

Lakehead University
Financial Statements
For the year ended April 30, 2010

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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, 2010 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario
August 5, 2010

Lakehead University Balance Sheet

April 30	2010	2009
	(in thousands of dollars)	
Assets		
Cash	\$ 42,305	\$ 30,840
Accounts receivable (Note 3)	8,636	7,684
Inventories and prepaid expenses	1,046	773
Long-term investments (Note 4)	85,415	74,442
Deferred charge (Note 5)	4,156	4,273
Capital assets (Note 6)	124,509	102,616
	\$ 266,067	\$ 220,628

Liabilities and Net Assets

Liabilities		
Demand loan (Note 7)	\$ 13,000	\$ -
Accounts payable and accrued charges (Note 8)	18,921	13,387
Deferred revenue (Note 9)	18,273	19,412
Deferred capital contributions (Note 10)	45,990	33,480
Long-term debt (Note 11)	99,844	102,390
Interest rate swaps (Note 11.8)	643	-
	196,671	168,669
Net assets		
Internally restricted (Note 12)	36,420	27,151
Endowments (Note 13)	33,854	31,144
Unrestricted	(878)	(6,336)
	69,396	51,959
	\$ 266,067	\$ 220,628

On behalf of the Board of Governors:

Chair

President

Lakehead University Statement of Revenue and Expenses

For the year ended April 30	2010	2009
	(in thousands of dollars)	
Revenue		
Government grants for general operations	\$ 62,089	\$ 58,379
Government and other grants for restricted purposes	18,929	19,651
Student fees	43,409	40,034
Sales of goods and services	15,127	14,686
Investment (loss) income	10,855	(10,190)
Donations	884	5,780
Contract research	1,473	1,452
Sundry	2,033	1,882
Amortization of deferred capital contributions	3,259	4,103
	158,058	135,777
Expenses		
Salaries and benefits	86,567	83,945
Operational supplies and expenses	5,712	5,586
Cost of sales and services	6,247	6,234
Amortization of capital assets	10,111	11,397
Amortization of deferred charges	117	117
Building and equipment maintenance	8,034	7,838
Municipal taxes	521	544
Scholarships, bursaries and awards	7,992	8,609
Utilities	3,887	3,525
Travel	2,765	3,106
Other	5,284	4,254
Interest on long term debt	6,064	5,616
	143,301	140,771
Excess of revenue over expenses (expenses over revenue) for the year	\$ 14,757	\$ (4,994)

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

Lakehead University
Statement of Changes in Net Assets

For the year ended April 30

2010 2009
(in thousands of dollars)

	Internally Restricted	Endowments	Unrestricted	Total	Total
	(Note 12)	(Note 13)			
Balance, beginning of year	\$ 27,151	\$ 31,144	\$ (6,336)	\$ 51,959	\$ 57,941
Excess of revenue over expenses (expenses over revenue) for the year	-	-	14,757	14,757	(4,994)
Change in internally restricted net assets	9,269	-	(9,269)	-	-
Transfer to endowments	-	30	(30)	-	-
Endowment contributions	-	1,096	-	1,096	607
Capitalization of investment income (loss) in endowments	-	1,584	-	1,584	(1,595)
Balance, end of year	\$ 36,420	\$ 33,854	\$ (878)	\$ 69,396	\$ 51,959

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

Lakehead University Statement of Cash Flows

For the year ended April 30	2010	2009
	(in thousands of dollars)	
Cash flows from operating activities		
Excess of revenue over expenses (expenses over revenue) for the year	\$ 14,757	\$ (4,994)
Items not involving cash		
Amortization of capital assets	10,111	11,397
Amortization of deferred charge	117	117
Amortization of deferred capital contributions	(3,259)	(4,103)
	21,726	2,417
Net change in non-cash working capital balances related to operations (Note 19)	4,309	1,504
Cash provided by operating activities	26,035	3,921
Financing activities		
Demand loan	13,000	-
Interest rate swap	643	-
Long term debt principal repayments	(4,846)	(1,020)
Long-term debt proceeds	2,300	-
(Decrease) increase in deferred revenue	(1,139)	1,829
Deferred capital contributions received	15,769	1,724
	25,727	2,533
Investing activities		
Endowment contributions	1,096	607
Capitalization of investment income (loss) in endowments	1,584	(1,595)
Purchase of capital assets	(32,004)	(16,096)
Net disposal of capital assets	-	24
Change in long term investments, net	(10,973)	9,837
	(40,297)	(7,223)
Increase (decrease) in cash for the year	11,465	(769)
Cash, beginning of year	30,840	31,609
Cash, end of year	\$ 42,305	\$ 30,840

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

Lakehead University Notes to Financial Statements

April 30, 2010 (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 reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations controlled by the University. 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 also has an economic beneficial interest in the Lakehead University pension plan, the activities of which are not consolidated into these financial statements (Note 16). 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 registered charity, 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 are carried at fair value. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. Changes in fair values from one year to the next are reflected in the statement of operations in investment income or in endowments.

