MEMORIAL UNIVERSITY OF NEWFOUNDLAND

Consolidated Financial Statements with Supplementary Schedules

March 31, 2013

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

Consolidated Financial Statements

Unaudited Supplementary Information

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, 2013 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 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, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Comparative Information

Without modifying our opinion, we draw attention to Note 3 to the financial statements, which describes that Memorial University of Newfoundland adopted Canadian public sector accounting standards on April 1, 2012 with a transition date of April 1, 2011. These standards were applied retroactively by management to the comparative information in these financial statements, including the statement of financial position at March 31, 2012 and April 1, 2011, and the statements of operations and cash flow for the year ended March 31, 2012 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Ernst & Young LLP

St. John's, Canada
July 4, 2013.

Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at
[thousands of dollars]

	March 31, 2013	March 31, 2012 (unaudited)	April 1, 2011 (unaudited)
ASSETS			
Current			
Cash and cash equivalents	**13,528**	10,538	12,693
Restricted cash *[note 5]*	**6,756**	6,195	4,702
Short-term investments *[note 7]*	**110,429**	114,536	92,870
Accounts receivable	**87,806**	71,007	69,346
Other current assets	**6,697**	6,927	6,400
Total current assets	**225,216**	209,203	186,011
Long term receivable	**-**	-	991
Portfolio investments *[note 7]*	**101,733**	95,071	90,973
Assets under construction *[note 9]*	**160,050**	106,100	37,143
Tangible capital assets *[note 8]*	**191,017**	153,376	156,634
Total assets	**678,016**	563,750	471,752
LIABILITIES			
Current			
Bank indebtedness *[note 6]*	**13,748**	15,139	16,531
Accounts payable and accrued liabilities	**65,149**	48,820	67,169
Deferred revenue	**43,197**	41,806	32,966
Deferred contributions - external grants and donations *[note 11]*	**88,219**	87,377	64,452
Current portion of long term debt *[note 12]*	**514**	494	303
Total current liabilities	**210,827**	193,636	181,421
Long term debt *[note 12]*	**829**	960	346
Derivative liability	**2,167**	2,365	1,644
Post-employment benefits *[note 13]*	**158,342**	146,868	138,525
Deferred capital contributions *[note 10]*	**327,609**	234,905	173,933
Total liabilities	**699,774**	578,734	495,869
NET DEFICIENCY			
Net assets restricted for endowment purposes	**69,089**	72,903	66,548
Net assets related to remeasurement gains/losses	**1,916**	-	-
Unrestricted net deficiency	**(92,763)**	(87,887)	(90,665)
Total net deficiency	**(21,758)**	(14,984)	(24,117)
Total liabilities and net deficiency	**678,016**	563,750	471,752

See accompanying notes
Contingencies [note 14]

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]

	2013	2012 (unaudited)
REVENUE		
Government grants	**423,694**	401,407
Student fees	**62,711**	60,302
Other income	**56,701**	69,288
Amortization of deferred capital contributions *[note 10]*	**22,847**	21,325
Sales and services	**11,393**	12,103
Investment income	**6,364**	998
	583,710	565,423
EXPENSES		
Salaries and employee benefits	**398,913**	372,032
Materials and supplies	**36,836**	36,567
Repairs and maintenance	**32,471**	30,504
Scholarships, bursaries and awards	**26,773**	25,072
Utilities	**25,451**	25,596
Amortization of tangible capital assets	**21,986**	21,065
Travel and hosting	**16,249**	16,599
Externally contracted service	**15,813**	16,406
Other operating expenses	**12,686**	12,136
Professional fees	**12,615**	13,261
Post-employment benefits *[note 13]*	**11,474**	8,343
Equipment rentals	**4,177**	3,680
Interest expense	**623**	680
Derivative liability loss	**-**	721
External cost recoveries	**(19,758)**	(20,910)
	596,309	561,752
Excess of (expenses over revenue) revenues over expenses	**(12,599)**	3,671

See accompanying notes

Memorial University of Newfoundland **Statement 3**

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES

Year ended March 31
[thousands of dollars]

