



Consolidated Financial Statements with Supplementary Schedules

Year Ended March 31, 2011

**MEMORIAL UNIVERSITY OF NEWFOUNDLAND
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FOR THE YEAR ENDED MARCH 31, 2011**

Consolidated Financial Statements

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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** [the "University"] which comprise the consolidated statement of financial position as at March 31, 2011 and the consolidated statements of operations, 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 generally accepted accounting principles, 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 in our audit 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, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants

St. John's, Canada
July 7, 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31
[thousands of dollars]

	2011	2010
ASSETS		
Current		
Cash and cash equivalents	12,693	29,970
Restricted cash <i>[note 4]</i>	4,702	2,758
Short-term investments	92,870	66,038
Accounts receivable	64,691	47,311
Accrued interest receivable	3,654	2,848
Inventory and prepaid expense	6,400	6,192
Total current assets	185,010	155,117
Long-term receivable	1,991	2,991
Investments <i>[note 5]</i>	90,973	81,612
Capital assets, net <i>[note 6]</i>	193,776	176,466
	471,750	416,186
 LIABILITIES, DEFERRED CONTRIBUTIONS AND NET DEFICIENCY		
Current		
Bank indebtedness <i>[note 7]</i>	16,531	17,681
Accounts payable and accrued liabilities	53,412	29,637
Deferred revenue	32,966	20,379
Current portion of employee future benefits <i>[note 8]</i>	14,856	13,608
Current portion of long-term debt <i>[note 9]</i>	303	733
Total current liabilities	118,068	82,038
Long-term debt <i>[note 9]</i>	346	373
Derivative liability <i>[note 7]</i>	1,644	1,795
Employee future benefits <i>[note 8]</i>	135,291	118,093
Total liabilities	255,349	202,299
Deferred contributions <i>[note 10]</i>	238,257	220,541
 Net deficiency		
Net assets restricted for endowment purposes	66,548	61,992
Unrestricted net deficiency	(88,404)	(68,646)
Total net deficiency	(21,856)	(6,654)
	471,750	416,186

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>2011</u>	<u>2010</u>
REVENUE		
Government grants	402,958	352,439
Student fees	59,174	57,056
Other revenue	32,879	32,577
Amortization of deferred capital contributions	22,229	21,773
Sales and services	16,065	16,778
Investment income <i>[note 5]</i>	11,343	13,754
	<u>544,648</u>	<u>494,377</u>
EXPENSES		
Salaries	286,192	264,949
Employee benefits	83,654	51,911
Materials and supplies	34,336	37,123
Repairs and maintenance	28,285	20,437
Scholarships, bursaries and awards	24,225	22,952
Utilities	22,552	19,804
Amortization of capital assets	22,110	22,051
Employee future benefits	18,523	36,686
Travel and hosting	16,280	14,330
Externally contracted service	15,348	14,776
Other operating expenses	13,041	11,002
Professional fees	11,044	9,974
Equipment rentals	4,595	2,866
Interest expense	821	889
Derivative liability gain	(151)	(1,664)
External cost recoveries	(17,696)	(18,303)
	<u>563,159</u>	<u>509,783</u>
Excess of expenses over revenue	<u>(18,511)</u>	<u>(15,406)</u>

See accompanying notes

**CONSOLIDATED STATEMENT OF CHANGES
IN NET DEFICIENCY**

As at March 31
[thousands of dollars]

	Restricted for Endowment Purposes	Unrestricted	2011	2010
Balance, beginning of year	61,992	(68,646)	(6,654)	6,683
Excess of revenue over expenses (expense over revenue)	1,247	(19,758)	(18,511)	(15,406)
Endowment contributions	3,309	-	3,309	2,069
Balance, end of year	66,548	(88,404)	(21,856)	(6,654)

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31
[thousands of dollars]

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Excess of expenses over revenue	(18,511)	(15,406)
Items not affecting cash:		
Amortization of capital assets	22,110	22,051
Net increase in deferred contributions related to expenses of future periods	3,142	7,843
Increase in long-term portion of employee future benefits	17,198	35,343
Increase in current portion of employee future benefits	1,248	1,212
Amortization of deferred capital contributions	(22,229)	(21,773)
Loss on disposal of capital assets	508	517
Decrease in derivative liability	(151)	(1,665)
Decrease in long-term receivable	1,000	-
Unrealized gain on investments	(6,000)	(9,746)
Change in non-cash working capital	17,968	8,427
Cash provided by operating activities	<u>16,283</u>	<u>26,803</u>
INVESTING ACTIVITIES		
Capital assets acquired	(40,245)	(31,755)
Increase in restricted cash	(1,944)	(2,758)
Increase in short-term investments	(26,832)	(5,239)
Increase in investments	(3,361)	(10,083)
Cash used in investing activities	<u>(72,382)</u>	<u>(49,835)</u>
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(1,150)	(1,347)
Endowment contributions	3,309	2,069
Addition to deferred capital contributions	36,803	33,779
Decrease in long-term debt	(140)	(132)
Cash provided by financing activities	<u>38,822</u>	<u>34,369</u>
Net change in cash and cash equivalents during the year	(17,277)	11,337
Cash and cash equivalents, beginning of year	29,970	18,633
Cash and cash equivalents, end of year	<u>12,693</u>	<u>29,970</u>
Supplementary Information		
Interest paid	<u>821</u>	<u>889</u>