The value of investments recorded in the financial statements is determined as follows:

1. Investments in pooled funds are valued at their reported net asset value per unit.
2. Publicly traded bonds are determined based on the latest bid prices.

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

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

a) Investments (cont'd)

3. Private investment interests, which consist of common shares in a Private Canadian Controlled Company, life insurance policies and other shares, are valued at cost. The university believes the carrying value of these financial instruments is a reasonable estimate of fair value.

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
Leasehold improvements	-	3 years
Library books	-	5 years

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, 2010 (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

As permitted under the CICA Handbook, the University has chosen to apply CICA 3861: Financial Instruments - Disclosure and Presentation in place of CICA 3862: Financial Instruments - Disclosures and CICA 3863: Financial Instruments - Presentation.

Under Section 3855: Financial Instruments - Recognition and Measurement, financial assets and liabilities are initially recognized and subsequently measured based on their classification. The University has designated its cash and long term investments as held-for-trading and, as such, these financial assets are measured at fair value and changes in fair value are recognized in the statement of revenue and expenses as investment income (loss). Accounts receivable have been classified as loans and receivables, accounts payable have been classified as other liabilities, and long term debt and specific coupon bonds have been classified as held-to-maturity, all of which are measured at amortized cost using the effective interest rate method.

h) Derivative Financial Instruments

Derivative financial instruments related to interest rate swaps on a term loan are used by the University in the management of its exposure to changes in interest rates. The University does not enter into derivative financial instrument transactions for trading or speculative purposes. The University records financial instruments related to swaps on the Balance Sheet at fair value with subsequent changes in fair value recognized in the Statement of Revenue and Expenses.

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

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

i) Employee Future Benefits:

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. For the defined benefit component of the pension plan for professional staff, the cost of post employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and administration's best estimates and assumptions. The most recent actuarial valuation of the pension plan for funding purposes is being conducted as of December 31, 2009, and the next required valuation will be as of December 31, 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 defined benefit obligation and the fair value of related plan assets is amortized over the average remaining life expectancy of participating members.

3. Accounts Receivable

Accounts receivable consist of the following:

	2010	2009
Tuition and residence fees	\$ 593	\$ 477
Interest and sundry accounts	2,937	2,355
Insurance claims	964	-
Sponsored research monies	3,774	4,586
Capital grants from government	368	266
	\$ 8,636	\$ 7,684

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

4. Long-Term Investments and Investment Income

Long-term investments consist of the following:

	2010	2009
Pooled funds	\$ 80,057	\$ 65,580
Marketable securities carried at fair value	5,358	5,367
Marketable securities carried at cost	-	3,495
	\$ 85,415	\$ 74,442

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, 2010 was \$80,057 (2009 - \$65,580). The increase in the investment during the fiscal year of \$14,477 includes receipts of \$2,601 and investment gains of \$11,876. Included in the pooled funds are internally restricted amounts created from excess borrowings of the Series A unsecured debenture described in Note 11.7. The market value as at April 30, 2010 is \$37,143 representing an initial investment of \$32,912 and investment gain of \$4,231. Also included in the pooled funds is \$6,750 (2009 - \$4,350) of a debt repayment sinking fund for project loans being amortized over their initial terms.

Marketable securities carried at fair value consist of investments in government and corporate bonds of \$5,223 (2009 - \$5,242), life insurance policies of \$44 (2009 - \$34), and shares of \$91 (2009 - \$91). The market value of the marketable securities as at April 30, 2010 was \$5,358 (2009 - \$5,367). The bonds mature between 2010 and 2035 with annual yields ranging from 4.2% to 8.5%.