	2013
Accumulated remeasurement gains and (losses) at beginning of year	**-**
Unrealized gains (losses) attributable to:	
Portfolio investments	**1,979**
Derivative liability	**181**
Amounts reclassified to consolidated statement of operations:	
Portfolio investments	**(244)**
Accumulated remeasurement gains and (losses) at end of year	**1,916**

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN NET DEFICIENCY

As at March 31
[thousands of dollars]

	Restricted for Endowment Purposes	Remeasurement Gains/(Losses)	Unrestricted	2013	2012 (unaudited)
Balance, beginning of year	**72,903**	**-**	**(87,887)**	**(14,984)**	(24,117)
Change in remeasurement gains and losses for the current year	-	**1,916**	-	**1,916**	-
Excess of revenue over expense (expense over revenue)	**(7,723)**	**-**	**(4,876)**	**(12,599)**	3,671
Endowment contributions	**3,909**	**-**	**-**	**3,909**	5,462
Balance, end of year	**69,089**	**1,916**	**(92,763)**	**(21,758)**	(14,984)

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31
[thousands of dollars]

	2013	2012 (unaudited)
OPERATING ACTIVITIES		
Excess of (expenses over revenue) revenue over expenses	**(12,599)**	3,671
Items not affecting cash:		
Amortization of tangible capital assets	**21,986**	21,065
Amortization of deferred capital contributions	**(22,847)**	(21,325)
Loss on disposal of tangible capital assets	**135**	159
Increase in post-employment benefits, net	**11,474**	8,343
Increase in derivative liability	**-**	721
Reduction in long term receivable	**-**	991
Urealized (loss) gain on portfolio investments	**-**	5,100
Change in non-cash working capital	**1,974**	11,228
Cash provided by operating activities	**123**	29,953
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	**(59,762)**	(18,919)
Purchase of assets under construction	**(53,950)**	(68,005)
Contributions received for capital purposes	**115,551**	82,297
Cash provided by (used in) capital activities	**1,839**	(4,627)
INVESTING ACTIVITIES		
Increase (decrease) in short-term investments, net	**4,107**	(21,665)
Increase in restricted cash, net	**(561)**	(1,493)
Increase in portfolio investments, net	**(4,926)**	(9,198)
Cash used in investing activities	**(1,380)**	(32,356)
FINANCING ACTIVITIES		
Decrease in bank indebtedness, net	**(1,391)**	(1,392)
Endowment contributions	**3,909**	5,462
(Decrease) increase in long-term debt, net	**(110)**	805
Cash provided by financing activities	**2,408**	4,875
Net change in cash and cash equivalents during the year	**2,990**	(2,155)
Cash and cash equivalents, beginning of year	**10,538**	12,693
Cash and cash equivalents, end of year	**13,528**	10,538
SUPPLEMENTARY INFORMATION		
Interest paid	**623**	680

See accompanying notes

Memorial University of Newfoundland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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 government not-for-profit organization [GNPO], governed by a Board of Regents, the majority of who 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].

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. [CCI]
The Canadian Centre for Fisheries Innovation [CCFI]
Edutech Services Inc. (dissolved August 2011)
Genesis Group Inc. [Genesis]
The Memorial University of Newfoundland Botanical Garden Incorporated (dissolution approved for April 1, 2013) [BG]
Memorial University Recreation Complex [MURC]
Newfoundland Quarterly Foundation (dissolution approved for April 1, 2013) [NQF]
Western Sports and Entertainment Inc. [WSEI]

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

The reported operations and financial positions of dissolved entities have been included in the consolidated financial statements up to the date of their dissolution.

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

Revenues from contracts, sales, unrestricted investment income [interest, dividends, realized gains and losses], other ancillary services [parking, residence, sundry sales, etc.] and student fees are recognized when the goods or services are provided and collection is reasonably assured.

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

> 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 initially deferred 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 recognized as direct increases in the net assets in the year during which they are received.
>
> Restricted investment income [interest, dividends, realized gains and losses] is 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.

Expense recognition

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

Tangible capital assets

Purchased tangible capital assets are recorded at cost less accumulated amortization. Contributed tangible capital assets are recorded at fair value at the date of acquisition. Repairs and maintenance expenditures are charged to operations. 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 statements.

