Management System	563	53
Aboriginal Center	329	329
Holyrood Research Facility	249	1
HMB Marginal Breakwater and Wharf	-	11,465
Total	<u>114,488</u>	<u>63,119</u>

Included in the above amounts for assets under development is \$25.5 (2017 - \$1.0) in accounts payable transactions that have been adjusted on the statement of cash flows in the categories of Assets Under Development and Change in Non-cash Working Capital.

9. DEFERRED CAPITAL CONTRIBUTIONS

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

[thousands of dollars]	<u>2018</u>	<u>2017</u>
Balance, beginning of year	367,020	377,864
Additional contributions received	46,174	26,624
Less amounts amortized to revenue	(39,016)	(37,468)
Balance, end of year	<u>374,178</u>	<u>367,020</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

10. DEFERRED CONTRIBUTIONS – GRANTS AND DONATIONS

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

[thousands of dollars]	2018	2017
Balance, beginning of year	92,295	83,398
Grants and donations received during the year	66,299	74,677
Less amounts recognized to revenue for expenses incurred during the year	(66,348)	(65,780)
Balance, end of year	92,246	92,295

11. LONG-TERM DEBT

[thousands of dollars]	2018	2017
CMHC mortgage on Queen’s College, 5.875% interest, repayable in 50 equal, blended payments of \$29 semi-annually, maturing in June 2018	28	82
Royal Bank of Canada [“RBC”] fixed rate term loan to fund the Marginal Breakwater and Wharf Facility, 3.69%, repayable in 19 equal, annual blended payments of \$825, matures in 2034	10,290	10,717
Immigrant Investor Fund, Government of Newfoundland and Labrador, bridge financing agreement for the Core Science Facility, 2% fixed rate, repayable in 7 variable amounts beginning in August 2018 and maturing in February 2020	41,489	-
Government of Newfoundland and Labrador, \$175,000 loan for the Core Science Facility to be drawdown in instalments over the period February 2018 to January 2020, interest to accrue on loan instalments at a rate equivalent to the three month Canadian Bankers’ Acceptance Rate which is the average three month Canadian Dealer Offered Rate (CDOR), at the end of the instalment period total principal plus accrued interest will be converted to a 30 year loan, maturing July 2050, at a rate equivalent to the Lender’s cost of borrowing, principal payments to begin October 1, 2020	21,746	-
RBC fixed rate term loan to fund the Animal Resource Center, \$15,600 loan at 4.18%, principal amount to be drawn down over 11 instalments concluding in December 2018, during the instalment period interest will be paid at an annual rate of 4.18%, at the end of the instalment period the loan will be repaid in 25 equal annual instalments of \$1,018, maturing December 2043	3,323	-
RBC fixed rate term loan to fund the University’s second Energy Performance Contract Project, \$28,400 loan at 3.73%, to be drawn down over 10 instalments concluding in September 2019, during the instalment period interest will accrue at an annual rate of 3.73%, at the end of the instalment period the loan and unpaid interest will be repaid at varying amounts over a 19 year period, maturing March 2038	17,279	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Capital leases negotiated through the RBC, varying interest rates, payable in equal annual installments, secured by assets under lease	31	321
	94,186	11,120
Less: current portion	33,491	774
	60,695	10,346

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

2019	\$33,491
2020	\$8,959
2021	\$476
2022	\$1,441
2023	\$2,754

12. POST-EMPLOYMENT BENEFITS

The University has a number of post-employment benefit liabilities including employee future benefits (severance, health and dental benefits and life insurance), Voluntary Early Retirement Income Plan and Supplemental Retirement Income Plan. The last valuation was performed on December 31, 2016 and extrapolated in each subsequent year for accounting purposes.

Employee Future Benefits

The University provides 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 severance to certain employee groups upon termination, retirement or death, provided they meet certain eligibility criteria. The cost of providing these future benefits is unfunded. Current year payments are funded on an annual basis from operations.