Investment income included in the Statement of Revenue and Expenses is calculated as follows:

	2010	2009
Net investment income (loss)	\$ 12,439	\$ (11,763)
Amount attributed to endowment capital preservations	-	(11)
Amount attributed to endowment unrealized (gain) loss	(1,584)	1,584
	\$ 10,855	\$ (10,190)

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 2010 is \$117 (2009 - \$117).

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

6. Capital Assets

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 6,809	\$ -	\$ 6,809	\$ 6,809	\$ -	\$ 6,809
Site development	7,965	6,242	1,723	7,965	5,963	2,002
Buildings	159,496	80,933	78,563	154,663	76,448	78,215
Furniture and equipment	108,793	101,228	7,565	104,437	97,676	6,761
Leasehold improvements	1,487	1,487	-	1,487	1,487	-
Library books	40,167	36,665	3,502	38,585	34,870	3,715
Construction in progress (Note 18)	26,347	-	26,347	5,114	-	5,114
	\$ 351,064	\$ 226,555	\$ 124,509	\$ 319,060	\$ 216,444	\$ 102,616

7. Demand Loan

The demand loan was incurred to finance the construction of the Orillia Campus Academic Building and is at the bank's prime lending rate minus 0.75% per annum plus an acceptance fee of 0.40%. The loan plus any additional advances will be repaid within the next 12 months.

8. Accounts Payable and Accrued Charges

The accounts payable and accrued charges consist of the following:

	2010	2009
Trade accounts	\$ 9,586	\$ 8,445
Payroll liabilities	1,025	1,739
Vacation pay liability	2,200	2,089
Capital projects	6,110	1,114
	\$ 18,921	\$ 13,387

Lakehead University
Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

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:

	2010	2009
Research	\$ 11,651	\$ 12,166
Other restricted purposes	6,622	7,246
	\$ 18,273	\$ 19,412

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:

	2010	2009
Balance, beginning of year	\$ 33,480	\$ 35,859
Add: contributions received for capital asset purchases	15,769	1,724
Less: amortization of deferred capital contributions	(3,259)	(4,103)
Balance, end of year	\$ 45,990	\$ 33,480

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

11. Long-Term Debt	2010	2009
11.1 Ontario Housing Corporation - 6 Residence Townhouses	\$ -	\$ 3,600
11.2 Ontario Housing Corporation Long-Term Lease Obligation - 480 Bed Student Residence		
<p>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.</p>	1,100	1,181
11.3 Royal Bank of Canada Non-Revolving Term Facility - C J Saunders Renovations		
<p>Loan payable, unsecured, interest at 4.6%, monthly payments including interest of \$15, maturing March 2030.</p>	2,300	-
11.4 Sun Life Financial - 874 Tungsten St	-	224
11.5 Promissory Note - 874 Tungsten St.	-	11
11.6 Promissory Note - Northwestern Ontario Innovation Centre Inc.		
<p>Promissory note, unsecured, non-interest bearing, annual principal payments of \$23, maturing November 2015</p>	141	165
Carried forward	\$ 3,541	\$ 5,181

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

11. Long Term Debt (cont'd)

	2010	2009
Brought forward	\$ 3,541	\$ 5,181

11.7 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 Investment Portfolio" in the amount of \$32,912 (Note 4). Included in the pooled funds (Note 4) is \$6,750 (2009 - \$4,530) of a debt repayment sinking fund for project loans being amortized over their initial terms. The fair value of the debenture at April 30, 2010 was \$92,329 (2009 - \$91,344)

	96,303	97,209
	\$ 99,844	\$ 102,390

11.8 The University has in place an Interest Rate Swap Agreement which will expire on October 1, 2036. The University has entered into interest rate derivative agreements to manage the volatility of interest rates on a term loan (Note 24). The University converted floating rate debt for fixed rate debt of 4.69%. The change in the fair value of the interest rate swap of \$643 is recorded in the Statement of Revenue and Expenses.

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

<u>Date</u>	<u>Amount</u>
2011	\$ 1,137
2012	1,197
2013	1,261
2014	1,328
2015	1,398
Thereafter	93,523
	\$ 99,844

The University has available an operating line of credit of \$3,000, with interest at the bank's prime lending rate (2.25% per annum at year-end).

