

Lakehead University
Financial Statements
For the year ended April 30, 2006

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Auditors' Report

**To the Chair and Members of
The Board of Governors of Lakehead University**

We have audited the financial statements of Lakehead University as at and for the year ended April 30, 2006 comprising of the following:

- Balance Sheet
- Statement of Revenue and Expenses
- Statement of Changes in Net Assets
- Statement of Cash Flows

These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP
Chartered Accountants

Thunder Bay, Ontario
August 10, 2006

Lakehead University Balance Sheet

April 30 (in thousands of dollars) **2006** 2005

Assets

Cash	\$	32,920	\$	12,917
Accounts receivable (Note 3)		5,553		7,143
Inventories and prepaid expenses		769		770
Long-term investments (Note 4)		62,168		21,825
Deferred charge (Note 5)		4,624		-
Capital assets (Note 6)		107,029		104,116
		<hr/>		
	\$	213,063	\$	146,771

Liabilities and Net Assets

Liabilities

Demand loan	\$	-	\$	600
Accounts payable and accrued charges (Note 7)		10,541		9,941
Faculty early retirement program costs (Note 8)		3,214		4,679
Deferred revenue (Note 9)		16,036		12,996
Deferred capital contributions (Note 10)		45,383		47,949
Long-term debt (Note 11)		105,520		53,149
		<hr/>		
		180,694		129,314

Net assets

Internally restricted (Note 12)		13,098		8,484
Investment in capital assets (Note 13)		3,392		3,852
Endowments (Note 14)		20,367		15,454
Unrestricted		(4,488)		(10,333)
		<hr/>		
		32,369		17,457
		<hr/>		
	\$	213,063	\$	146,771

On behalf of the Board of Governors:

“J. M. Dojack” *(signed)*

Chair

“F. F. Gilbert” *(signed)*

President

Lakehead University Statement of Revenue and Expenses

For the year ended April 30 (in thousands of dollars)	2006	2005
Revenue		
Government grants for general operations	\$ 51,453	\$ 42,012
Government and other grants for restricted purposes	10,707	9,440
Student fees	34,049	33,735
Sales of goods and services	14,058	13,061
Investment income	3,412	1,621
Donations	1,389	1,525
Contract research	3,049	2,813
Sundry	1,653	1,771
Amortization of deferred capital contributions	7,581	7,318
	<u>\$ 127,351</u>	<u>\$ 113,296</u>
Expenses		
Salaries and benefits	\$ 66,044	\$ 62,405
Operational supplies and expenses	4,465	3,600
Cost of sales and services	5,912	5,941
Amortization of capital assets and deferred charges	13,702	12,701
Building and equipment maintenance	5,540	4,223
Municipal taxes	490	438
Scholarships, bursaries and awards	6,632	5,969
Utilities	3,742	4,559
Travel	2,472	2,186
Other	4,085	3,388
Interest	4,221	2,529
	<u>117,305</u>	<u>107,939</u>
Excess of revenue over expenses for the year	\$ 10,046	\$ 5,357

Lakehead University Statement of Changes in Net Assets

For the year ended April 30 (in thousands of dollars)

2006

2005

	Internally Restricted	Investment in Capital Assets	Endowments	Unrestricted	Total	Total
	(Note 12)	(Note 13)	(Note 14)			
Balance, beginning of year	\$ 8,484	\$ 3,852	\$ 15,454	\$ (10,333)	\$17,457	\$ 9,404
Excess of revenue over expenses for the year	-	-	-	10,046	10,046	5,357
Change in internally restricted net assets	4,618	-	-	(4,618)	-	-
Change in investment in capital assets	-	(460)	-	460	-	-
Transfer to endowments	(4)	-	47	(43)	-	-
Endowment contributions	-	-	4,690	-	4,690	2,525
Capital preservation of endowments	-	-	176	-	176	171
Balance, end of year	\$ 13,098	\$ 3,392	\$ 20,367	\$ (4,488)	\$ 32,369	\$ 17,457

The accompanying notes are an integral part of these financial statements.