See accompanying notes

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

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 (Canada)* and, accordingly, is exempt from income taxes, provided certain requirements of the *Income Tax Act (Canada)* are met.

2. SIGNIFICANT ACCOUNTING POLICIES

General

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

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP 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 consolidated 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 operations in the period during which they become known.

Consolidated financial 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 Fisheries Innovation [CCFI]

Genesis Group Inc.

The Memorial University of Newfoundland Botanical Garden Incorporated

Memorial University Recreation Complex [MURC]

Western Sports and Entertainment Inc.

Campus Childcare Inc.

Newfoundland Quarterly Foundation

Edutech Services Inc.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash, treasury bills and bankers' acceptances. Investments with original maturities of three months or less are classified as cash equivalents.

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

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 during 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 during which they are received. Revenues from contracts, sales and student fees are recognized when the goods or services are provided and collection is reasonably assured.

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 are not recognized in these consolidated financial statements as their fair value cannot be determined.

Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of acquisition. Repairs and maintenance expenditures are charged to expenses. 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 consolidated financial statements.

Capital assets are amortized using the following rates and methods. Half a year's amortization is taken in the year of acquisition and no amortization is taken in the year of disposal.

Buildings	8%	declining balance
Furniture and equipment	20%	declining balance
Computers	30%	declining balance
Banner finance	20%	declining balance
Vehicles	30%	declining balance
Library collection	10 years	straight-line

Inventory

Inventory is valued at the lower of cost and net realizable value.

The amount of inventories recognized as an expense during the year amounted to \$12.7 million [2010 — \$12.5 million].

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

Investment income

Investment income in the consolidated statement of operations includes interest, dividends, realized and unrealized gains and losses as well as related expenses.

Employee future benefits

Pension plan

The employees of the University participate in a defined benefit pension plan [the "Plan"] administered under the *Memorial University Pensions Act* with any deficiencies being funded by the Province of Newfoundland and Labrador. Payments to the Plan consist of contributions from employees and from the University as prescribed in the *Pension Benefits Act (1997)* [PBA]. In addition, where the Plan experiences a solvency deficiency, the employer is required to contribute an amount sufficient to liquidate the deficiency within five years of the solvency valuation date. The University's contributions to the Plan are recorded as an expense in the consolidated statement of operations. The assets and obligations of the Plan are not recorded in the University's consolidated financial statements.

The Plan is being funded in accordance with the March 31, 2010 actuarial valuation. The special payment required in the 2011/2012 fiscal year in respect of the going concern deficiency identified in the 2010 valuation amounts to \$18.9 million. With respect to the solvency deficiency identified in the 2010 valuation, the University was exempt from the associated funding obligation under the PBA up to December 31, 2010. The exemption had been in place since 2002 and application has been made to have it continued. In the absence of the exemption, the University is required to fund the solvency deficiency, effective January 1, 2011. The special payment due in respect of the period January 1, 2011 to March 31, 2011 is \$13.0 million and has been expensed to employee benefits in the consolidated financial statements. The special payment due in respect of the solvency deficiency for the 2011/2012 fiscal year will be \$60.0 million.

The most recent valuation of the Plan was prepared as at March 31, 2011 for internal management purposes by Eckler Ltd. This valuation disclosed a solvency deficiency of \$279.3 million and a going concern deficiency of \$317.5 million at March 31, 2011. Under the 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 five-year period. The going concern deficiency of \$317.5 million includes \$77.4 million in respect of past service costs related to the introduction of indexing in 2004. This indexing liability is being financed under a special PBA provision through both employee and employer contributions over the remaining period of 33.25 years. In accordance with the PBA, the balance of the going concern deficiency, namely \$240.1 million, would normally be liquidated over a period of not more than 15 years. If Plan funding were based on the March 31, 2011 valuation, the first annual payment in respect of this balance would be \$20.6 million.

