



# Comptroller's Report

For the Year Ended April 30

## 2019

Alexandra Ferris, CPA, CA  
Comptroller

*Our mission is to  
create the premier  
university  
environment for our  
students, faculty and  
staff in which to  
learn, work and live.*

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## Executive Summary

I am pleased to present the annual Comptroller's Report for the University of New Brunswick for the fiscal year ended April 30, 2019.

In addition to the University's audited financial statements, this report offers analysis and commentary with respect to the University's financial results for the year and the financial position at the end of the year. The audited financial statements report on the operations and financial position of the entire University and were prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) as issued by the Chartered Professional Accountants of Canada (CPA).

The financial statements have been audited by Deloitte, LLP and their Auditor's Report is part of the audited financial statement package. For the year ended April 30, 2019, Deloitte has issued an unmodified audit opinion, meaning that according to their independent audit, the financial statements present fairly the University's financial position and results of operations in accordance with ASNPO.

In addition, a Statement of Management Responsibility, signed by the President and Vice President (Administration & Finance), is also included with the financial statement package. This statement acknowledges management's responsibility for the preparation of the financial statements and maintenance of a system of internal controls to safeguard University assets and ensure reliable accounting records.

The major highlights of the 2019 financial statements were:

- The University reported an excess of revenues over expenses of just over \$3.6 million. After reflecting changes in net assets, this results in a net unrestricted operating deficit of \$65 thousand.
- The \$65 thousand net operating deficit excludes the results of the Restricted and Endowment Funds, reflecting only the Operating Fund results after accounting for a planned use of internally restricted net assets.
- The University has an accumulated unrestricted operating deficit of \$6.6 million.
- The University's total assets increased by \$34.2 million, primarily due to a net change in the investment accounts of \$33.6 million and an increase in capital assets of approximately \$7.9 million, which includes the work completed to April 30<sup>th</sup> on the renovation of Tibbits Hall and completion of the Kinesiology building. These increases were offset by a decrease in cash.
- Net assets increased by \$19.9 million, to \$327.8 million, primarily due to an increase in Endowed assets, net assets invested in capital assets and a decrease in the unfunded employee benefits. These positive changes were offset by a decrease in Internally Restricted Net Assets.

## Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2019 have been prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) issued by the Chartered Professional Accountants of Canada (CPA). Canadian Universities generally apply either these standards or Public Sector Accounting Standards depending on the level of control exercised by the government in the province where they reside.

Within the ASNPO standards, non-profit organizations have the option to adopt either the deferral method of revenue recognition or the restricted method. UNB follows the deferral method. Under this method, the University is required to report the operations of all Funds on a consolidated basis in the financial statements. All contributions with external restrictions placed on their use are deferred and recognized as revenue only in the period the funds are actually used for their intended purpose. This includes such items as sponsored research revenue, contributions for specific purposes, and contributions for capital asset acquisitions. Contributions to the Endowment Fund, which are required by the donor to be held in perpetuity, are credited directly to the net assets and are not reflected as revenue.

While the audited financial statements offer a consolidated view of operations and a basis for global comparisons with other universities, it is important to note that other universities may use different accounting standards based on the degree of control by their provincial government or may use different revenue recognition standards.

In the case of UNB, the deferral accounting method results in some significant differences from the funds format financial statements. The funds format financial statements are used throughout the year by the University's management and the Board of Governors to assess operations. Differences include:

- Donations and research grants received are reported as revenue in the year received in the funds format financial statements but in the audited financial statements, are only recognized to the extent the revenue is spent in the year. Unspent amounts are deferred and reported on the statement of financial position as unexpended deferred contributions until they are spent for the restricted purpose.
- Endowment contributions received are not recognized in the audited financial statements as revenue but rather as a direct increase to endowed net assets.
- Capital assets are expensed as acquired in the funds format financial statements but are capitalized and amortized over their useful lives in the audited financial statements.

The two accounting methods result in significant differences in amounts reported in the audited financial statements and the funds format financial statements.

