Consolidated Financial Statements of

LAURENTIAN UNIVERSITY OF SUDBURY

Year ended April 30, 2008

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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, 2008 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, 2008 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 27, 2008

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Financial Position

April 30, 2008, with comparative figures for 2007
(thousands of dollars)

	2008	2007
Assets		
Current assets:		
Cash and short-term investments	$ 53,649	37,233
Accounts receivable	10,824	13,249
Other	633	676
	65,106	51,158
Investments (note 3)	27,410	26,715
Deferred pension asset (note 4)	2,845	1,729
Property and equipment (note 5)	111,004	97,840
	$ 206,365	177,442
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Short-term loan (note 6)	$ 18,668	–
Accounts payable and accrued liabilities	22,300	11,848
Accrued vacation pay	1,303	1,192
Deferred revenue	1,649	2,723
Current portion of long-term debt (note 7)	381	360
	44,301	16,123
Long-term obligations:		
Accrued early retirement program (note 8)	2,092	2,611
Long-term debt (note 7)	17,727	18,109
Interest rate swaps (notes 2(a) and 7)	633	–
Employee future benefit obligations (notes 2(b) and 4)	5,424	2,584
	25,876	23,304
Deferred contributions (note 9):		
Deferred contributions	18,348	26,030
Deferred capital contributions	65,435	54,178
	83,783	80,208
Net assets (note 2)	52,405	57,807
Commitments and contingencies (note 13)		
	$ 206,365	177,442

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, 2008, with comparative figures for 2007
(thousands of dollars)

		2008	2007
Revenue:			
Government grants and contracts	$	67,800	64,167
Tuition fees		27,899	28,507
Sales and services		10,437	9,656
Investment income		1,426	3,614
Research grants and contracts		28,319	16,001
Other fees and income (note 15)		9,306	7,007
Amortization of deferred capital contributions		2,583	2,350
		147,770	131,302
Expenses:			
Salaries and benefits		91,946	88,346
Operating		15,388	10,151
Research		19,626	8,193
Scholarships and bursaries		8,787	8,725
Occupancy		6,938	6,971
Cost of ancillary sales and services		3,043	2,721
Amortization of property and equipment		6,818	5,968
		152,546	131,075
Excess (deficiency) of revenue over expenses	$	(4,776)	227

See accompanying notes to consolidated financial statements.

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2008, with comparative figures for 2007
(thousands of dollars)

	Unrestricted	Vacation Pay and Employee Future Benefits	Internally Restricted	Investment in Capital Assets	Endowment	Interest Rate Swaps	Total 2008	Total 2007
			(note 10)	(note 11)				
Net assets (deficiency), beginning of year	$ 1,443	(3,778)	12,375	24,439	23,328	–	57,807	54,046
Accounting changes (note 2)	–	(2,507)	–	–	–	(159)	(2,666)	–
Net assets (deficiency), beginning of year as adjusted	1,443	(6,285)	12,375	24,439	23,328	(159)	55,141	54,046
Excess (deficiency) of revenue over expenses	(786)	(442)	687	(4,235)	–	–	(4,776)	227
Transfer for capital transactions (note 11)	(543)	–	–	543	–	–	–	–
Endowment contributions	–	–	–	–	2,040	–	2,040	3,534
Change in fair value of interest rate swaps	474	–	–	–	–	(474)	–	–
Net assets (deficiency), end of year	$ 588	(6,727)	13,062	20,747	25,368	(633)	52,405	57,807

See accompanying notes to consolidated financial statements.

LAURENTIAN UNIVERSITY OF SUDBURY

Consolidated Statement of Cash Flows

Year ended April 30, 2008, with comparative figures for 2007
(thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	$ (4,776)	227
Adjustments for:		
Amortization of property and equipment	6,818	5,968
Amortization of deferred capital contributions	(2,583)	(2,350)
Change in accrued early retirement program costs	(519)	1,804
Increase in deferred pension asset	(1,116)	(854)
Increase in employee future benefit obligations (note 2(b))	333	268
Interest rate swaps (note 2(a))	474	–
	(1,369)	5,063
Change in non-cash working capital (note 14)	11,957	1,499
	10,588	6,562
Cash flows from financing and investing activities:		
Purchases of property and equipment	(19,982)	(16,453)
Change in deferred contributions	(7,682)	582
Deferred capital contributions received	13,840	5,312
Change in investments	(695)	(6,004)
Repayment of long-term debt	(361)	(274)
Endowment contributions	2,040	3,534
Bank advances	–	(8,532)
Long-term debt obtained	–	14,800
Short-term loan	18,668	–
	5,828	(7,035)
Net increase (decrease) in cash	16,416	(473)
Cash and short-term investments, beginning of year	37,233	37,706
Cash and short-term investments, end of year	$ 53,649	37,233

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 property and equipment purchases are deferred and amortized to operations on the same basis as the related asset is amortized.