Other benefits

Post-employment

In addition to the University's pension plan previously discussed, 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 administration's best estimate of salary escalation,

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retirement ages of employees and escalation in covered benefit expense outlays. Gains (losses) are fully recognized in the current year. These benefits include:

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

Vacation

Accrued vacation for employees represents vacation earned but not yet taken as at year-end. It is expected that accrued vacation will be taken in the next fiscal year.

Additional disclosure is provided in *note 8*.

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 to these liabilities.

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 the notional principal amount on which the payments are based.

Derivative financial instruments are classified as held-for-trading and carried at fair value with the change in fair value being recorded on the consolidated statement of operations.

Financial instruments

The University applies the Canadian Institute of Chartered Accountants [CICA] *Handbook* Section 3861, *Financial Instruments – Disclosure and Presentation*. The disclosures required by Section 3861 are provided in *note 12*.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

3. CHANGES IN ACCOUNTING POLICY

Impact of adopting future accounting policies

Recent accounting pronouncements that have been issued but are not yet effective and have a potential impact on the University are as follows:

Assessment of strategic direction of financial reporting standards for not-for-profit organizations

In November 2010, the Accounting Standards Board of the CICA issued Part III of the *CICA Handbook* that sets out the accounting standards for not-for-profit organizations. These standards are effective for fiscal years beginning on or after January 1, 2012, with an option for early adoption. The University is a government not-for-profit organization [GNFPO] and therefore will be required to follow Public Sector Accounting Standards. The University is currently evaluating the impact of these standards.

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.

5. INVESTMENTS

Investments as at March 31

[thousands of dollars]

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Fixed income	43,052	46,361	45,843	48,485
Equities	37,400	44,612	31,245	33,127
	80,452	90,973	77,088	81,612

Investment income for the year ended March 31

[thousands of dollars]

	2011	2010
Investment income	5,882	4,462
Unrealized gain on investments	6,000	9,746
Less: related expenses	539	454
	11,343	13,754

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

6. CAPITAL ASSETS

[thousands of dollars]

	2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	257,224	136,725	120,499	102,655
Furniture and equipment	94,640	55,981	38,659	37,569
Computers	22,478	17,886	4,592	5,345
Banner finance	1,896	1,462	434	324
Vehicles	3,652	3,217	435	765
Library collection	135,582	106,425	29,157	29,808
	515,472	321,696	193,776	176,466

Capital assets include certain assets under capital leases with a net book value of \$1.6 million [2010 – \$2.0 million].

7. 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 2011/12 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 12*.

Derivative liability

Project 1 interest rate swap transaction involves the exchange of the underlying floating rate Canadian BA for a fixed interest rate of 4.76% expiring April 12, 2017 with a notional amount of \$3.0 million. The fair value of this interest rate swap is \$0.24 million [2010 – \$0.3 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 \$13.8 million. The fair value of this interest rate swap is \$1.4 million [2010 – \$1.5 million].

8. EMPLOYEE FUTURE BENEFITS

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The significant actuarial assumptions used in measuring SRIP include a discount rate of 5.2% [2010 – 5.7%] and an average compensation increase of 4.5% [2010 – 4.5%].

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 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 assumption used in measuring VERIP includes a discount rate of 5.2% [2010 – 5.7%].

Other benefits

The University has a number of other post-employment benefits 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 severance to certain employee groups upon termination, retirement or death, provided they meet certain eligibility criteria. Vacation liability is also accrued and is expected to be used by employees in the next fiscal year.

The significant actuarial assumptions used in measuring other benefits include a discount rate of 5.2% [2010 – 5.7%] and an average rate of compensation increase of 4.5% [2010 – 4.5%].

[thousands of dollars]	<u>SRIP</u>		<u>VERIP</u>		<u>Other Benefits</u>	
	2011	2010	2011	2010	2011	2010
Accrued benefit obligation						
Balance, beginning of year	9,327	5,543	5,992	5,466	103,710	72,487
Current service cost	451	237	-	-	3,668	2,408
Interest cost	540	416	341	410	6,198	5,461
Benefits paid	(309)	(265)	(545)	(576)	(3,244)	(3,310)
Actuarial loss	1,902	3,396	147	692	8,214	26,664
	11,911	9,327	5,935	5,992	118,546	103,710
Current plan expense						
Current service expense	451	237	-	-	3,668	2,408
Interest cost	540	416	341	410	6,198	5,461
Actuarial loss	1,902	3,396	147	692	8,214	26,664
	2,893	4,049	488	1,102	18,080	34,533

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

A summary of these accrued benefit obligations are as follows:

[thousands of dollars]	<u>2011</u>	<u>2010</u>
Employee future benefits	118,546	103,710
Supplemental retirement income plan	11,911	9,327
Voluntary early retirement income plan	5,935	5,992
Accrued vacation	13,755	12,672
	150,147	131,701
Less: current portion	14,856	13,608
Long-term employee future benefits	135,291	118,093