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

Assets under construction are not recorded as tangible capital assets, or amortized, until the asset is put into service.

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. Half a year's amortization is taken in the year of acquisition and no amortization is taken in the year of disposal.

Asset	Rate	Method
Buildings	8%	Declining balance
Furniture and equipment	20%	Declining balance
Computers	30%	Declining balance
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 expenses in the consolidated statement of operations. Any associated unamortized deferred capital contributions related to the derecognized assets is recognized in income.

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* with any deficiencies being funded 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]. In addition to its matching contributions, the University made a special payment of $19.7 million to the Plan during the year. This payment was made against the going concern unfunded liability, not attributable to indexing, that was identified in the March 31, 2010 valuation of the Plan. 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'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.

An actuarial valuation of the Plan was performed for funding purposes as at December 31, 2012 and the results have been extrapolated to March 31, 2013 for financial statement reporting. The extrapolation revealed that the going concern unfunded liability is $347.0 million at March 31, 2013 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 coinciding with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. At March 31, 2013, approximately 31.25 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, that 15 years' worth of these excess contributions can be accounted for when determining the University's special payments.

The University is required to make special payments to fund the going concern unfunded liability revealed in the December 31, 2012 actuarial valuation. As at December 31, 2012 the going concern unfunded liability was $360.7 million. The portion of the going concern unfunded liability (after accounting for the indexing liability) to be amortized was $284.3 million and the required amortization payment for fiscal 2013/2014 is $26.6 million (or 8.8% of pensionable payroll). University special payments will continue at this level (i.e., 8.8% of pensionable payroll) until the next actuarial valuation for funding purposes, which is due no later than December 31, 2015 (i.e., within three years of the December 31, 2012 actuarial valuation).

With respect to solvency, the University is exempt from the solvency funding requirements of the PBA until December 31, 2015

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. Actuarial gains and losses will be amortized over the average remaining service life of employees .

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]

Additional disclosure is provided in note 13.

Financial instruments

The University classifies its financial instruments as either fair value or amortized cost. The accounting policy for each category is as follows:

Fair value

This category includes cash and cash equivalents, restricted cash, bank indebtedness, derivatives and equity investments quoted in an active market 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.

These financial instruments are initially recognized at fair value and subsequently carried at fair value.

Transaction costs related to these financial instruments in the fair value category are expensed as incurred.

Unrealized changes in fair value are recognized in the consolidated statement of remeasurement gains and losses until they are realized, when they are transferred to the consolidated statement of operations.

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 losses and recognized in the consolidated statement of operations. On sale, the amount held in accumulated remeasurement gains and losses with that instrument is removed from net assets and recognized in the consolidated statement of operations.

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 added to the carrying value 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 the notional principal amount on which the payments are based.

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. FIRST TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

PSAB issued new standards for GNPO's for years beginning after January 1, 2012. GNPO's have a choice of:

- Public Sector Accounting Standards including PS 4200 – 4270 for government not-for-profit organizations; or
- Public Sector Accounting Standards without PS 4200 – 4270

The University has chosen to follow Public Sector Accounting Standards including PS 4200 – 4270 for GNPO's.

These financial statements are the first financial statements which the University has prepared in accordance with the Public Sector Accounting (PSA) Handbook, which constitutes generally accepted accounting principles for GNPO's in Canada [GAAP]. In preparing its opening Statement of Financial Position as at April 1, 2011 [the "Transition Date"], the University has applied Section PS 2125, First Time Adoption by Government Organizations [PS 2125].

The accounting policies that the University has used in the preparation of its opening Statement of Financial Position have resulted in certain adjustments to balances which were presented in the Statement of Financial Position prepared in accordance with Part V of the CICA Handbook – Accounting [Previous GAAP]. These adjustments were recorded directly to the University's net assets at the Transition Date using the transitional provisions set out in PS 2125.

PS 2125 provides a number of elective exemptions related to standards in the PSA Handbook. The University has elected to use the transition exemption from applying PS 3150 retroactively to conditions when a write-down of tangible capital assets should be accounted for prior to the Transition Date. The University has also elected to use the transition exemption for PS 3250, Retirement Benefits, where a first time adopter can elect to recognize all cumulative actuarial gains/losses as at the Transition Date directly in net assets. The University has not elected to use any other exemptions.