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:

All 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) Property and equipment:

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

Buildings	40 years
Equipment and furnishings	7 years
Land and site improvements	15 years

Construction in progress 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 has approved a supplemental plan for employees to provide them with full benefits should the Canada Revenue Agency limitations not have been imposed (note 2b).

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, 2007, and the next required valuation will be as of July 1, 2010.

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 of 11.4 years.

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 (the "School") 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, 2007 have been included in these consolidated financial statements. The 2008 financial statements are not available and accordingly, the balances and transactions will be accounted for prospectively.

Centre for Excellence in Mining and Innovation (CEMI):

The Centre for Excellence in Mining and Innovation (CEMI) was created on April 23, 2007 to advance, study, research and innovation. The University contributed $10 million received from the Provincial Government to create and fund CEMI on its inception.

The remaining balance of $9.9 million to be paid to CEMI is included in accounts payable. The University has no claim to CEMI's assets during its operating life nor is it liable or contingently liable for CEMI's obligations. Accordingly, the operations of CEMI are not included in these consolidated financial statements.

1. Significant Accounting Policies (continued)

(g) Interest rate swaps:

The University is party to interest rate swap agreements used to manage the exposure to market risks from changing interest rates. The University's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The University has not formerly hedged these agreements and the change in the net value of the swaps is reflected in the consolidated statement of operations.

(h) 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.

2. Changes in accounting policies:

(a) Effective May 1, 2007, the University adopted CICA Handbook Section 3855, "*Financial Instruments - Recognition and Measurement*", Section 3865, "*Financial Instruments - Hedges*", and Section 3861, and "*Financial Instruments – Disclosure and Presentation*".

Section 3861 establishes standards for disclosure and presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the statement of financial position and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the statement of financial position at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in the statement of operations; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in deferred contributions for externally restricted investments and the statement of changes in net assets for unrestricted investments.

2. Changes in accounting policies (continued):

(a) Upon adoption of the new standards on May 1, 2007, the University designated its cash and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Investments are designated as held-for-trading, which are recorded at fair value. Accounts payable and accrued liabilities and accrued vacation pay and long-term debt are classified as other financial liabilities, which are measured at amortized cost. Interest rate swaps are designated as held-for-trading and are measured at fair value.

The University has selected to account for transactions at the trade date.

The University did not previously record the fair value of its interest rate swaps on the statement of financial position and statement of changes in net assets. Fair value is determined as the payment required to cancel the interest rate swaps as at April 30, 2007. The effect of this adjustment is to decrease opening net assets by $159,000, and increase long-term liabilities by $159,000. The terms of the interest rate swaps are disclosed in note 7.

(b) The contributions and benefits of the University Retirement plan are subject to maximum amounts in each calendar year as established by Canada Revenue Agency (CRA). The University will provide supplemental benefits over the amounts payable from the Pension Benefits Plan such that the combined benefit will reflect the amount payable had the CRA limitations not been imposed. The accrued benefit obligation and current service cost were determined actuarially using the projected benefit method, pro-rated on service, consistent with the methodology and assumptions utilized for the University's Pension Benefit Plan (note 4). The accrued liability of $2,507,000 has been accounted for retrospectively at April 30, 2007 given the effective adoption in conjunction with the actuarial valuation.

3. Investments (in thousands of dollars)**:**

		2008	2007
Pooled funds:			
Equities	$	13,369	13,176
Fixed income		13,941	13,445
Government bonds and guaranteed investment certificates		100	94
	$	27,410	26,715

4. 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, 2007, indicates that the guaranteed defined benefit portion of the pension plan has a surplus of approximately $4.7 million.

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

Assets

		Pension benefit plan	
(in thousands of dollars)		2008	2007
Accrued benefit obligation	$	(101,261)	(95,422)
Fair value of plan assets		92,953	93,961
Funded status - plan surplus (deficit)		(8,308)	(1,461)
Balance of unamortized amounts		11,153	3,190
Accrued benefit asset	$	2,845	1,729

Liabilities		Post-employment benefit obligation		Supplemental Pension Plan	Total	Total
(in thousands of dollars)		2008	2007	2008	2008	2007
Accrued benefit obligation	$	(5,463)	(5,707)	(3,360)	(8,823)	(5,707)
Fair value of plan assets		1,008	934	–	1,008	934
Funded status - plan surplus (deficit)		(4,455)	(4,773)	(3,360)	(7,815)	(4,773)
Balance of unamortized amounts		1,485	2,189	906	2,391	2,189
Accrued benefit liabilities	$	(2,970)	(2,584)	(2,454)	(5,424)	(2,584)

4. Employee future benefits (continued):

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

	Pension benefit plan and Supplemental Retirement Plan 2008	2007	Post-employment benefit obligation 2008	2007
Discount rate	5.7%	5.0%	5.7%	5.0%
Rate of compensation 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%
Rate of inflation	2.0%	2.5%	–	–

The retiree health benefit plan expense for 2008 amounted to $386,000 (2007 - $269,000) and the benefit payments included therein made on behalf of retirees amounted to approximately $100,000 (2007 - $94,264).