9. LONG-TERM DEBT

[thousands of dollars]	<u>2011</u>	<u>2010</u>
RBC Royal Bank, fixed term demand loan, related to Harlow campus, 5.19% interest, repayable in nine equal annual, blended payments of \$121, maturing in April 2012, unsecured	227	330
CMHC mortgage on Queen's College, 5.875% interest, repayable in 50 equal, blended payments of \$29 semi-annually, maturing in June 2019, secured	349	385
Capital leases negotiated through the RBC Royal Bank, varying interest rates, payable in equal annual installments, secured by assets under lease	73	391
	649	1,106
Less: current portion	303	733
	346	373

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

[thousands of dollars]	
2012	303
2013	59
2014	60
2015	46
2016	48

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

10. DEFERRED CONTRIBUTIONS

Expenses of future periods

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

[thousands of dollars]	2011	2010
Balance, beginning of year	61,180	53,337
Grants and donations received during the year	63,754	62,703
Less: expenses incurred during the year	60,611	54,860
Balance, end of year	64,323	61,180

Capital assets

Deferred capital contributions related to capital assets represent the unamortized 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 consolidated statement of operations.

[thousands of dollars]	2011	2010
Balance, beginning of year	159,361	147,355
Additional contributions received	36,802	33,779
Less: amounts amortized to revenue	22,229	21,773
Balance, end of year	173,934	159,361

Total deferred contributions

[thousands of dollars]	2011	2010
Expenses of future periods	64,323	61,180
Capital assets	173,934	159,361
Balance, end of year	238,257	220,541

11. MEMORIAL UNIVERSITY ACT

In accordance with the *Memorial University Act*, the University is normally prohibited from recording a deficit on its consolidated 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 \$5.0 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 any other post-employment benefits.

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

12. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the University's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading [HFT], available-for-sale [AFS], held-to-maturity [HTM], or loans and receivables and all financial liabilities to be classified as either HFT or other liabilities [OL]. Subsequent to initial recognition, the standards require that all financial assets and liabilities be measured at fair value with the exception of loans and receivables, securities classified as HTM, liabilities classified as OL, and AFS financial assets that do not have quoted market prices in an active market. These are measured at amortized cost using the effective interest rate method [EIM].

Classification of financial instruments

The University has designated its financial instruments as shown in the following table. The financial instruments are measured as follows based on their classification.

Asset/liability	Classification	Measurement
Cash, cash equivalents, restricted cash and short - term investments	Held-for-trading	Fair value
Investments	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost using EIM
Accrued interest receivable	Loans and receivables	Amortized cost using EIM
Long-term receivable	Loans and receivables	Amortized cost using EIM
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost using EIM
Bank indebtedness	Other financial liabilities	Amortized cost using EIM
Long-term debt	Other financial liabilities	Amortized cost using EIM
Derivative liability	Held-for-trading	Fair value

Held-for-trading

HFT financial assets and liabilities are financial assets typically acquired for resale prior to maturity. They are measured at fair value at the consolidated statement of financial position date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the consolidated statement of operations.

Loans and receivables

Loans and receivables are accounted for at amortized cost using EIM.

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

Other financial liabilities

Other liabilities are recorded at amortized cost and include all liabilities and long-term debt.

Embedded derivatives

There are no embedded derivatives in the consolidated financial statements of the University.

Credit risk

The University is exposed to credit risk with respect to accounts receivable from students and clients. 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 trends, and other information.

Interest rate risk

The University's exposure to interest rate risk relates to its floating interest rate bank indebtedness which utilizes BA's. 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 operations.

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.

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.

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

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 that 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, 2010, CURIE has a surplus of \$9.2 million and a cumulative subscribers' equity of \$41.0 million. The University's pro rata share is approximately 3% on an ongoing basis.

(b) Class action lawsuit

In 2007, a class action lawsuit was filed on behalf of all former employees of the University who retired or terminated employment on or before December 31, 1992 and were entitled to receive post-retirement life, health and dental group insurance benefits. The lawsuit alleges that this group of retirees was entitled to receive these insurance benefits for life, at no cost to the group of retirees. This action has been certified as a class action and the University has sought leave to appeal from the decision certifying the action. The University continues to defend its position and the potential exposure to this claim is indeterminable at the present time.

14. CAPITAL DISCLOSURES

The University considers its capital to be its net assets. Its restricted net assets consist of amounts restricted for endowment purposes. The University's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its students and research funding agencies. Annual budgets are developed and monitored to ensure the University's capital is maintained at an appropriate level. The University has no external restrictions imposed on its capital, excluding its endowments.