The adjustments are as follows:

Adj. (i) Administrative leaves - The University accrued an amount for administrative leave relating to employees who accrued time off to transition back into the academic ranks. Under GAAP, these leaves are now considered restricted leaves and do not fit the definition of a compensated absence under PS 3255, Post-Employment Benefits, Compensated Absences and Termination Benefits; accordingly, this liability is no longer recognized. The effect of this change has resulted in a decrease in the liability and a decrease in net deficiency of $362 thousand at the Transition Date and for the year ended March 31, 2012.

Adj. (ii) Post-employment benefits discount rate - GAAP requires these liabilities to be calculated with a discount rate that is equal to either the University's rate of return on plan assets or the University's borrowing rate. Under Previous GAAP, these liabilities were discounted using a rate equal to the yield on high quality corporate bonds. As the University has no plan assets in relation to post-employment benefits, the University has used its indicative borrowing rate as provided by its external financial institution. The University has recognized an increase in the post-employment benefit liability and an increase in the net deficiency balance of $2.5 million as at the Transition Date, and $10.1 million as at March 31, 2012. The change resulted in an increase in post-employment benefits expense of $7.6 million for the year ended March 31, 2012.

Adj.(iii) Post-employment benefits actuarial gains/losses - The University has elected to recognize actuarial gains and losses at the date of transition to GAAP directly in net assets. In future years, amortization of actuarial gains and losses will be amortized over the average remaining service life of employees. As a result, the University has recognized a decrease in the liability and a decrease to net deficiency of nil as at the Transition Date, and $26.2 million as at March 31, 2012. The change resulted in a decrease of $26.2 million in post-employment benefits for the year ended March 31, 2012.

Reclassifications – In previous years, the University presented accrued vacation as a component of employee future benefits. This liability is now included as part of accounts payable and accrued liabilities. There is no effect on net assets due to this reclassification. As well, two research funds with a surplus balance were reclassified as deferred contributions.

The effects of these adjustments are detailed in the following tables.

Statement of Financial Position as at April 1, 2011 – Transition Date (unaudited)

[thousands of dollars]

	Previous GAAP	Adj. (i)	Adj. (ii)	Adj. (iii)	Reclassification	GAAP
Liabilities						
Accounts payable and accrued liabilities	53,415	-	-	-	13,754	**67,169**
Deferred contributions	64,323	-	-	-	129	**64,452**
Post-employment benefits	150,146	(362)	2,495	-	(13,754)	**138,525**
Net deficiency	(21,855)	362	(2,495)	-	(129)	**(24,117)**

Statement of Financial Position as at March 31, 2012 (unaudited)

[thousands of dollars]

	Previous GAAP	Adj. (i)	Adj. (ii)	Adj. (iii)	Reclassification	GAAP
Liabilities						
Accounts payable and accrued liabilities	33,875	-	-	-	14,945	**48,820**
Deferred contributions	87,261	-	-	-	116	**87,377**
Post-employment benefits	178,254	(362)	10,110	(26,189)	(14,945)	**146,868**
Net deficiency	(31,309)	362	(10,110)	26,189	(116)	**(14,984)**

Statement of Operations for the year ended March 31, 2012 (unaudited)

[thousands of dollars]

	Previous GAAP	Adj. (i)	Adj. (ii)	Adj. (iii)	Reclassification	GAAP
Other Income	69,275	-	-	-	13	**69,288**
Expenses						
Salaries and employee benefits	370,840	-	-	-	1,192	**372,032**
Post-employment benefits	28,109	-	7,615	(26,189)	(1,192)	**8,343**
Excess of over expenses	(14,916)	**-**	(7,615)	26,189	13	**3,671**

Statement of Cash Flows for the year ended March 31, 2012

The transition to GAAP had no impact on total operating or financing activities on the statement of cash flows. The change in excess of expenses over revenues for the year ended March 31, 2012 has been offset by adjustments to operating activities. The transition to GAAP resulted in the reclassification of cash receipts and outflows relating to the acquisition of tangible capital assets from investing to capital activities. The capital section of the statement of cash flows did not exist prior to the transition to GAAP.