Total cash amounts recognized as paid or payable for pension benefits in 2008, consisting of all employer contributions to the pension plan were $5,993,000 (2007 - $5,902,000).

5. Property and equipment (in thousands of dollars):

	2008 Cost	2008 Accumulated Amortization	2007 Cost	2007 Accumulated Amortization
Buildings	$ 148,408	51,212	131,584	48,346
Equipment and furnishings	85,095	74,409	81,937	70,741
Land and site improvements	9,635	6,513	9,635	6,229
	243,138	132,134	223,156	125,316
Less accumulated amortization	132,134		125,316	
	$ 111,004		97,840	

6. Short-term loan:

The short-term loan represents an advance from Infrastructure Ontario for construction projects. This unsecured loan has a floating interest rate (3.5% at April 30, 2008). On completion of the construction projects, this loan will be formally replaced with long-term debt.

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

		2008	2007
Bank of Montreal	$	3,675	3,813
TD Canada Trust		14,433	14,656
		18,108	18,469
Less current portion of long-term debt		381	360
	$	17,727	18,109

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 3.78% at April 30, 2008. The facilities are secured by a general 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 of long-term debt are as follows:

2009	$	381
2010		396
2011		423
2012		443
2013		466
Thereafter		15,999
	$	18,108

8. 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 4. There are no plan assets for this benefit.

The voluntary early retirement expense amounted to $519,000 (2007 - $975,000) and the benefit payments made on behalf of retirees were $803,519 (2007 - $728,000).

9. 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:

		2008	2007
Balance, beginning of year	$	26,030	25,448
Add contributions received in the year		23,997	22,206
Less amounts recognized as revenue		(31,679)	(21,624)
Balance, end of year	$	18,348	26,030

9. Deferred contributions (continued) (in thousands of dollars)**:**

(b) Deferred capital contributions:

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

		2008	2007
Unspent:			
Balance, beginning of year	$	1,828	2,338
Add contributions received in the year		13,840	5,312
Less amounts utilized		(1,753)	(5,822)
Balance, end of year		13,915	1,828
Unamortized:			
Balance, beginning of year		52,350	48,878
Add contributions received in the year		1,753	5,822
Less amount amortized to revenue		(2,583)	(2,350)
Balance, end of year		51,520	52,350
Total unspent and unamortized capital contributions	$	65,435	54,178

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

		2008	2007
Sudbury Neutrino Observatory	$	25	60
Future budget provisions		1,577	6,057
Departmental trust funds		4,006	3,602
Scholarship and bursary funds		254	256
Departmental research funds		3,945	2,452
Departmental carry forwards		3,471	3,746
Outstanding purchase orders		714	642
Self-insurance funds		250	250
Reserve for early retirement		(2,092)	(2,611)
Ancillaries (deficit)		131	(267)
Replacement reserve - ancillaries		181	131
Unexpended (overexpended) capital fund		(2,245)	(4,172)
Provision for pension plan liabilities		2,845	2,229
	$	13,062	12,375

11. Investment in capital assets (in thousands of dollars):

The investment in capital assets is calculated as follows:

		2008	2007
Property and equipment	$	111,004	97,840
Less amounts financed by:			
Long-term debt		(18,108)	(18,469)
Internal financing (note 12)		(1,961)	(2,582)
Short-term loan		(18,668)	–
Unamortized deferred capital contributions		(51,520)	(52,350)
	$	20,747	24,439

Details of the transfer for capital transactions are as follows:

Repayment of long-term debt	$	361	274
Repayment of internal financing		621	619
Internally funded capital assets		(439)	4,362
	$	543	5,255

12. Internal financing (in thousands of dollars):

Details of capital asset internal financing activities are as follows:

		April 30, 2007	Repayments	April 30, 2008
University press	$	13	13	–
Heating plant		391	142	249
Energy retrofit		1,430	273	1,157
Telephone system and copier equipment		748	193	555
	$	2,582	621	1,961

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.

13. 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, 2008 the University has spent $16,329,000.

(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, 2008 the University has spent $7,678,000.

(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.

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

		2008	2007
Cash flows from operating activities:			
Accounts receivable	$	2,425	(408)
Other assets		43	(46)
Accounts payable and accrued liabilities		10,452	1,320
Accrued vacation pay		111	135
Deferred revenue		(1,074)	498
	$	11,957	1,499

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

Details of the other fees and income are as follows:

		2008	2007
Sponsored students	$	1,518	1,644
Compulsory ancillary and other		4,070	3,148
Administrative fees:			
Federated institutions		495	533
Ancillary operations		530	522
Overhead on research contract and other trust accounts		332	250
Scholarships, bursaries and other trust account contributions		2,361	910
	$	9,306	7,007

16. Fair value of financial assets and financial liabilities:

The carrying values of the University's cash and short-term investments, accounts receivable, short-term loan, 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 3; the fair value approximates the carrying value.

The fair values of the interest rate swaps and related long-term debt approximate their carrying value.

The University is exposed to market risks in the form of currency, and other price risks. The exposure does not significantly impact the University.