Consolidated Financial Statements of

LAURENTIAN UNIVERSITY OF SUDBURY

Year ended April 30, 2007

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AUDITORS' REPORT TO THE GOVERNORS

We have audited the following consolidated financial statements of **Laurentian University of Sudbury** as at April 30, 2007 and for the year then ended:

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

These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Sudbury, Canada
June 30, 2007

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Financial Position

April 30, 2007, with comparative figures for 2006
(thousands of dollars)

		2007	2006
Assets			
Current assets:			
Cash and short-term investments	$	37,233	37,706
Accounts receivable		13,249	12,841
Other		676	630
		51,158	51,177
Investments (note 2)		26,715	20,711
Deferred pension asset (note 3)		1,729	875
Capital assets (note 4)		97,840	87,355
	$	177,442	160,118

Liabilities, Deferred Contributions and Net Assets

		2007	2006
Current liabilities:			
Bank advances	$	–	8,532
Accounts payable and accrued liabilities		11,848	10,528
Accrued vacation pay		1,192	1,057
Deferred revenue		2,723	2,225
Current portion of long-term debt (note 6)		360	130
		16,123	22,472
Long-term obligations:			
Accrued early retirement program (note 5)		2,611	807
Long-term debt (note 6)		18,109	3,813
Employee future benefits obligation (note 3)		2,584	2,316
		23,304	6,936
Deferred contributions (note 7):			
Deferred contributions		26,030	25,448
Deferred capital contributions		54,178	51,216
		80,208	76,664
Net assets		57,807	54,046
Commitments and contingencies (note 11)			
	$	177,442	160,118

See accompanying notes to consolidated financial statements.

On behalf of the Board of Governors:

__________________________ Governor

__________________________ Governor

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Operations

Year ended April 30, 2007, with comparative figures for 2006
(thousands of dollars)

		2007	2006
Revenue:			
Government grants and contracts	$	64,167	57,199
Tuition fees		28,507	27,254
Sales and services		9,656	8,374
Investment income		3,614	2,727
Research grants and contracts		16,001	14,074
Other fees and income (note 14)		7,007	17,961
Amortization of deferred capital contributions		2,350	1,935
		131,302	129,524
Expenses:			
Salaries and benefits		88,346	78,548
Operating		18,344	25,942
Scholarships and bursaries		8,725	8,066
Occupancy		6,971	5,474
Cost of ancillary sales and services		2,721	2,849
Depreciation		5,968	6,145
		131,075	127,024
Excess of revenue over expenses	$	227	2,500

See accompanying notes to consolidated financial statements.

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2007, with comparative figures for 2006
(thousands of dollars)

	Unrestricted	Vacation Pay and Employee Future Benefits	Internally Restricted	Investment in Capital Assets	Endowment	Total 2007	Total 2006
			(note 8)	(note 9)			
Net assets (deficiency), beginning of year	$ 1,442	(3,373)	13,381	22,802	19,794	54,046	46,785
Excess (deficiency) of revenue over expenses	5,256	(405)	(1,006)	(3,618)	–	227	2,500
Transfer for capital transactions (note 10)	(5,255)	–	–	5,255	–	–	–
Endowment contributions	–	–	–	–	3,534	3,534	4,761
Net assets (deficiency), end of year	$ 1,443	(3,778)	12,375	24,439	23,328	57,807	54,046

See accompanying notes to consolidated financial statements.

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Cash Flows

Year ended April 30, 2007, with comparative figures for 2006
(thousands of dollars)

		2007	2006
Cash flows from operating activities:			
Excess of revenue over expenses	$	227	2,500
Adjustments for:			
Depreciation		5,968	6,145
Amortization of deferred capital contributions		(2,350)	(1,935)
		3,845	6,710
Change in non-cash working capital (note 13)		1,499	(505)
		5,344	6,205
Cash flows from financing and investing activities:			
Purchases of capital assets		(16,453)	(24,752)
Change in deferred contributions		582	12,724
Deferred capital contributions		5,312	10,887
Change in investments		(6,004)	(4,000)
Change in accrued early retirement program costs		1,804	196
Increase in accrued pension asset		(854)	(875)
Increase in employee future benefit obligation		268	159
Repayment of long-term debt		(274)	(123)
Endowment fund balance increase		3,534	4,761
Bank advances		(8,532)	8,532
Long-term debt obtained		14,800	–
		(5,817)	7,509
Net increase (decrease) in cash		(473)	13,714
Cash and short-term investments, beginning of year		37,706	23,992
Cash and short-term investments, end of year	$	37,233	37,706

See accompanying notes to consolidated financial statements.