15. COMPARATIVE FIGURES

Certain of the 2010 comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Audited Supplementary Information

MEMORIAL UNIVERSITY OF NEWFOUNDLAND

March 31, 2011

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Regents of
Memorial University of Newfoundland

We have audited and reported separately herein on the consolidated financial statements of **Memorial University of Newfoundland** [the "University"] as at and for the year ended March 31, 2011.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of the University taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such supplementary information has been subject to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Ernst + Young LLP

St. John's, Canada,
July 7, 2011

Chartered Accountant

CONSOLIDATED SCHEDULE OF FINANCIAL POSITION

As at March 31

[thousands of dollars]

	OPERATING		ANCILLARY ENTERPRISES		PLANT		SPONSORED RESEARCH		SPECIAL PURPOSE AND TRUST		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Current assets:												
Cash and cash equivalents	(61,107)	(39,417)	2,747	1,865	12,519	9,041	32,458	34,788	26,076	23,693	12,693	29,970
Restricted cash <i>[note 4]</i>	4,702	2,758	-	-	-	-	-	-	-	-	4,702	2,758
Short-term investments	92,870	66,038	-	-	-	-	-	-	-	-	92,870	66,038
Accounts receivable	44,251	26,533	436	629	-	376	17,164	16,148	2,840	3,625	64,691	47,311
Accrued interest receivable	751	553	-	-	-	-	-	-	2,903	2,295	3,654	2,848
Inventory and prepaid expenses	4,094	4,112	2,000	1,918	3	-	251	115	52	47	6,400	6,192
Interfund accounts	998	782	(998)	(782)	-	-	-	-	-	-	-	-
Total current assets	86,559	61,359	4,185	3,630	12,522	9,417	49,873	51,051	31,871	29,660	185,010	155,117
Long-term receivable	-	-	-	-	1,991	2,991	-	-	-	-	1,991	2,991
Investments <i>[note 5]</i>	-	-	-	-	-	-	641	-	90,332	81,612	90,973	81,612
Capital assets, net <i>[note 6]</i>	-	-	3,279	3,570	189,216	171,654	1,104	1,088	177	154	193,776	176,466
Total assets	86,559	61,359	7,464	7,200	203,729	184,062	51,618	52,139	122,380	111,426	471,750	416,186
Current liabilities:												
Bank indebtedness <i>[note 7]</i>	-	-	-	-	16,531	17,681	-	-	-	-	16,531	17,681
Accounts payable and accrued liabilities	46,664	19,720	43	185	3,926	1,584	2,183	7,452	596	696	53,412	29,637
Deferred revenue	9,434	4,871	525	593	14,723	10,040	8,254	4,805	30	70	32,966	20,379
Current portion of employee future benefits <i>[note 8]</i>	14,856	13,608	-	-	-	-	-	-	-	-	14,856	13,608
Current portion of long-term-debt <i>[note 9]</i>	-	-	-	-	303	733	-	-	-	-	303	733
Total current liabilities	70,954	38,199	568	778	35,483	30,038	10,437	12,257	626	766	118,068	82,038
Long-term debt <i>[note 9]</i>	-	-	-	-	346	373	-	-	-	-	346	373
Derivative liability <i>[note 7]</i>	-	-	-	-	1,644	1,795	-	-	-	-	1,644	1,795
Employee future benefits <i>[note 8]</i>	133,200	116,181	548	561	-	-	1,314	1,104	229	247	135,291	118,093
Total liabilities	204,154	154,380	1,116	1,339	37,473	32,206	11,751	13,361	855	1,013	255,349	202,299
Deferred contributions <i>[note 10]</i>	-	-	1,054	837	171,564	157,220	38,900	37,736	26,739	24,748	238,257	220,541
Net deficiency:												
Net assets restricted for endowment purposes	-	-	-	-	-	-	-	-	66,548	61,992	66,548	61,992
Unrestricted net deficiency	(117,595)	(93,021)	5,294	5,024	(5,308)	(5,364)	967	1,042	28,238	23,673	(88,404)	(68,646)
	(117,595)	(93,021)	5,294	5,024	(5,308)	(5,364)	967	1,042	94,786	85,665	(21,856)	(6,654)
Total liabilities, deferred contributions and net deficiency	86,559	61,359	7,464	7,200	203,729	184,062	51,618	52,139	122,380	111,426	471,750	416,186

See accompanying notes

CONSOLIDATED SCHEDULE OF OPERATIONS

For the year ended March 31

[thousands of dollars]