The fund accounting approach used by management to monitor operations is widely used in the University and not-for-profit sectors and more closely aligns with the approach to

manage resources. Other benefits include:

- It provides a central mechanism to ensure external and internal restrictions of funds such as research grants, endowment contributions and restricted capital grants are respected; and
- It provides an additional measure of expenditure control in that expenditures can only be made when/if there are budgeted funds available in the account.

The University operates the following three funds, which are consolidated in the audited financial statements:

- Trust and Endowment - holds the endowed assets (contributions which are required to be held in perpetuity) and other contributions which have legal restrictions with respect to their use;
- Restricted - holds restricted research, capital project and other accounts which are funded from internally and externally restricted sources as well as the University's capital assets; and
- Operating - where the financial operations of the University are reported.

The audited financial statements include:

- Statement of Management Responsibility where senior management acknowledge their responsibility for preparing the financial statements and maintaining adequate internal controls. In addition, it acknowledges the Board of Governors' responsibility for the review of the audited financial statements primarily through its Audit Committee.
- Auditor's Report which outlines the responsibilities of management and the auditor. The auditor's report for 2019 is unmodified.
- Consolidated Statement of Financial Position, which shows the financial position of the University as at the end of the fiscal year. This includes the assets owned by the University less the liabilities, resulting in the Net Assets of the University.
- Consolidated Statement of Operations and Changes in Net Assets, which shows the gross revenues and expenses of all University Funds, excluding deferred amounts, resulting in the difference of revenues and expenses. This amount is then adjusted for the amounts applicable to the various components of net assets, ending in the change in the net unrestricted operating surplus or deficit for the year.
- Consolidated Statement of Changes in Net Assets, which shows the changes in each category of net assets.
- Consolidated Statement of Cash Flows, which shows the primary sources and uses of cash during the fiscal year.

- Notes to the financial statements are audited and provide additional disclosure and information to assist the reader in understanding the financial results.

The Consolidated Statement of Operations and Changes in Net Assets reports an excess of revenues over expenses before changes in internally restricted net assets, of just over \$3.6 million (1.1% of revenues). This reflects all restricted and unrestricted activities of the University. The \$3.6 million is adjusted for the changes in net assets resulting from various internal and external restrictions that ultimately culminate in a net unrestricted operating deficit of \$65 thousand. The adjustments to the excess of revenues over expenses in 2019 were as follows:

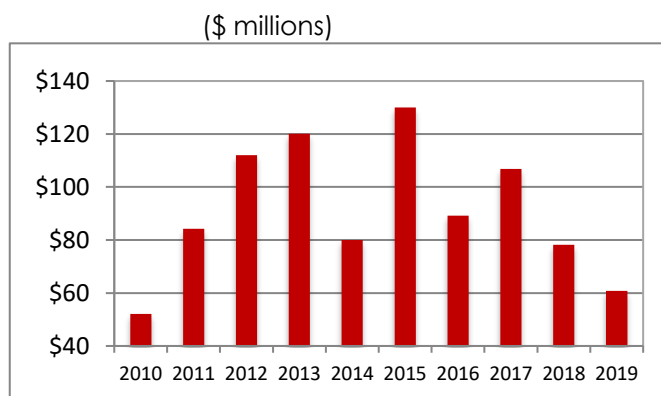
- The excess of revenues over expenses was reduced by \$0.6 million as a result of differences between the actuarially determined employee future benefit expense, the actual cash contributions made and the return on the internal fund.
- The excess of revenues over expenses was reduced by \$7.0 million in the year due to an increase in investments in capital assets. The increase resulted from \$9.9 million in capital asset acquisitions funded from operations, decreases in financing of capital assets of \$1.6 million and \$9.8 million in amortization of deferred capital contributions. These increases were offset by \$14.3 million in amortization of capital assets.
- The excess of revenues over expenses was increased by \$3.9 million as a result of an overall reduction of internally restricted net assets. This reduction is mainly the result of a net decrease in the operating budget carry forwards (\$3.1 million) and a reduction the deficit support fund (\$3.3 million). These larger decreases were offset by increases in the risk reserves (\$1.0 million) and reserves related to specific projects (\$1.1 million). Other reserve balances fluctuated as funds were used for their intended purpose and funds were set aside for future initiatives.
- After the above noted adjustments for changes in net assets, the Statement of Operations and Changes in Net Assets reports a net unrestricted operating deficit for the year of \$65 thousand and a corresponding increase in the University's accumulated unrestricted operating deficit from \$6.5 million to \$6.6 million.