Lakehead University Statement of Cash Flows

For the year ended April 30 (in thousands of dollars)	2006	2005
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 10,046	\$ 5,357
Items not involving cash		
Amortization of capital assets	13,643	12,701
Amortization of deferred charge	59	-
Amortization of deferred capital contributions	(7,581)	(7,318)
	<u>16,167</u>	<u>10,740</u>
Net change in non-cash working capital balances related to operations (Note 20)	2,191	1,107
	<u>18,358</u>	<u>11,847</u>
Financing activities		
Increase in faculty early retirement program	19	19
Faculty early retirement program payments	(1,484)	(1,696)
Long term debt principal repayments	(47,629)	(2,202)
Demand loan repayment	(600)	-
Issue of long term debt	100,000	14,595
Increase in deferred charge	(4,683)	-
Increase in deferred revenue	3,040	3,456
Increase in deferred capital contributions	5,015	10,547
	<u>53,678</u>	<u>24,719</u>
Investing activities		
Endowment contributions	4,690	2,525
Capital preservation of endowments	176	171
Purchase of capital assets	(16,556)	(32,820)
Change in long term investments, net	(40,343)	(5,569)
	<u>(52,033)</u>	<u>(35,693)</u>
	<u>1,645</u>	<u>(10,974)</u>
Increase in cash for the year	20,003	873
Cash, beginning of year	12,917	12,044
Cash, end of year	\$ 32,920	\$ 12,917

The accompanying notes are an integral part of these financial statements.

Lakehead University Notes to the Financial Statements

April 30, 2006 (in thousands of dollars)

1. Authority and Purpose

Lakehead University was incorporated as a university when the Lakehead University Act was given Royal Assent by the Lieutenant Governor of Ontario in 1965. Lakehead University serves a dual role in that it provides Northwestern Ontario with regional access to higher education while being committed to academic excellence on the provincial, national and international scenes.

These financial statements include the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations and organizations controlled by the University including The Lakehead Research and Technology Centre, a related corporation. Accordingly, these financial statements include the academic, administrative and other operating expenditures funded by fees, grants and other general revenue, restricted purpose endowment funds, and the ancillary operations, such as residences, food services, bookstore and parking.

The University has an economic beneficial interest in a Crown-controlled foundation, Lakehead University Foundation, which is not consolidated into these financial statements. The principal objectives of the Foundation are to solicit, receive and distribute monies and other property to support education and research at the University.

The University also has an economic beneficial interest in the Lakehead University pension plan, the activities of which are not consolidated into these financial statements (Note 17). The Lakehead University Pension Investment Fund is audited separately.

The Northern Ontario School of Medicine is incorporated under the Ontario Business Corporations Act and is a not for profit organization. The School of Medicine was created in order to provide medical education in Northern Ontario. The University, along with Laurentian University, the only voting members of the School, has significant relationships with the School but the University has no claim to the net operating assets of the School and the University is not liable for any direct or contingent liabilities of the School. Accordingly, the operations of the School are not included in these financial statements.

The University is a not-for-profit organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

2. Summary of Significant Accounting Policies

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in Canada within the framework of the accounting policies summarized below:

a) Investments

Investments include funds invested directly by the University and pooled funds which are held in trust and managed by external fund managers.

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

2. Summary of Significant Accounting Policies (cont'd)

a) Investments (cont'd)

The securities invested directly by the University are carried at the lower of cost and market value determined on an aggregate basis.

The portion of the portfolio held in pooled funds is carried at market value and the increase or decrease within the current year is included in investment income or in endowments (Note 4).

b) Inventories

Inventories, which consist of goods held for resale, are recorded at the lower of cost and net realizable value. Cost is generally determined on a first in, first out basis.

c) Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over their estimated useful lives, which are:

Site development	-	10 years
Buildings	-	20 and 40 years
Furniture and equipment	-	5 years
Library books	-	5 years

Construction in progress relates to building projects that are incomplete as at April 30, 2006. Amortization will be recorded upon completion at the applicable rates noted above.

Interest incurred on funds borrowed during construction is capitalized as a cost of the project.

d) Revenue Recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted donations are recorded on a cash basis since pledges are not legally enforceable claims. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenue is recognized at point of sale or when the service has been provided.

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

2. Summary of Significant Accounting Policies (cont'd)

e) Contributed Materials and Services

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

f) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from management's best estimates as additional information becomes available in the future.

g) Financial Instruments

The University's financial instruments consist of cash, accounts receivable, long term investments, demand loans, accounts payable and long term debt. Unless otherwise noted, it is management's opinion that the University is not exposed to significant interest, currency or credit risks arising from those financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise noted.