	OPERATING		ANCILLARY ENTERPRISES		PLANT		SPONSORED RESEARCH		SPECIAL PURPOSE AND TRUST		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
REVENUE												
Government grants	335,560	298,176	800	843	-	-	38,894	39,139	27,704	14,281	402,958	352,439
Student fees	59,027	56,883	-	-	-	-	-	-	147	173	59,174	57,056
Other revenue	13,745	11,705	3,933	2,284	(19,325)	(12,049)	22,049	20,914	12,477	9,723	32,879	32,577
Amortization of deferred capital contributions	-	-	110	35	21,967	21,585	137	138	15	15	22,229	21,773
Sales and services	-	-	16,065	16,778	-	-	-	-	-	-	16,065	16,778
Investment income <i>[note 5]</i>	2,422	2,011	-	-	-	-	961	625	7,960	11,118	11,343	13,754
Total revenue	410,754	368,775	20,908	19,940	2,642	9,536	62,041	60,816	48,303	35,310	544,648	494,377
EXPENSES												
Salaries	247,813	227,648	9,917	9,509	15	12	24,414	23,765	4,033	4,015	286,192	264,949
Employee benefits	78,117	46,485	1,457	1,362	-	-	3,415	3,427	665	637	83,654	51,911
Materials and supplies	16,259	18,778	7,590	7,568	883	735	9,233	9,312	371	730	34,336	37,123
Repairs and maintenance	6,907	7,114	1,577	1,481	18,770	10,502	696	1,106	335	234	28,285	20,437
Scholarships, bursaries and awards	9,310	8,598	3	2	-	-	10,252	10,040	4,660	4,312	24,225	22,952
Utilities	19,163	16,687	2,671	2,546	1	7	328	283	389	281	22,552	19,804
Amortization of capital assets	-	-	364	262	21,591	21,631	139	141	16	17	22,110	22,051
Employee future benefits	18,342	36,033	(12)	243	-	-	211	308	(18)	102	18,523	36,686
Travel and hosting	8,798	7,597	77	50	5	4	5,212	4,995	2,188	1,684	16,280	14,330
Externally contracted service	8,329	7,192	996	905	130	36	2,760	2,695	3,133	3,948	15,348	14,776
Other operating	8,096	7,256	297	323	2	-	4,224	3,148	422	275	13,041	11,002
Professional fees	5,537	4,950	44	54	72	49	3,478	3,590	1,913	1,331	11,044	9,974
Equipment rentals	3,657	2,258	207	195	45	5	600	340	86	68	4,595	2,866
Interest expense	44	58	148	158	629	673	-	-	-	-	821	889
Derivative liability gain	-	-	-	-	(151)	(1,664)	-	-	-	-	(151)	(1,664)
External cost recoveries	(16,223)	(16,027)	(38)	(42)	(788)	(920)	54	(622)	(701)	(692)	(17,696)	(18,303)
Total expenses	414,149	374,627	25,298	24,616	41,204	31,070	65,016	62,528	17,492	16,942	563,159	509,783
(Decrease) increase for the year before the following	(3,395)	(5,852)	(4,390)	(4,676)	(38,562)	(21,534)	(2,975)	(1,712)	30,811	18,368	(18,511)	(15,406)
Interfund transfers	(21,179)	(20,951)	4,660	4,691	38,618	22,669	2,900	3,181	(24,999)	(9,590)	-	-
Excess of (expenses over revenue) revenue over expenses	(24,574)	(26,803)	270	15	56	1,135	(75)	1,469	5,812	8,778	(18,511)	(15,406)

See accompanying notes

Unaudited Supplementary Information

MEMORIAL UNIVERSITY OF NEWFOUNDLAND

March 31, 2011

SCHEDULE OF OPERATING REVENUE

Year ended March 31
[thousands of dollars]
[unaudited]

	<u>2011</u>	<u>2010</u>
GOVERNMENT GRANTS		
Province of Newfoundland and Labrador		
Department of Education	280,267	250,288
Department of Health	50,162	42,723
Other	842	832
Government of Canada		
Indirect cost of research	4,289	4,333
	<u>335,560</u>	<u>298,176</u>
STUDENT FEES		
Semester tuition		
Undergraduates	37,775	36,489
Graduates	5,319	4,704
Non-credit courses		
Continuing studies	873	1,006
Grenfell Campus	302	291
Marine Institute	10,279	10,590
Other fees	4,479	3,803
	<u>59,027</u>	<u>56,883</u>
OTHER REVENUE	<u>13,745</u>	<u>11,705</u>
	<u>13,745</u>	<u>11,705</u>
INVESTMENT INCOME		
	2,422	2,011
	<u>2,422</u>	<u>2,011</u>
	<u>410,754</u>	<u>368,775</u>