## Analysis of Major items on the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position reports the assets owned and controlled by the University; the liabilities owed by the University and the Net Assets of the University as at the end of the fiscal year, April 30, 2019 (with comparative amounts from the prior year). Assets and liabilities are categorized according to their liquidity, or how quickly they are expected to be converted into cash or require the use of cash, with assets and liabilities closest to cash being classified as current and those with time horizons greater than one year shown as long term.

The following charts illustrate a ten year comparison of the values reported in various categories on the Consolidated Statement of Financial Position.

### Cash and Short-Term Investments

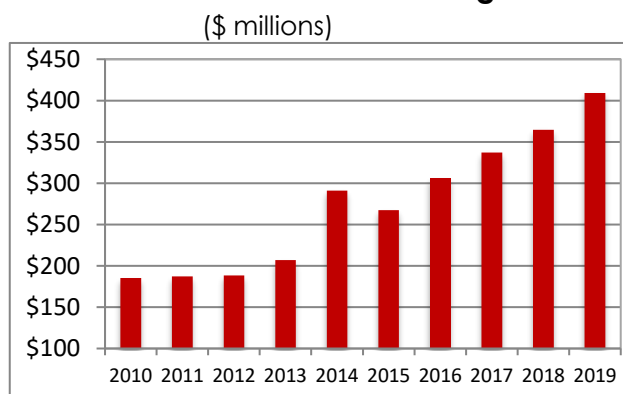


**Description:** Includes cash and short-term investments with maturity dates of less than 12 months. A large portion of the cash is invested in short-term, fixed income vehicles with an emphasis on preserving liquidity and capital. The remainder is invested over a longer investment horizon.

**2019 Comments:** Cash and short-term investments decreased by \$17.4M during 2019. This decrease is due primarily to the reinvestment of this year's Guaranteed Investment Certificate maturities into the Long-term Investment Fund.

**Trend:** The year-end cash balance has historically been quite high as the research year ends in March and a significant portion of the funding is received in April. A new investment policy for Cash and Short-term Investments was approved in fiscal 2018. This policy has resulted in the transfer of a larger portion of the cash and short-term investments to longer term investments.

### Long-Term Investments

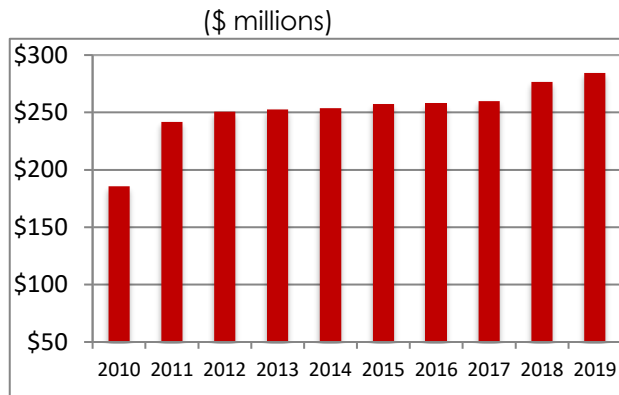


**Description:** Long-term investments primarily represent the assets of the Trust and Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investment Committee.

**2019 Comments:** Long-term investments increased by \$44.6M due to investment returns on the Long-term Investment Fund and additions to capital. The Long-term Investment Fund had an annual investment return of 8.74%, which was above the investment policy benchmark of 8.18% and well in excess of the returns required to maintain our 4% spending rate.

**Trend:** The University's investments have performed well over the last ten years with new contributions and solid returns.