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

12. Internally Restricted Net Assets

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

	2010	2009
Operating Fund		
Repairs and replacements	\$ 5,506	\$ 5,487
Self-insurance	250	250
Unexpended budgets and departmental incomes	4,941	3,282
Future year's budget	3,317	644
Ancillary Enterprises		
Retail operations	446	407
Food services	226	138
Residence reserves for repairs and replacements	249	242
Other ancillary	434	476
Restricted Funds		
University general trust fund	5,105	2,671
Interest earned on investment from excess borrowings	1,875	-
Unexpended capital funds	252	165
Research funds	1,177	1,611
Bond sinking fund	6,750	4,530
Investment in Capital Assets	5,892	7,248
	\$ 36,420	\$ 27,151

13. 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 \$33,854 (2009 - \$31,144).

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

14. Ontario Student Trust Funds

Externally restricted endowments of \$33,854 (2009 - \$31,144) 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)

	2010	2009
OSOTF endowment balance, beginning of year	\$ 6,583	\$ 6,969
Capitalized interest	-	(6)
Unrealized investment income (losses)	380	(380)
OSOTF endowment balance, end of year	\$ 6,963	\$ 6,583
Expendable funds, beginning of year	\$ -	\$ 773
Unrealized investment income (losses)	727	(491)
Bursaries awarded	(3)	(282)
Expendable funds, end of year	\$ 724	\$ -
Number of bursaries awarded	3	274
Market Value of Endowment	\$ 7,687	\$ 6,583

OSOTF (Phase II)

	2010	2009
OSOTF endowment balance, beginning of year	\$ 1,391	\$ 1,625
Capitalized interest	-	-
Unrealized investment income (losses)	234	(234)
OSOTF endowment balance, end of year	\$ 1,625	\$ 1,391
Expendable funds, beginning of year	\$ (45)	\$ 24
Unrealized investment income (losses)	(56)	-
Bursaries awarded	-	(69)
Expendable funds (deficit), end of year	\$ (101)	\$ (45)
Number of bursaries awarded	-	67
Market Value of Endowment	\$ 1,524	\$ 1,346

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

14. 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, 2009 to March 31, 2010 (April 1, 2008 to March 31, 2009).

	<u>2010</u>	<u>2009</u>
Donations eligible for matching	\$ 358	\$ 189
Donations not yet eligible for matching	<u>2</u>	<u>2</u>
Total cash donations	\$ 360	\$ 191

The following is the schedule of changes in endowment fund balance for the period April 1, 2009 to March 31, 2010 (April 1, 2008 to March 31, 2009).

	<u>2010</u>	<u>2009</u>
Endowment balance, beginning of year	\$ 4,865	\$ 5,043
Cash donations received	360	191
Matching funds received / receivable	358	189
Preservation of capital	-	69
Unrealized investment income (losses)	<u>627</u>	<u>(627)</u>
Endowment balance, end of year	\$ 6,210	\$ 4,865

The following is the schedule of changes in expendable funds available for awards for the period April 1, 2009 to March 31, 2010 (April 1, 2008 to March 31, 2009).

	<u>2010</u>	<u>2009</u>
Expendable funds, beginning of year	\$ (236)	\$ (50)
Unrealized investment income (losses)	(95)	-
Bursaries awarded	<u>-</u>	<u>(186)</u>
Expendable funds (deficit), end of year	\$ (331)	\$ (236)
Number of bursaries awarded	<u>-</u>	<u>180</u>

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

15. 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.

16. Pension Plan

The University has two separate pension plans.

16.1 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. Information about the defined benefit guarantee portion of this pension plan at April 30, 2010 is as follows based on an actuarial valuation prepared on a going concern basis at December 31, 2009.

Pension plan assets	\$ 110,989
Pension plan liabilities	125,475
	<hr/>
Estimated pension plan shortfall	\$ (14,486)
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Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

16. Pension Plan (cont'd)

16.1 Pension Plan for Professional Staff (cont'd)

The significant actuarial assumptions in calculating the going concern liability at December 31, 2009 were a discount rate of 5.50%, a general salary increase assumption of 3.5% per annum and mortality tables equal to 85% of UP94@2020.

In the event that an actuarial valuation discloses a going concern unfunded liability or a solvency deficiency as defined by the Pension Benefits Act (1987), the University will be obligated to make additional contributions as required by the Act. The actuarial valuation of the Plan at December 31, 2009, reported that based on the current provisions, the Plan had a going concern deficit of \$14,486 and a solvency deficit of \$17,354. As a result, under current regulations special monthly payments commencing in January 1, 2011 are required with a total annual cost of \$3,874.

16.2 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 \$2,965 (2009 - \$2,830).