SCHEDULE OF GROSS OPERATING EXPENDITURES BY FUNCTION

Year ended March 31
[thousands of dollars]
[unaudited]

	<u>2011</u>	<u>2010</u>
ACADEMIC		
Faculty of Medicine	51,997	44,371
Fisheries and Marine Institute	45,145	40,050
Faculty of Science	42,248	41,274
Faculty of Arts	31,854	30,020
Grenfell Campus	23,762	20,824
Faculty of Engineering and Applied Science	13,497	12,017
Faculty of Business Administration	11,882	10,640
Faculty of Education	11,162	9,951
School of Graduate Studies	7,701	8,081
Distance Education, Learning and Teaching Support	6,472	5,917
School of Nursing	6,006	5,659
School of Human Kinetics	4,201	3,790
Technical Services	4,182	4,361
School of Social Work	4,072	3,362
School of Music	3,441	3,077
School of Pharmacy	3,067	2,599
Co-op Education	2,477	2,221
Office of Collaborations and Partnerships	1,992	1,575
Animal Care Unit	1,927	1,626
School of Life Long Learning	1,667	1,287
Labrador Institute	756	687
Harris Centre	607	523
	<u>280,115</u>	<u>253,912</u>
SUPPORT SERVICES		
Administrative departments	34,138	32,028
Facilities Management	27,872	25,879
Library	16,815	16,547
Computing and Communications	12,294	11,828
Student Services	10,649	10,033
	<u>101,768</u>	<u>96,315</u>
	<u>381,883</u>	<u>350,227</u>

SCHEDULE OF GROSS OPERATING EXPENDITURES BY OBJECT

Year ended March 31
[thousands of dollars]
[unaudited]

	Academic		Library		Student Services		Facilities Management		Computing and Communications		Administration		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Academic salaries	128,087	116,778	2,795	2,586	1,116	1,068	-	-	-	-	684	641	132,682	121,073
Other instruction and research salaries	1,775	2,261	289	278	1,062	1,008	245	129	164	173	126	111	3,661	3,960
Other salaries and wages	62,509	56,791	4,542	4,276	4,536	3,999	13,271	12,766	6,234	5,777	20,458	19,006	111,550	102,615
Employee benefits	34,146	31,075	1,522	1,401	1,092	976	3,661	3,441	1,258	1,164	6,161	4,128	47,840	42,185
	226,517	206,905	9,148	8,541	7,806	7,051	17,177	16,336	7,656	7,114	27,429	23,886	295,733	269,833
Materials and supplies	16,352	18,221	466	538	1,190	1,224	1,012	1,409	2,215	2,831	1,238	1,508	22,473	25,731
Utilities	3,916	3,128	18	16	32	37	14,848	13,159	224	223	125	123	19,163	16,686
Renovations	7,746	5,803	237	298	271	240	2,674	2,483	567	254	184	1,409	11,679	10,487
Scholarships and bursaries	8,569	7,703	-	3	562	694	4	8	-	-	175	190	9,310	8,598
Travel and hosting	6,713	5,649	147	114	578	500	144	149	48	50	1,168	1,135	8,798	7,597
Externally contracted services	3,241	2,888	91	127	78	137	3,224	2,108	808	1,012	887	920	8,329	7,192
Professional fees	3,372	2,681	10	12	67	89	291	162	(160)	27	1,957	1,979	5,537	4,950
Rental	1,895	920	108	92	29	24	103	94	1,556	994	141	134	3,832	2,258
Other:														
Reference books	2,554	2,325	6,583	6,828	7	9	7	3	-	-	35	45	9,186	9,210
Insurance	336	243	-	-	-	-	34	30	2	2	938	889	1,310	1,164
Property tax	124	124	-	-	-	-	767	714	-	-	-	-	891	838
Institutional memberships	378	386	64	50	24	28	4	5	15	17	377	315	862	801
Space rental	751	647	-	-	2	1	-	18	-	-	71	61	824	727
Debt repayments	129	127	-	-	18	23	1	2	17	19	13	11	178	182
External cost recoveries	(2,478)	(3,838)	(57)	(72)	(15)	(24)	(12,418)	(10,801)	(654)	(715)	(600)	(577)	(16,222)	(16,027)
	53,598	47,007	7,667	8,006	2,843	2,982	10,695	9,543	4,638	4,714	6,709	8,142	86,150	80,394
	280,115	253,912	16,815	16,547	10,649	10,033	27,872	25,879	12,294	11,828	34,138	32,028	381,883	350,227

**COMPENSATION PRACTICES AT
MEMORIAL UNIVERSITY OF NEWFOUNDLAND**

Compensation at Memorial University of Newfoundland [the “University”] is determined by the duties and responsibilities of respective positions.