The significant actuarial assumptions used in measuring these benefits include the following:

	<u>2018</u>	<u>2017</u>
Discount rate:		
Liability	3.70%	4.20%
Expense	4.20%	4.20%
Average rate of compensation increase	4.00%	4.00%

The health care inflation rate is 6% in year 1 following the valuation date, reducing 0.5% per year to 4% in year 5 and later (2018 – 5.5%, 2017 – 6.0%). There is no explicit inflation rate assumption.

Voluntary Early Retirement Income Plan (VERIP)

In February and May 1996, the University offered faculty and staff, who reached age 55 and attained a minimum of 10 years pensionable service, an opportunity to take an early retirement under the provisions of the VERIP. Subject to eligibility criteria, the Plan provided an incentive of enhanced pension benefits of up to five years' pensionable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

service and waiver of actuarial reduction, if applicable, or a lump sum early retirement payment. The early retirement incentive is unfunded. Current year payments are funded on an annual basis from operations.

The significant actuarial assumptions used in measuring these benefits include the following:

	<u>2018</u>	<u>2017</u>
Discount rate		
Liability	3.30%	3.30%
Expense	3.30%	3.30%

Supplemental Retirement Income Plan (SRIP)

In May 1996, the Board of Regents approved a SRIP 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.

The significant actuarial assumptions used in measuring these benefits include the following:

	<u>2018</u>	<u>2017</u>
Discount rate		
Liability	3.70%	4.20%
Expense	4.20%	4.20%

The accrued liability and expense of these post-employment benefits are outlined in the tables below:

[thousands of dollars]

	<u>2018</u>			
	Employee Future Benefits	VERIP	SRIP	Total Liability
Post-employment benefits	231,827	5,151	35,376	272,354
Unamortized actuarial loss	(28,908)	-	(10,440)	(39,348)
Total liability	202,919	5,151	24,936	233,006

[thousands of dollars]

	<u>2017</u>			
	Employee Future Benefits	VERIP	SRIP	Total Liability
Post-employment benefits	199,118	5,378	28,570	233,066
Unamortized actuarial loss	(9,433)	-	(5,739)	(15,172)
Total liability	189,685	5,378	22,831	217,894

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

[thousands of dollars]

	2018			Total Expense
	Employee Future Benefits	VERIP	SRIP	
Current year benefit costs	8,963	-	1,020	9,983
Interest on accrued benefit obligations	8,623	170	1,224	10,017
Benefit payments	(5,406)	(483)	(882)	(6,771)
Amortized actuarial losses	1,053	86	744	1,883
Total expense	13,233	(227)	2,106	15,112

[thousands of dollars]

	2017			Total Expense
	Employee Future Benefits	VERIP	SRIP	
Current year benefit costs	7,158	-	1,063	8,221
Interest on accrued benefit obligations	8,414	181	1,180	9,775
Benefit payments	(5,990)	(489)	(733)	(7,212)
Amortized actuarial losses (gains)	2,154	(31)	589	2,712
Total expense	11,736	(339)	2,099	13,496

13. CONTINGENCIES**(a) Canadian University Reciprocal Insurance Exchange (CURIE)**

The University participates in a self-insurance cooperative involving a contractual agreement to share the insurance, property and liability risks of member universities for a term of not less than five years. In the event the premiums are not sufficient to cover claims settlements, the member universities would be subject to an assessment in proportion to their participation. For the year ended December 31, 2017, CURIE had a surplus of \$0.864 million and a cumulative subscribers' equity of \$81.2 million. The University's pro-rata share is approximately 3% on an ongoing basis.