3. Accounts Receivable

Accounts receivable consist of the following:

	2006	2005
Tuition and residence fees	\$ 466	\$ 721
Interest and sundry accounts	2,571	2,420
Sponsored research monies	2,397	3,334
Capital grants from government	119	668
	\$ 5,553	\$ 7,143

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

4. Long-Term Investments

Long-term investments consist of the following:

	2006	2005
Pooled funds	\$ 55,041	\$ 14,702
Marketable securities	7,127	7,123
	\$ 62,168	\$ 21,825

The pooled funds consist of units held in balanced funds in trust and managed by professional external fund managers. The market value of the University's investment in these funds as at April 30, 2006 was \$ 55,041 (2005 - \$14,702). The increase in the investment during the fiscal year of \$ 40,339 includes receipts of \$38,211 and investment income of \$2,128. Included in the pooled funds are internally restricted amounts created from excess borrowings of the Series A unsecured debenture described in Note 11.8. The market value as at April 30, 2006 is \$33,930 representing an initial investment of \$32,912 and investment income of \$1,018 (Note 12). Also included in the pooled funds is \$627 of a debt repayment sinking fund for project loans being amortized over their initial terms.

Marketable securities consist of investments in government and corporate bonds of \$7,123 (2005 - \$7,120), a life insurance policy of \$3 (2005 - \$2), and shares of \$1 (2005 - \$1). The market value of the marketable securities as at April 30, 2006 was \$8,436 (2005 - \$8,762). The bonds mature between 2006 and 2035 with annual yields ranging from 4.2% to 8.5%.

The University has purchased Government of Canada and Ontario stripped coupon bonds at a cost of \$597 with average effective annual yields of approximately 10.4% maturing during 2008 and 2009 for a total value of \$3,603. These proceeds will be used to repay a mortgage on residence townhouses described in Note 11.2. Interest accrued from the original purchase date to April 30, 2006 amounting to \$2,019 has been added to the asset value resulting in a sinking fund balance of \$2,616 (2005 - \$2,371).

5. Deferred Charge

The deferred charge represents refinancing costs incurred in connection with the \$100 million Series A unsecured debenture issue and is being amortized over the term of the debt (40 years). Amortization cost recognized in fiscal 2006 is \$59.

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

6. Capital Assets

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 1,283	\$ -	\$ 1,283	\$ 1,203	\$ -	\$ 1,203
Site development	5,167	5,167	-	5,167	5,167	-
Buildings	143,196	63,387	79,809	123,264	59,480	63,784
Furniture and equipment	94,172	78,739	15,433	91,148	70,455	20,693
Library books	32,791	29,737	3,054	31,190	28,285	2,905
Construction in progress	7,450	-	7,450	15,531	-	15,531
	\$ 284,059	\$ 177,030	\$ 107,029	\$ 267,503	\$ 163,387	\$ 104,116

7. Accounts Payable and Accrued Charges

The accounts payable and accrued charges consist of the following:

	2006		2005	
Trade accounts	\$ 5,728	\$	3,323	\$
Payroll liabilities	1,277		1,146	
Vacation pay liability	1,884		1,922	
Capital projects	1,652		3,550	
	\$ 10,541	\$	9,941	\$

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

8. Faculty Early Retirement Program Costs

The University offers a voluntary early retirement program to qualifying University faculty. The estimated accrued liability represents the cost of contractual payments and benefits owed to participating faculty members. These retirement costs will be paid out approximately as follows:

	2006	2005
2006	\$ -	\$ 1,465
2007	1,307	1,307
2008	893	893
2009	536	536
2010	304	304
2011	141	141
2012	33	33
	\$ 3,214	\$ 4,679

9. Deferred Revenue

Deferred revenue represents unspent externally restricted monies received in the current and prior years for services to be provided in a future year as follows:

	2006	2005
Research	\$ 8,324	\$ 7,956
Other restricted purposes	7,712	5,040
	\$ 16,036	\$ 12,996

Lakehead University
Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

10. Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of revenue and expenses and is calculated on the same basis as the amortization expense related to the acquired capital assets. The changes in the deferred capital contributions balance are as follows:

	2006	2005
Balance, beginning of year	\$ 47,949	\$ 44,720
Add: contributions received for capital asset purchases	5,015	10,547
Less: amortization of deferred capital contributions	(7,581)	(7,318)
Balance, end of year	\$ 45,383	\$ 47,949

11. Long-Term Debt

	2006	2005
11.1 Canada Mortgage and Housing Corporation – Residence Addition		
Mortgage payable, repaid over a forty-year period ending December 1, 2006. Principal and interest at 5.75% per annum, payable through semi-annual installments of \$7.	\$ 9	\$ 22
11.2 Ontario Housing Corporation – 6 Residence Townhouses		
Mortgage payable, interest payable semi-annually at 9.26% per annum. The principal is due and payable in full on December 1, 2009. A sinking fund has been established to repay the principal upon maturity. A total of \$597 has been invested in stripped coupon bonds and together with accrued interest of \$2,019, the value of the sinking funds as of April 30, 2006 is \$ 2,616 (2005 - \$2,371) (Note 4).	3,600	3,600
Carried forward	\$ 3,609	\$ 3,622

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

11. Long-Term Debt (cont'd)

	2006	2005
Brought forward	\$ 3,609	\$ 3,622
11.3 Ontario Housing Corporation Long-Term Lease Obligation – 480 Bed Student Residence		
The University leases a residence under an agreement with the Ontario Student Housing Corporation. The University is responsible for managing, operating and maintaining the residence. Further, the University has agreed to reimburse the Corporation over a fifty-year period ending December 1, 2019, for principal and interest, through semi-annual installment payments of \$78 including interest at 6.80%. Upon satisfaction of this obligation, title to the building will vest in the University. Since this agreement is, in substance, a purchase of the building by the University, being financed by the Ontario Student Housing Corporation, the cost of the building is included in capital assets.	1,401	1,464
11.4 The Sisters of St. Joseph – Avila Centre		
Mortgage payable, principal and interest repaid at 6.00% per annum payable over fifteen years through varying annual installments (2006 – \$234; 2005 – \$221) ending May 21, 2008.	480	674
11.5 Royal Bank of Canada – Term Loans	-	46,976
11.6 Sun Life Financial – 874 Tungsten St		
Mortgage payable, principal and interest repaid at 6.42% per annum, payable through monthly installments of \$4, maturing July 2009.	325	354
Carried forward	\$ 5,815	\$ 53,090

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

11. Long Term Debt (cont'd)

	2006	2005
Brought forward	\$ 5,815	\$ 53,090
11.7 Promissory Note – 874 Tungsten St. Promissory note, secured by second mortgage non-interest bearing, monthly principal payments of \$1 maturing March 2010.	47	59
11.8 Debenture Payable On November 15, 2005, the University issued Series A unsecured debenture in the aggregated principal amount of \$100,000. The debenture bears interest at 5.301%. Principal and interest are payable semi-annually on May 15 and November 15 in installments of \$3,023 ending November 15, 2045. The proceeds of the issue were used to repay the debt to the Royal Bank of Canada including termination costs, to finance Phase 2 of the Heating, Refrigeration, and Air Conditioning Retrofit and to establish a university "Endowment" in the amount of \$32,912 (Note 4).	99,658	-
	\$ 105,520	\$ 53,149

Anticipated requirements to meet the principal portion of the long-term debt repayments over the next five years are as follows:

Date	Amount
2007	\$ 1,116
2008	1,182
2009	996
2010	4,802
2011	1,018
Thereafter	96,406
	\$ 105,520

The University has available an operating line of credit of \$3,000, with interest at the bank's prime lending rate (5.75% per annum at year-end).