Statement of Remeasurement Gains and Losses

On April 1, 2012, the University adopted Public Sector Accounting Standards PS 3450, *Financial Instruments.* The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial statements.

Under PS 3450, all financial instruments, including derivatives, are included in the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the University's accounting policy choices (see Note 2 - Significant Accounting Policies).

4. 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 ¼ 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.

5. 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.

6. BANK INDEBTEDNESS

Pursuant to Section 41 of the *Memorial University Act*, the University has received approval from the Lieutenant-Governor in Council to borrow to finance two capital projects. The projects 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 2013/14 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 15*.

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 $0.27 million [2012 - $0.32 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 $1.90 million [2012 - $2.05 million].

7. FINANCIAL INSTRUMENT CLASSIFICATION

The following table provides cost and fair market value information of financial instruments by category. The maximum exposure to credit risk is the carrying amount shown below.

[thousands of dollars]	**2013**			2012 (unaudited)	2011 (unaudited)
	Fair Value	**Amortized Cost**	**Total**	Total	Total
Cash and cash equivalents	**13,528**	**-**	**13,528**	10,538	12,693
Restricted cash	**6,756**	**-**	**6,756**	6,195	4,702
Short term investments	**-**	**110,429**	**110,429**	114,536	92,870
Accounts receivable	**-**	**87,806**	**87,806**	71,007	69,346
Portfolio investments	**101,733**	**-**	**101,733**	95,071	90,973
Bank indebtedness	**13,748**	**-**	**13,748**	15,139	16,531
Accounts payable and accrued liabilities	**-**	**65,149**	**65,149**	48,820	67,169
Long term debt	**-**	**1,343**	**1,343**	1,454	649
Derivative liability	**2,167**	**-**	**2,167**	2,365	1,644

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which fair value is observable:

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]	**2013**				2012 (unaudited)	2011 (unaudited)
	Level 1	**Level 2**	**Level 3**	**Total**	Total	Total
Cash and cash equivalents	**13,528**	**-**	**-**	**13,528**	10,538	12,693
Restricted cash	**6,756**	**-**	**-**	**6,756**	6,195	4,702
Investments						
Private equity						1,374
Publicly traded equity - CDN	**25,338**	**-**	**-**	**25,338**	30,596	33,265
Publicly traded equity – USD	**6,712**	**-**	**-**	**6,712**	7,157	6,615
Publicly traded equity – Global	**5,114**	**-**	**-**	**5,114**	3,455	3,356
Fixed income	**-**	**64,569**	**-**	**64,569**	53,863	46,363
Bank indebtedness	**-**	**13,748**	**-**	**13,748**	15,139	16,531
Derivative liability	**-**	**-**	**2,167**	**2,167**	2,365	1,644

8. TANGIBLE CAPITAL ASSETS

[thousands of dollars]	**2013**			2012 (unaudited)	2011 (unaudited)
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value	Net Book Value
Buildings	**254,073**	**146,990**	**107,083**	74,874	83,356
Furniture and equipment	**117,939**	**70,024**	**47,915**	42,178	38,659
Computers	**25,570**	**19,967**	**5,603**	5,902	4,593
Software	**4,146**	**1,618**	**2,528**	1,529	434
Vehicles and vessels	**4,740**	**4,423**	**317**	371	435
Library collection	**145,705**	**118,134**	**27,571**	28,522	29,157
Total	**552,173**	**361,156**	**191,017**	153,376	156,634

Amortization expense for the year is $22.0 million (2012 - $21.1 million).