(b) Asset Retirement Obligations

The University has identified a potential liability related to the existence of asbestos in a number of its facilities. Although not a current health hazard, upon renovation or demolition of these facilities, the University may be required to take appropriate remediation procedures to remove the asbestos. As the University has no legal obligation to remove the asbestos in these facilities as long as the asbestos is contained and does not pose a public health risk, the fair value of the obligation cannot be reasonably estimated due to the indeterminate timing and scope of the removal. The asset retirement obligations for these assets will be recorded in the period in which

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

there is certainty that the renovation or demolition project will proceed and there is sufficient information to estimate fair value of the obligation.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market risk

The University is exposed to market risk on its investments due to future fluctuations in market prices. This risk is managed by a Statement of Investment Policy and Objectives approved by the Board of Regents which includes investment policy provisions for an acceptable asset mix structure and quality constraints on fixed income instruments.

(a) Currency Risk

Currency risk relates to the University operating in different currencies and converting non-Canadian transactions at different points in time when adverse changes in foreign currency rates occur. The University minimizes foreign currency risk to protect the value of foreign cash flows, both committed and anticipated, by using foreign exchange contracts when market conditions are judged to be favorable. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

[thousands of dollars]

2018 Foreign Currency Denominated Assets	Fair Values (CAD)	Impact of 1% Absolute Change in Exchange Rates on Net Assets
Global Equity	34,979	349.79

(b) Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of a financial instrument due to fluctuations in interest rates. The University’s exposure to interest rate risk relates to its floating interest rate bank indebtedness which utilizes BA’s and exposes the University to cash flow risk. The University has managed this floating interest rate risk by entering into interest rate swap agreements with the RBC Royal Bank to offset the movement in the BA rates. Any change in BA rates will be offset by a corresponding change in the interest rate swap. The fair value of these interest rate swap agreements are recorded in the consolidated statement of financial position and the change in value is reflected in the consolidated statement of remeasurement gains.

Credit risk

Credit risk is the risk of loss due to the failure of a counterparty to satisfy its obligations. The University is exposed to credit risk with respect to accounts receivable from students, governments and other clients as well as through its investments in fixed income and equity securities. Services are provided to a large number of students and entities, which minimizes the concentration of credit risk. The University routinely monitors the receivable balances and establishes an appropriate allowance for doubtful accounts based upon factors surrounding credit risk, historical

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

trends, and other information. The University limits its exposure to credit loss on fixed income by investing in securities with high credit quality. To maximize the credit quality of its investments, the University performs ongoing credit evaluations based upon factors surrounding the credit risk of issuers, historical trends and other information. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. All transactions executed by the University in listed equities are settled upon delivery using approved brokers. The risk of default is considered minimal, as the delivery of those securities sold is made only when the broker has received payment. Payment is made on purchases only when the security is received by the broker. The trade will fail to consummate if either party fails to meet its obligation. The maximum risk of loss at March 31, 2018 is limited to the amounts as shown on the consolidated statement of financial position.

Liquidity risk

The University is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. This risk is managed by maintaining adequate cash and cash equivalents. The University believes that cash and cash equivalents on hand, future cash flows from government grants and student fees will be adequate to meet its financial obligations.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk], whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The University is exposed to other price risk through its investments in equity instruments traded in an active market.

15. RELATED PARTY DISCLOSURE

The University considers key management personnel (KMP), their close family members and any organizations controlled by the KMP or their close family members as related parties. For this purpose, KMP have been identified as the President, Vice-Presidents and members of the Board of Regents.

The University also considers the Government of Newfoundland and Labrador and its agencies, boards and commissions as related parties.

The University has determined that all transactions with its related parties were conducted in the normal course of business and at arms' length, therefore, no further disclosure is required.

16. ENDOWMENTS

As at March 31, 2018 the University has total restricted net assets for endowment purposes of \$103,612 (2017 - \$92,933).

The endowed balance of \$82,444 (2017 - \$79,954) is subject to externally imposed restrictions requiring the principal to be maintained in perpetuity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

The University recognizes all investment income earned in the year through the Statement of Operations. The excess of the investment income earned over the amount utilized during the year is transferred into the endowment net assets at the end of the fiscal year by following the Board approved Statement of Investment Policy and Objectives. The accumulation of these transfers is recognized as internally endowed net assets and is represented as the balance available for spending.