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

12. Internally Restricted Net Assets

Internally restricted net assets are funds committed for specific purposes as follows:

	2006	2005
Operating Fund:		
Repairs and replacements	\$ 3,131	\$ 1,083
Self-insurance	250	250
Unexpended budgets and departmental incomes	3,685	3,713
Bond sinking fund	351	-
Ancillary Enterprises		
Retail operations	338	209
Food services	154	219
Residence reserve for repairs and replacements	223	200
Residence bond sinking fund	276	-
Other ancillary	95	86
Restricted Funds		
University general trust fund	2,943	1,834
Interest earned on investment from excess borrowings (Note 4)	1,018	-
Unexpended capital funds	174	555
Research funds	460	335
	\$ 13,098	\$ 8,484

13. Investment in Capital Assets

	2006	2005
The investment in capital assets consists of the following:		
Capital assets, net book value	\$ 107,029	\$ 104,116
Less amounts financed by:		
Long term debt (net of residence and bond sinking funds)	(59,051)	(48,462)
Deferred capital contributions	(44,586)	(47,652)
Short term financing - demand loan	-	(600)
Construction in progress financed by accounts payable	-	(3,550)
	\$ 3,392	\$ 3,852

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

13. Investment in Capital Assets (cont'd)

The change in investment in capital assets is calculated as follows:

	2006	2005
Repayment of long-term debt	\$ 1,152	\$ 2,006
Increase in residence and bond sinking funds	873	247
Purchase of capital assets internally financed	3,577	4,412
	5,602	6,665
Amortization expense	13,643	12,701
Less: Amount of amortization expense related to capital assets purchased with restricted contributions	(7,581)	(7,318)
	6,062	5,383
Net (decrease) increase	\$ (460)	\$ 1,282

14. Endowments

Endowments consist of externally restricted donations received by the University. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by donors. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

The value of the investment portfolio for endowed funds included in the total investments disclosed in Note 4 is equal to \$20,367 (2005 – \$15,454).

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

15. Ontario Student Trust Funds

Externally restricted endowments of \$20,367 (2005 - \$15,454) include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund (OSOTF) Phase I and Phase II and the Ontario Trust for Student Support (OTSS) matching programs to award student aid as a result of raising an equal amount of endowed donations.

OSOTF (Phase I)

	2006	2005
OSOTF endowment balance , beginning of year	\$ 6,747	\$ 6,674
Capitalized interest	29	73
OSOTF endowment balance , end of year	\$ 6,776	\$ 6,747
Expendable funds , beginning of year	\$ 335	\$ 64
Realized investment income	479	505
Bursaries awarded	(236)	(234)
Expendable funds , end of year	\$ 578	\$ 335
Number of bursaries awarded	380	429
Market Value of Endowment	\$ 8,126	\$ 7,669

OSOTF (Phase II)

	2006	2005
OSOTF endowment balance , beginning of year	\$ 1,539	\$ 250
Cash Donations received		596
Matching funds received		659
Transfers to OTSS program	(6)	6
Capitalized interest	30	28
OSOTF endowment balance , end of year	\$ 1,563	\$ 1,539
Expendable funds , beginning of year	\$ 1	\$ 1
Realized investment income	68	8
Bursaries awarded	(54)	(8)
Expendable funds , end of year	\$ 15	\$ 1
Number of bursaries awarded	89	14
Market Value of Endowment	\$ 1,689	\$ 1,388

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

15. Ontario Student Trust Funds (cont'd)

OTSS

The Ontario Trust for Student Support (OTSS) program requires separate reporting of the balances as at March 31 and the details of the changes in the balances.

The following is the schedule of donations received for the period from April 1, 2005 to March 31, 2006.

	<u>2006</u>	<u>2005</u>
Donations eligible for matching	\$ 919	\$ -
Donations not yet eligible for matching	44	-
Total cash donations	\$ 963	\$ -

The following is the schedule of changes in endowment fund balance for the period April 1, 2005 to March 31, 2006.

	<u>2006</u>	<u>2005</u>
Endowment balance, beginning of year	\$ -	\$ -
Cash donations received	957	-
Transfers from OSOTF program	6	-
Matching funds received / receivable	919	-
Preservation of capital	6	-
Endowment balance, end of year	\$ 1,888	\$ -

The following is the schedule of changes in expendable funds available for awards for the period April 1, 2005 to March 31, 2006

	<u>2006</u>	<u>2005</u>
Expendable funds, beginning of year	\$ -	\$ -
Realized investment income	1	-
Bursaries awarded	(1)	-
Expendable funds, end of year	\$ -	\$ -
Number of bursaries awarded	1	-

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

16. Property and Liability Insurance

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

The projected cost of settled claims will be funded through members' premiums based on actuarial projections. It is anticipated that a surplus will be created over time as a cushion against unexpected losses. In addition, the reciprocal has obtained substantial reinsurance with commercial insurers to cover major claims in excess of \$2,500 per occurrence for property losses and in excess of \$5,000 per occurrence for liability losses.