At the executive level, the Board of Regents [the “Board”] on the recommendation of its Executive Compensation Committee, determines the salary levels for the University’s president and vice-presidents.

Compensation for deans, academic directors and academic department heads includes a salary on a faculty member’s scale, based on experience, rank and highest degree, in accordance with a collective agreement negotiated with the Memorial University of Newfoundland Faculty Association [MUNFA]. In addition, there is an administrative stipend, set by the Board of Regents, the level of which is dependent on the size and complexity of the faculty, school or department.

Compensation for administrative directors and managers is set by the Board of Regents. A review of compensation in these positions was conducted by an external consultant in 2007-08. A new salary structure for Senior Administrative Management was approved by the Board and implemented April 1, 2008.

For faculty and staff, compensation is determined through collective bargaining between the University and the various unions representing each employee group; MUNFA, the Canadian Union of Public Employees [CUPE], and the Newfoundland Association of Public Employees [NAPE]. Periodic reviews of staff positions, including compensation levels, have been conducted with the assistance of external consultants since 1994.

Per-course lecturers are represented by Lecturers’ Union of Memorial University of Newfoundland [LUMUN].

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

**MEMORIAL UNIVERSITY OF NEWFOUNDLAND
EXECUTIVE SALARY RANGES
MARCH 31, 2011**

	Salary Range (\$)
President and Vice-Chancellor <i>[note 1]</i>	263,736 - 329,670
Vice-Presidents: Academic and Pro Vice-Chancellor Administration & Finance Research Grenfell Campus [GC]	200,882 - 251,102 178,550 - 223,188 178,550 - 223,188 153,044 - 191,305
Executive Director [Marine Institute]	153,044 - 191,305
Dean-Student Affairs & Services	172,582 - 215,728

Note 1: Actual salary is \$430,000 as per employment contract

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
ACADEMIC SALARY RANGES [note 1]
MARCH 31, 2011

	Salary Range (\$)	Actual Minimum & Maximum Salaries	Number of Employees
Academic Executive: Deans of Faculties/Schools Directors of Schools University Librarian Associate Vice-President	<i>[note 2]</i>		16 7 5 1 3
Academic Management: Vice-Dean [Medicine] Vice-Principal [GC] Associate Vice-Principal Research [GC] Associate Deans Assistant Deans Department Heads Directors Associate Directors Associate University Librarians	<i>[note 3]</i>		84 1 1 1 17 6 38 7 9 4
Academic Staff: Professors Associate Professors Assistant Professor Lecturers' <i>[note 4]</i> Co-op Education Coordinators Librarians Instructors-Marine Institute	30,503 - 153,950 99,256 - 153,950 84,168 - 125,660 72,852 - 89,826 57,764 - 67,194 55,878 - 97,370 52,106 - 136,976 30,503 - 114,314	37,355 - 204,872 103,028 - 204,872 84,168 - 165,266 63,422 - 116,230 57,764 - 82,282 70,966 - 93,598 53,992 - 125,660 37,355 - 114,314	1,261 254 323 292 94 18 40 240

Note 1: Some individuals are in receipt of market differentials which may result in salaries that exceed the maximum levels in their approved salary ranges.

Note 2: Academic Deans and Directors receive a salary depending upon professorial rank plus an administrative stipend in the range of \$9,500 to \$26,500 per year depending on the size and complexity of their academic units, and whether they are serving a first or a second term.

Note 3: Academic Department Heads receive a salary based upon their professorial rank plus an administrative stipend in the range of \$5,500 to \$10,000 depending on the size of their academic unit.

Note 4: Lecturers include 37 Visiting Professors paid on the lecturer scale.

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
ADMINISTRATIVE SALARY RANGES [note 1]
MARCH 31, 2011

	Salary Range (\$)	Actual Minimum & Maximum Salaries	Number of Employees
Senior Administrative Management Levels 1 to 5: [note 2]	95,684 - 187,615	95,684 - 181,988	116
Management and Professional Staff [note 3]	27,953 - 104,667	41,536 - 96,371	351
Administrative Staff [note 4]	27,673 - 119,620	28,949 - 75,440	2,053

Note 1: Some individuals are in receipt of market differentials which may result in salaries that exceed the maximum levels in their approved salary ranges.

Note 2: Senior Administrative Management category was implemented in April 2008 and includes previous categories of Administrative Directors level, 1 - 4, the Marine Institute Academic Industrial Response Unit Managers, and employees on previous Band Levels 12 - 15.

Note 3: Management and professional staff ranges reflect 11 salary levels developed under the University's Job Evaluation System.

Note 4: Administrative and academic support staff salary ranges reflect salary levels defined by union collective agreements or non-bargaining terms and conditions of employment.