9. ASSETS UNDER CONSTRUCTION

Assets under construction represent costs incurred to date on the construction of new facilities. When construction is completed, the assets will be reclassified to tangible capital assets and amortization will commence. Assets under construction are as follows:

[thousands of dollars]	**2013**	2012 (unaudited)	2011 (unaudited)
Project Description			
Grenfell Campus Academic Building	**-**	27,040	13,120
Grenfell Campus New Residence	**18,542**	6,097	2,239
MUN Residence	**55,943**	29,892	7,532
Medical School Extension	**45,569**	26,477	7,366
Ocean Sciences Center Deep Water Supply	**19,637**	8,691	4,377
Grenfell Campus Environmental Labs	**2,086**	343	-
Engineering Expansion	**3,139**	451	-
C-CORE Expansion	**4,192**	400	-
Core Science Facility	**230**	-	-
100 Signal Hill Road Property	**10,712**	-	-
Holyrood Marine Base	**-**	2,395	2,337
Offshore Safety and Survival Center Revitalization	**-**	3,177	120
Simulator Upgrade	**-**	320	11
Offshore Safety and Survival Center Storage Facility	**-**	54	-
Holyrood Storage Facility	**-**	1	-
Grenfell Campus Arts and Science Building Extension	**-**	762	41
Total	**160,050**	106,100	37,143

10. 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]	**2013**	2012 (unaudited)	2011 (unaudited)
Balance, beginning of year	**234,905**	173,933	159,359
Additional contributions received	**115,551**	82,297	36,803
Less amounts amortized to revenue	**(22,847)**	(21,325)	(22,229)
Balance, end of year	**327,609**	234,905	173,933

11. DEFERRED CONTRIBUTIONS – EXTERNAL 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]	**2013**	2012 (unaudited)	2011 (unaudited)
Balance, beginning of year	**87,377**	64,452	61,309
Grants and donations received during the year	**80,186**	83,505	63,754
Less expenses incurred during the year	**(79,344)**	(60,580)	(60,611)
Balance, end of year	**88,219**	87,377	64,452

12. LONG-TERM DEBT

[thousands of dollars]	**2013**	2012 (unaudited)	2011 (unaudited)
RBC Royal Bank, fixed term demand loan, related to Harlow campus, 5.19% interest, repayable in nine equal annual, blended payments of $121, matured in April 2012, unsecured	**-**	118	227
CMHC mortgage on Queen's College, 5.875% interest, repayable in 50 equal, blended payments of $29 semi-annually, maturing in June 2019, secured	**270**	311	349
Capital leases negotiated through the RBC Royal Bank, varying interest rates, payable in equal annual installments, secured by assets under lease	**1,073**	1,025	73
	1,343	1,454	649
Less: current portion	**514**	494	303
	829	960	346

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

2014	514
2015	517
2016	179
2017	51
2018	54
Thereafter	28

13. 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 (VERIP) and Supplemental Retirement Income Plan (SRIP).

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:

	2013	2012
Discount rate:		
Liability	**4.10%**	4.13%
Expense	**4.13%**	5.10%
Average rate of compensation increase	**4.00%**	4.50%

The health care inflation rate is 7% in year 1, reducing 0.5% per year to 4% in year 7 and later (2012 – 4.0% per annum). There is no explicit inflation rate used in this valuation.

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 assumptions used in measuring these benefits include the following:

	2013	2012
Discount rate		
Liability	**3.25%**	3.50%
Expense	**3.50%**	4.50%

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:

	2013	2012
Discount rate		
Liability	**4.00%**	4.10%
Expense	**4.10%**	5.10%

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

[thousands of dollars]	2013			
	Employee Future Benefits	VERIP	SRIP	Total Liability
Post-employment benefits	163,744	6,394	20,476	190,614
Unamortized actuarial loss	(26,302)	-	(5,970)	(32,272)
Total liability	137,442	6,394	14,506	158,342

[thousands of dollars]	2012 (unaudited)			
	Employee Future Benefits	VERIP	SRIP	Total Liability
Post-employment benefits	150,012	6,586	16,458	173,056
Unamortized actuarial loss	(22,769)	-	(3,419)	(26,188)
Total liability	127,243	6,586	13,039	146,868

[thousands of dollars]	2013			
	Employee Future Benefits	VERIP	SRIP	Total Liability
Current year benefit costs	5,885	-	871	6,756
Interest on accrued benefit obligations	6,299	221	703	7,223
Benefit payments	(4,055)	(533)	(370)	(4,958)
Amortized actuarial losses	2,070	120	263	2,453
Total expense	10,199	(192)	1,467	11,474

[thousands of dollars]	2012 (unaudited)			
	Employee Future Benefits	VERIP	SRIP	Total Liability
Current year benefit costs	4,485	-	571	5,056
Interest on accrued benefit obligations	6,253	270	641	7,164
Benefit payments	(3,596)	(542)	(326)	(4,464)
Amortized actuarial losses	-	587	-	587
Total expense	7,142	315	886	8,343

14. CONTINGINCIES

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, 2012, CURIE had a surplus of $15.6 million and a cumulative subscribers' equity of $60.5 million. The University's pro-rata share is approximately 3% on an ongoing basis.