The balance available for spending of \$21,168 (2017 - \$12,979) is reviewed every three years to determine if a portion will be added to the endowment assets for capital preservation.

[thousands of dollars]	2018	2017
Opening endowed balance	79,954	77,668
Endowed contributions	2,490	2,286
Closing endowed balance	82,444	79,954
Opening available for spending	12,979	9,869
Unrestricted contributions	133	285
Interfund transfers	537	2,826
Investment income	12,547	4,438
Expenditures	(5,028)	(4,439)
Closing available for spending	21,168	12,979
Net assets restricted for endowment purposes	103,612	92,933

17. COMPARATIVE FIGURES

Certain figures from the prior period have been reclassified to conform to the presentation adopted for the current period.

Unaudited Supplementary Information

MEMORIAL UNIVERSITY OF NEWFOUNDLAND

March 31, 2018

Schedule 1

[unaudited]

COMPENSATION PRACTICES AT MEMORIAL UNIVERSITY OF NEWFOUNDLAND

Compensation at the University is characterized by the financial remuneration received by individuals in relation to the duties and responsibilities of their respective position. Compensation is predominantly in the form of a fixed salary that is regularly reviewed for annual step progression, general economic increases, administrative stipends and market differential. These market differentials are applied where market demands are greater than assigned salary levels.

At the executive level, the Board of Regents [the “Board”] on the recommendation of its Executive Compensation Committee engages in a Senior Executive Compensation Review that assesses compensation levels for the University’s Executive members against similar positions within the Canadian University Market. This market review is normally done on a five year interval to ensure market alignment.

Compensation for Academic Executive, Academic Management, and Academic Staff include a salary amount identified on the faculty scale, based on experience, rank and highest degree, in accordance with the Memorial University of Newfoundland Faculty Association [MUNFA] collective agreement. In addition, for Academic Executive and Management, there is an administrative stipend, set by the Board that is applied in addition to core compensation to reflect the size and complexity of the faculty, school or department.

There are three main salary scales for administrative groups below the level of Vice-President, including; Senior Administrative Management [SAM] scale; the Management and Professional staff [MPS] scale; and unionized and non-unionized staff [Common] scale.

Compensation levels for administrative positions below the level of Vice President are determined based on consideration of nine common factors in the application of the University’s job evaluation plan [AIKEN]. In these cases, positions are assessed and assigned a rating outcome in nine areas, resulting in a total number of points for a position with an associated salary band, the intention being that broader, more difficult positions will achieve higher ratings and therefore be slotted higher in terms of salary banding. Once banded, compensation and employee progress through these bands or salary levels are a separate process.

Compensation analyses for academic and administrative positions are regularly completed to ensure market alignment within identified comparator groups and to ensure ongoing competitiveness of the University’s compensation structure.

For unionized faculty and staff, compensation structures are determined through collective bargaining processes between the University and the various unions representing each employee group; MUNFA, Canadian Union of Public Employees [CUPE], the Newfoundland and Labrador Association of Public and Private Employees [NAPE], Lecturers’ Union of Memorial University of Newfoundland [LUMUN] and Teaching Assistants’ Union of Memorial University of Newfoundland [TAUMUN].

The attached tabular information and explanatory notes provide an overview of salary ranges for executive, academic and administrative positions at Memorial University of Newfoundland.

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
EXECUTIVE SALARY RANGES
MARCH 31, 2018

	Salary Range (\$)
President and Vice-Chancellor	469,200
Vice-Presidents:	
Provost (Academic)	219,488 - 274,360
Administration & Finance	195,089 - 243,861
Research <i>[note 1]</i>	195,089 - 243,861
Grenfell Campus [GC] <i>[note 2]</i>	195,089 - 243,861
Marine Institute	195,089 - 243,861

Note 1: Actual salary is \$270,000 as per employment contract.