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

1. Significant accounting policies:

(a) Revenue recognition:

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

Unrestricted contributions and donations are recognized as revenue when received.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized.

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

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

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

(b) Investments:

Investments are largely invested in pooled funds, which are carried at market value.

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

(c) Capital assets:

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

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

Construction in progress, including capitalized interest, is not amortized until the project is complete and the facilities are put in use.

1. Significant accounting policies (continued):

(d) Employee future benefits:

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

The University sponsors a defined benefit health care plan for substantially all retirees and employees.

Faculty have the option of accepting a Special Voluntary Early Retirement package prior to the normal eligible retirement age, with benefits based on years of service and final average salary to a specified maximum.

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

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

1. Significant accounting policies (continued):

(e) Internally restricted net assets:

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

(f) Related entities and basis of presentation:

MIRARCo

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

Northern Ontario School of Medicine

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

Sudbury Neutrino Observatory

The Sudbury Neutrino Observatory was created on December 2, 1997 as a joint venture of the University and three other Canadian Universities, to perform research in sub-atomic physics. The University's proportionate share of the entity's assets, liabilities, revenues and expenses to March 31, 2006 have been included in these consolidated financial statements. The 2007 financial statements are not available and accordingly, the balances and transactions will be accounted for prospectively.

(g) Use of estimates:

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

1. Significant accounting policies (continued):

(h) Derivative financial instruments:

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

2. Investments (in thousands of dollars):

	2007	2006
Pooled funds:		
Equities	$ 13,176	10,601
Fixed income	13,445	10,021
Government bonds and guaranteed investment certificates	94	89
	$ 26,715	20,711

3. Employee future benefits:

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

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

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

	Pension benefit plan		Post-employment benefit obligation	
(in thousands of dollars)	2007	2006	2007	2006
Accrued benefit obligation	$ (95,422)	(52,122)	(5,707)	(4,416)
Fair value of plan assets	93,961	49,049	934	821
Funded status - plan surplus (deficit)	(1,461)	(3,073)	(4,773)	(3,595)
Balance of unamortized amounts	3,190	3,948	2,189	1,279
Accrued benefit asset (liability)	$ 1,729	875	(2,584)	(2,316)

3. Employee future benefits (continued):

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

	Pension benefit plan		Post-employment benefit obligation	
	2007	2006	2007	2006
Discount rate	5.0%	6.5%	5.0%	5.5%
Rate of compensation/inflation increases	3.5%	3.5%	3.0%	3.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	5.0%	5.0%
Health care cost trend rate	–	–	3.0%	3.0%

The retiree health benefit plan expense for 2007 amounted to $ 269,000 (2006 - $217,000) and the benefit payments included therein made on behalf of retirees amounted to $94,264 (2006 - $58,000).

Total cash amounts recognized as paid or payable for pension benefits in 2007, consisting of employer contributions to the defined pension plan were $ 5,902,000 (2006 - $5,218,000).

4. **Capital assets** (in thousands of dollars)**:**

	2007		2006	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Buildings	$ 131,584	48,346	119,432	46,237
Equipment and furnishings	81,937	70,741	79,462	67,166
Land and site improvements	9,635	6,229	7,809	5,945
	223,156	125,316	206,703	119,348
Less accumulated depreciation	125,316		119,348	
	$ 97,840		87,355	

5. Special Voluntary Early Retirement Program:

The University offers a voluntary early retirement program to all faculty. An actuarial calculation of the future liabilities thereof has been made and forms the basis of this provision.

The significant assumptions used are as indicated in note 3. There are no plan assets for this benefit.

The voluntary early retirement expense amounted to $975,000 (2006 - $348,000) and the benefit payments made on behalf of retirees were $728,000 (2006 - $577,000).

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

	2007	2006
Bank of Montreal	$ 3,813	3,943
TD Canada Trust	14,656	–
	18,469	3,943
Less current portion	360	130
	$ 18,109	3,813

The above noted debt was advanced under variable rate credit facilities in the principal face amounts of $4.116 million and $14.8 million for the financing of various residences and the construction of a 223 bed residence. Interest rates are adjusted monthly and were 4.59% at April 30, 2007. The facilities are secured by a generally security agreement.

The University has entered into two interest rate derivative agreements to manage the volatility of interest rates. The University converted floating rate debt for fixed rate debt of 5.14% and 4.70%. The related derivative agreements are in place until the maturity of the debt in 2024 and 2036 respectively.