In the event that premiums are not sufficient to cover claim settlements, the member universities would be subject to an assessment in proportion to their participation.

17. Pension Plan

The University has two separate pension plans.

17.1 Pension Plan for Professional Staff

The Pension Plan for Professional Staff is a contributory defined contribution pension plan. Faculty members and librarians contribute 6.5% of their earnings through payroll deductions. The University contributes 8.05% effective January 1, 2005 (7.8% prior to January 1, 2005). Non-faculty members contribute 8.05%, and the University matches these contributions.

The Plan provides for a defined benefit guarantee for service prior to January 1, 1997 and removes the minimum pension based on a formula for future pensions commencing in 1997. The Plan's surplus will be increased by an amount equivalent to the Pension Guarantee Account remaining after provision for estimated pensions based upon the defined benefit guarantee. No part of this guarantee account and surplus is recognized in the financial statements as the amount may not be withdrawn by Lakehead University, nor may it be used to match contributions to the fund.

Information about the defined benefit guarantee portion of this pension plan at April 30, 2006 is as follows based on an actuarial valuation prepared on a going concern basis at December 31, 2005.

Pension plan assets	\$ 82,336
Pension plan liabilities	<u>78,637</u>
Estimated pension plan surplus	<u>\$ 3,699</u>

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

17. Pension Plan (cont'd)

The significant actuarial assumptions adopted in calculating the above amount include a discount rate of 6%, a general salary increase of 3.5% per annum, and mortality tables of UP94@15.

The actuarial valuation prepared at December 31, 2005 discloses a solvency deficiency as defined in the Pension Benefit's Act (1987) of \$6,740. As 2005 is not a tri-annual year for the purpose of filing under the Ontario Pension Benefits Act no additional contributions are required.

17.2 Lakehead University Employee Pension Plan

The Lakehead University Employee Pension Plan is a contributory defined contribution pension plan. Under the Plan, employees contribute in a range from 7.15% to 7.90% of their earnings. The University matches the regular pension contributions made by members of the Plan.

University Pension Plan contributions, together with investment income earned on the contributions, are applied on retirement to provide pensions as defined in the Plan. In addition to their regular contributions, members may voluntarily contribute additional contributions to provide increased benefits. Both employee and employer contributions are paid into the integrated Canada Pension and University Pension Plans.

The employee benefits expense for the year includes pension expense of \$2,248 (2005 - \$2,080) and faculty early retirement benefits of \$21 (2005 - \$19).

18. Contingent Liabilities

- a) At April 30, 2006, the University was guarantor of ten (2005 - nine) housing loans for faculty and staff in the amount of \$143 (2005 - \$138).
- b) The nature of the University's activities is such that there is usually litigation pending or in prospect at any one time. With respect to claims at April 30, 2006, the University believes it has valid defenses and appropriate insurance coverage in place. In the unlikely event any claims are successful such claims are not expected to have a material effect on the University's financial position.

Lakehead University Notes to Financial Statements

April 30, 2006 (in thousands of dollars)

19. Commitments

- a) The estimated cost to complete the Facility Renewal Performance Contract with Johnson Controls L.P. project in progress at April 30, 2006 is \$3,550. The \$3,550 will be funded from borrowings included in the debenture.
- b) The following are the future minimum annual operating lease payments due over the next five years:

Date	Amount
2007	\$ 319
2008	385
2009	193
2010	132
2011	132

20. Statement of Cash Flows

The net change in non-cash working capital balances related to operations consist of the following:

	<u>2006</u>	<u>2005</u>
Accounts receivable	\$ 1,590	\$ (1,747)
Inventory	1	53
Accounts payable and accrued charges	<u>600</u>	<u>2,801</u>
	<u>\$ 2,191</u>	<u>\$ 1,107</u>

21. Related Party Transactions

During the year, the University undertook the following transactions with Northern Ontario School of Medicine:

	<u>2006</u>	<u>2005</u>
Recoveries and charges for goods and services	<u>\$ 806</u>	<u>\$ 350</u>

These transactions were in the normal course of operations and were measured at the exchange value, which is the amount of consideration established and agreed by the parties to the transaction and approximates the arm's length equivalent value.