Note 2: Actual salary is \$260,000 as per employment contract.

Schedule 1
[unaudited]

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
ACADEMIC SALARY RANGES
MARCH 31, 2018

	Salary Range (\$) <i>[note 1]</i>	Actual Minimum and Maximum Salaries (\$) <i>[note 2]</i>	Number of Employees <i>[note 3]</i>
Academic Executive:	<i>[note 4]</i>		20
Deans of Faculties/Schools			14
University Librarian			1
Associate Vice-President			4
Deputy Provost/Associate Vice-President			1
Academic Management:	<i>[note 5]</i>		70
Associate Deans			31
Assistant Deans			4
Department Heads			29
Directors			1
Associate University Librarians			4
Special Projects Consultant			1
Academic Staff: <i>[note 6]</i>	31,080 - 174,882	51,525 - 256,278	1189
Professors	112,764 - 174,882	117,048 - 256,278	219
Associate Professors	95,628 - 142,752	99,912 - 170,598	348
Assistant Professors	82,776 - 104,196	82,776 - 151,320	267
Lecturers <i>[note 7]</i>	65,640 - 78,492	65,640 - 91,344	95
Co-op Education Coordinators	63,496 - 112,762	72,064 - 129,972	24
Librarians	59,210 - 155,600	65,636 - 177,020	30
Instructors-Marine Institute <i>[note 8]</i>	31,080 - 163,894	51,525 - 136,578	206

Note 1: Salary ranges include regular base earnings only.

Note 2: Actual minimum and maximum annual salaries are comprised of all academic staff (including Academic Executive and Academic Management); amounts include regular base earnings and approved amounts paid in addition to regular earnings (i.e. administrative stipends and market differentials).

Note 3: This does not represent a count of full time equivalent positions, but rather is a headcount of permanent and contractual employees. Those on leave or long-term disability have not been included in the count.

Note 4: Academic Deans receive a salary depending upon professorial rank plus an administrative stipend in the range of \$9,500 to \$26,500 per year.

Note 5: Academic Department Heads receive a salary based upon their professorial rank plus an administrative stipend in the range of \$5,500 to \$10,000 per year.

Note 6: Academic staff counts do not include individuals who may also hold an Academic Executive or Academic Management affiliation or solely stipendiary positions.

Note 7: Lecturers include 50 Visiting Professors paid on the lecturer scale.

Note 8: Marine Instructor count includes Demonstrators, Technical Assistants, Scientists and Instructors.

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
ADMINISTRATIVE SALARY RANGES
MARCH 31, 2018

	Salary Range (\$)	Actual Minimum and Maximum Salaries (\$) <i>[note 1]</i>	Number of Employees <i>[note 2]</i>
Senior Administrative Management Level 1 to 5 <i>[note 3]</i>	104,546 - 204,993	108,673 - 225,492	124
Management and Professional Staff <i>[note 4]</i>	49,602 - 117,822	49,602 - 118,874	579
Administrative Staff <i>[note 5]</i>	30,237 - 114,362	30,542 - 99,918	1735 <i>[note 6]</i>

Note 1: Actual minimum and maximum annual salaries are based on regular earnings; amounts include regular base earnings and approved amounts paid in addition to regular earnings (i.e. administrative stipends and market differentials).

Note 2: This does not represent a count of full time equivalent positions, but rather is a headcount of permanent and contractual employees. Those on long-term disability have not been included in the count.

Note 3: Compensation levels were assessed based on the Canadian University Market.

Note 4: Compensation was assessed based on the Atlantic Canadian broader public sector.

Note 5: Administrative salary ranges [Common Pay Scale] reflect salary levels defined by union collective agreements or non-bargaining terms and conditions of employment.

Note 6: Administrative staff count excludes Standardized Patients, Apprentices, Student employees, and other casual workers.