## Capital Assets

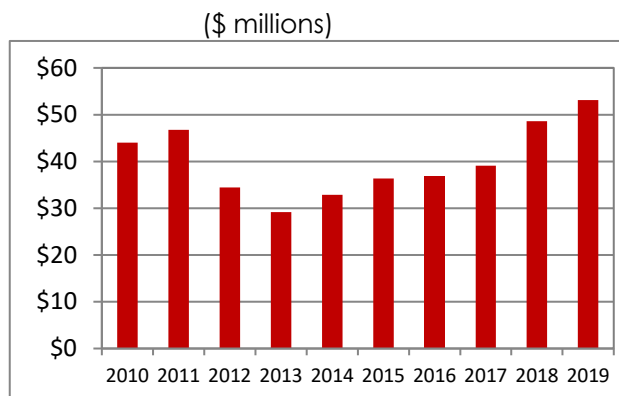


**Description:** Capital assets represent the un-depreciated cost of University owned buildings, infrastructure, equipment and other tangible assets used in University operations.

**2019 Comments:** The University had net capital asset acquisitions of \$22.1M in 2019. This includes work in progress related to the renovation of Tibbits Hall; the completion of the Kinesiology building; and various furniture and equipment purchases.

**Trend:** Capital asset acquisition levels have been stable over the last number of years and are expected to grow as the University moves forward with residence renewals and other capital infrastructure.

## Current Liabilities

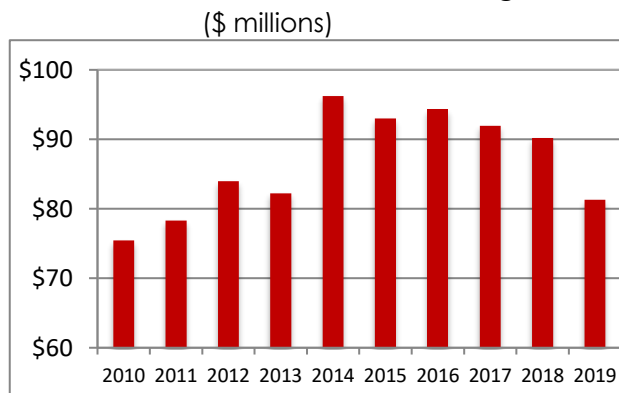


**Description:** Current liabilities are made up of accounts payable, accrued liabilities, unearned revenue and the current portion of long-term debt.

**2019 Comments:** Current liabilities increased by \$4.5M from 2018. This is mostly due to an increase in accounts payable and accrued liabilities (\$3.5M). Included in this balance is the employee benefit reserve and the year-end payroll liabilities, both of which increased over the prior year.

**Trend:** Current liabilities have been steadily increasing. Another year of surplus transfer to the employee benefit reserve (\$1.2M) without disbursement and an additional day in the payroll accrual have an impact on the year-end balance.

## Long-Term Liabilities



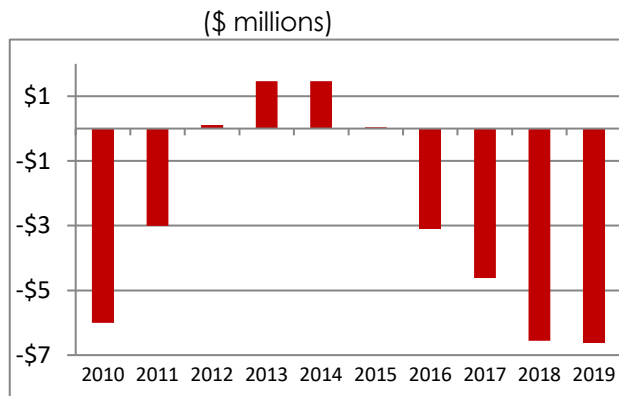
**Description:** Long-term liabilities consist of long-term debt and employee future benefits.

**2019 Comments:** There was no new long-term debt issued in the year, resulting in a decrease in long-term debt of \$1.6M as principle payments were made. In addition, the employee future benefits liability decreased by \$7.2M, this is primarily due to the valuation results for the Academic Employee Shared Risk Pension Plan (AESRPP).