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

2008	$ 360
2009	381
2010	396
2011	423
2012	443
Thereafter	16,466
	$ 18,469

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

(a) Deferred contributions:

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

		2007	2006
Balance, beginning of year	$	25,448	12,724
Add contributions received in the year		22,206	40,135
Less amounts recognized as revenue		(21,624)	(27,411)
Balance, end of year	$	26,030	25,448

(b) Deferred capital contributions:

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

		2007	2006
Unspent:			
Balance, beginning of year	$	2,338	2,288
Add contributions received in the year		5,312	10,887
Less amounts utilized		(5,822)	(10,837)
Balance, end of year	$	1,828	2,338
Unamortized:			
Balance, beginning of year	$	48,878	39,976
Add contributions received in the year		5,822	10,837
Less amount amortized to revenue		(2,350)	(1,935)
Balance, end of year		52,350	48,878
Total unspent and unamortized capital contributions	$	54,178	51,216

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

	2007	2006
Sudbury Neutrino Observatory	$ 60	169
Future budget provisions	6,057	3,547
Departmental trust funds	3,602	3,308
Scholarship and bursary funds	256	244
Departmental research funds	2,452	2,485
Departmental carry forwards	3,746	3,721
Outstanding purchase orders	642	1,217
Self-insurance funds	250	250
Reserve for early retirement	(2,611)	(1,536)
Ancillaries (deficit)	(267)	(105)
Replacement reserve - ancillaries	131	416
Unexpended (overexpended) capital fund	(4,172)	(1,710)
Provision for pension plan liabilities	2,229	1,375
	$ 12,375	13,381

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

The investment in capital assets is calculated as follows:

	2007	2006
Capital assets	$ 97,840	87,355
Less amounts financed by:		
Long-term debt	(18,469)	(3,943)
Internal financing (note 10)	(2,582)	(3,200)
Bank advances	–	(8,532)
Unamortized deferred capital contributions	(52,350)	(48,878)
	$ 24,439	22,802

Details of the transfer for capital transactions are as follows:

	2007	2006
Repayment of long-term debt	$ 277	123
Repayment of internal financing	619	601
Internally funded capital assets	4,359	5,383
	$ 5,255	6,107

10. Internal financing (in thousands of dollars):

Details of capital asset internal financing activities are as follows:

	April 30, 2006	Repayments	April 30, 2007
University press	$ 42	(29)	13
Heating plant	528	(137)	391
Energy retrofit	1,695	(265)	1,430
Telephone system and copier equipment	935	(187)	748
	$ 3,200	(618)	2,582

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

11. Commitments and contingencies:

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

(b) The University has contracted to construct a new school of education building. The total cost of the project is estimated at $19,250,000 and as of April 30, 2007 the University has spent $5,780,000.

(c) The University has contracted to construct a new Recreation Centre. The total cost of the project is estimated at $10,000,000 and as of April 30, 2007 the University has spent $1,309,000.

(d) The University is involved in certain legal matters and litigation, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the periods in which the matters are resolved. Management is of the opinion that these matters are mitigated by adequate insurance coverage.

12. Ontario Student Opportunity Trust Fund:

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

	2007	2006
Endowment balance, beginning of year	$ 8,653,876	8,391,201
Capitalized interest	190,715	262,675
Endowment balance, end of year	8,844,591	8,653,876
Funds available for awards, beginning of year	84,688	142,694
Investment income	437,614	379,597
Bursaries awarded (total number: 389 ; 2006 - 380)	(429,700)	(437,603)
Funds available for awards, end of year	92,602	84,688
Total funds	$ 8,937,193	8,738,564

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

	2007	2006
Cash flows from operating activities:		
Accounts receivable	$ (408)	(4,031)
Other assets	(46)	346
Accounts payable and accrued liabilities	1,320	2,795
Accrued vacation pay	135	74
Deferred revenue	498	311
	$ 1,499	(505)

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

Details of the other fees and income are as follows:

	2007	2006
Sponsored students	$ 1,644	1,497
Compulsory ancillary and other	3,148	2,634
Administrative fees:		
Federated institutions	533	480
Ancillary operations	522	468
Overhead on research contract and other trust accounts	250	210
Scholarships, bursaries and other trust account contributions	910	12,672
	$ 7,007	17,961

15. Fair value of financial assets and financial liabilities:

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

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

Information concerning the long-term debt is provided in note 6. The fair value of the debt is $18.628 million (2006 - $3.943 million) and the related derivative instrument is $159,000 unfavourable (2006 - $82,000 unfavourable).