17. Contingent Liabilities

- a) At April 30, 2010, the University was guarantor of two (2009 - two) housing loans for faculty and staff in the amount of \$16 (2009 - \$22). The University has also guaranteed a loan in the amount of \$250 for Lake Superior Centre for Regenerative Medicine Inc. (RegenMed); the University has taken as security certain equipment owned by RegenMed. The University's estimated exposure under these guarantees is not material.
- 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, 2010, 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, 2010 (in thousands of dollars)

18. Commitments

- a) The estimated cost to complete the Orillia Campus Building in progress at April 30, 2010 is \$16,512. The total project cost of \$42,000 is being funded from donations, private and public sector contributions and internal financing. The ratio of internal financing to donations will depend on the success of the fundraising campaign.
- b) The estimated cost to complete the Braun Building Fire renovations in progress at April 30, 2010 is \$4,650. The total project cost of \$5,500 will be funded from insurance proceeds (Note 23) and internal financing.
- c) The following are the future minimum annual operating lease payments due over the next two years:

<u>Date</u>	<u>Amount</u>
2011	\$ 542
2012	251

19. Statement of Cash Flows

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

	2010	2009
Accounts receivable	\$ (952)	\$ (1,320)
Inventories and prepaid expenses	(273)	(24)
Accounts payable and accrued charges	5,534	2,848
	\$ 4,309	\$ 1,504

20. Related Party Transactions

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

	2010	2009
Recoveries and charges for goods and services	\$ 2,843	\$ 1,986

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.

Lakehead University

Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

21. Capital Management

In managing capital, the University focuses on liquid resources available for operations. The University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur. The University's mandate is to prepare an annual balanced budget and the levels of liquid resources are considered in the annual budget process. Cash flows are monitored on a daily basis and cash forecasts are produced monthly. The University attempts to minimize the use of its line of credit of \$3,000 (Note 11) which can be used in the event that sufficient cash flow is not available to cover operating and capital expenditures. The University manages its capital expenditures in accordance with its Capital Debt Policy. As at April 30, 2010, the University has met its objective of having sufficient liquid resources to meet its current obligations.

22. Financial Instruments

The University's financial instruments consist of cash, accounts receivable, long-term investments, accounts payable and accrued charges, and long-term debt and interest rate swaps. Financial instruments are subject to a variety of risks.

Credit risk is the risk of financial loss to the University if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the University's accounts receivable and long-term investments. The University mitigates its potential credit risk from accounts receivable through credit evaluation, approval, and monitoring processes. Furthermore, it evaluates the collectability of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management reasonably believes will be collected. Credit risk with respect to long-term investments is managed through the University's investment policies.

Interest rate risk refers to the adverse consequences of interest rate changes. The University holds fixed rate bonds issued by the federal and certain provincial governments. The bonds have annual yields between 4.2% and 8.5%. The value of fixed rate instruments will generally rise if interest rates fall and fall if interest rates rise. The value of the instruments will vary with developments within the specific governments which issue the instruments.

Foreign currency risk refers to the extent to which instruments denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to other currencies.

Market volatility risk arises from the University's investment portfolio, which contains various pooled funds and, fixed income, and equity instruments. It is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of general economic and other market factors affecting equity prices.

Interest rate, foreign currency and market volatility risk arise principally from the University's long-term investments, which the University manages through investment policies governing asset mixes, equity and fixed income allocations and diversification among fund managers.

Lakehead University Notes to Financial Statements

April 30, 2010 (in thousands of dollars)

23. Braun Building Fire

On July 14, 2008, the University experienced a fire on the east wing of the Braun Building. The amount of damages has been estimated at \$4,500. With the exception of a deductible of \$50 for building and contents and a deductible for \$10 for computer equipment, the insurance coverage should reimburse the University for replacement costs. At April 30, 2010, the University had not reached final settlement with its insurers. During the year, the University commenced reconstruction of the Braun Building. At April 30, 2010, \$858 has been incurred in reconstruction costs which are included in construction in progress (Note 6).

24. Subsequent Event - New Financing Agreement

The University entered into a new credit facility agreement on June 10, 2010 with the Royal Bank of Canada in the amount of \$23,500 for a term of 25 years with initial drawdown scheduled for January 2011 (Note 11.8). This loan will be used to finance the construction of a residence and cafeteria on the Orillia campus.

25. Comparative Amounts

The comparative amounts presented in the financial statements have been reclassified to conform to the current year's presentation.