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 certification order has been upheld upon appeal. This matter is under case management and discoveries have been held. A Settlement Conference took place June 18 and 19, 2013. The University continues to defend its position and the potential exposure to this claim is indeterminable at the present time.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit risk

The University is exposed to credit risk with respect to accounts receivable from students, governments and other 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 remeasurement gains and losses.

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.

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.

Unaudited Supplementary Information

MEMORIAL UNIVERSITY OF NEWFOUNDLAND

March 31, 2013

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 where deemed necessary.

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 5-year interval to ensure market currency.

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, 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. Per-course instructors are represented by Lecturers' Union of Memorial University of Newfoundland [LUMUN] and compensated in accordance with negotiated salary amounts.

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 compliance within identified comparator groups and to ensure ongoing competitiveness of the University's compensation structure. These market differentials are applied where market demands are greater than assigned salary levels.

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], and the Newfoundland Association of Public Employees [NAPE].

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

Schedule 1
[unaudited]

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
EXECUTIVE SALARY RANGES
MARCH 31, 2013

	Salary Range ($)
President and Vice-Chancellor *[note 1]*	274,286 - 342,857
Vice-Presidents:	
Provost (Academic)	208,917 - 261,146
Administration & Finance	185,693 - 232,116
Research *[note 2]*	185,693 - 232,116
Grenfell Campus [GC]	185,693 - 232,116
Fisheries & Marine Institute	185,693 - 232,116
Deputy Provost (Students) & Associate Vice-President (Academic) Undergraduate Studies	179,485 - 224,357

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

Note 2: Actual salary is $261,146 as per employment contract.

Schedule 1
[unaudited]

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
ACADEMIC SALARY RANGES
MARCH 31, 2013

	Salary Range ($)	Actual Minimum and Maximum Salaries ($)	Number of Employees
Academic Executive:	*[note 1]*		16
Deans of Faculties/Schools			12
University Librarian			1
Associate Vice-President			3
Academic Management:	*[note 2]*		79
Associate Deans			26
Assistant Deans			6
Department Heads			40
Directors			3
Associate University Librarians			4
Academic Staff:	31,723 -166,467	43,947 - 235,793	1,425
Professors	107,336 -166,467	115,492 - 235,793	303
Associate Professors	91,024 -135,882	93,063 - 178,701	401
Assistant Professors	78,790 - 97,141	70,634 - 129,846	301
Lecturers *[note 3]*	62,478 - 72,673	62,478 - 88,985	145
Co-op Education Coordinators	60,438 -105,296	80,828 - 115,491	21
Librarians	56,358 -148,113	56,358 - 121,606	42
Instructors-Marine Institute	31,723 -118,886	43,947 - 118,886	212

Note 1: Academic Deans 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 2: 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 3: Lecturers include 45 Visiting Professors paid on the lecturer scale.

Schedule 1
[unaudited]

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
ADMINISTRATIVE SALARY RANGES
MARCH 31, 2013

	Salary Range ($)	Actual Minimum and Maximum Salaries ($)	Number of Employees
Senior Administrative Management Level 1 to 5 *[note 1]*	99,511 -195,120	99,511 -189,268	122
Management and Professional Staff *[note 2]*	47,213 - 89,189	47,213 - 90,000	486
Administrative Staff *[note 3]*	28,780 -108,854	28,780 - 76,621	2,301

Note 1: Compensation levels were assessed based on the Canadian broader public sector.

Note 2: Compensation was assessed based on the Atlantic Canadian broader public sector developed under the University's Job Evaluation System.

Note 3: Administrative salary ranges [Common Pay Scale] reflect salary levels defined by union collective agreements or non-bargaining terms and conditions of employment.