**Trend:** Since 2014, these long-term liabilities have been relatively stable. The current year's reduction of \$8.8M was mainly due to the valuation of the AESRPP which saw better than anticipated returns on the assets held against this liability. Due to the use of actuarial assumptions and the unpredictability of investment returns, this particular liability can fluctuate significantly. Long-term debt is expected to increase as components of the residence renewal are expected to be financed through external debt.



### Accumulated Unrestricted Operating Surplus (Deficit)

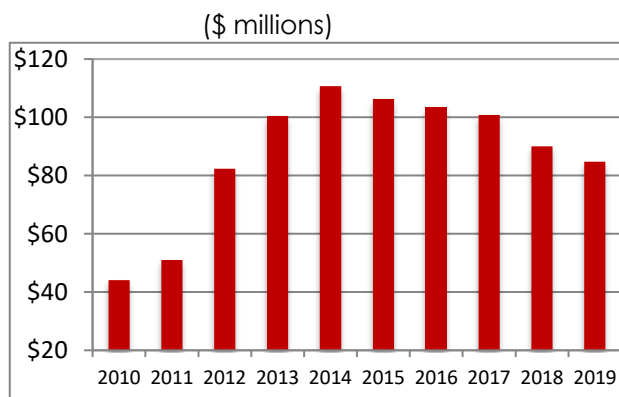


**Description:** This balance represents the accumulation of unrestricted operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual net unrestricted operating surplus or deficit.

**2019 Comments:** The University reported a net unrestricted operating deficit of \$65 thousand in the year which has a minimal impact on the accumulated deficit.

**Trend:** The University has had four years of net unrestricted operating deficits. Even with a balanced budget, the accumulated deficit will only be reduced through the accumulation of surpluses or transfers from internally restricted net assets.

### Internally Restricted Net Assets

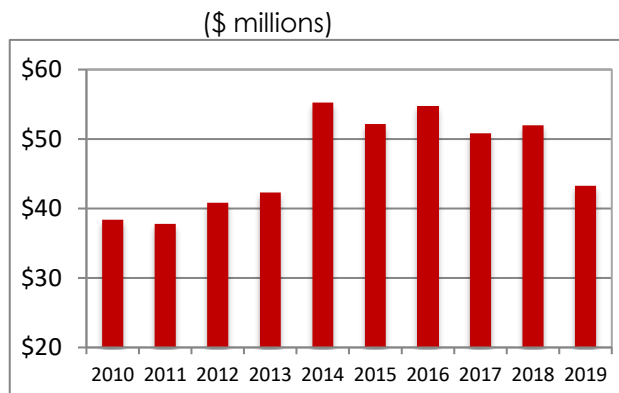


**Description:** This balance represents net assets that have been restricted either through Board approved policy or specific decisions of the Board.

**2019 Comments:** The internally restricted net assets have decreased in year by \$5.2M. This is primarily the result of a reduction of \$3.1M in the operating budget carry-forwards and the use of \$3.3M for deficit support. In addition, \$2.3M of Engineering program fees were transferred to specific projects (IRNA), and \$1.0M was transferred to the unfunded employee benefits (below) for funds allocated to cover administrative leaves.

**Trend:** Internally restricted net assets have seen a steady decline since 2014. A more detailed analysis is found in the supplementary information section of this report.

### Unfunded Employee Benefits



**Description:** The unfunded employee benefits include retiring allowances, post-retirement benefits, early retirement plans, unused vacation, the academic pension plan and other post-employment benefits. This balance represents the extent to which these liabilities are unfunded.

**2019 Comments:** The decrease of \$8.7M relates primarily to the in year adjustments resulting from the updated actuarial valuations and specifically, the unrealized gain on the academic employee shared risk pension plan (AESRPP).

**Trend:** Since 2014, this amount has stayed relatively stable. The significant in year reduction was mainly the result of better than anticipated returns on the AESRPP plan assets.

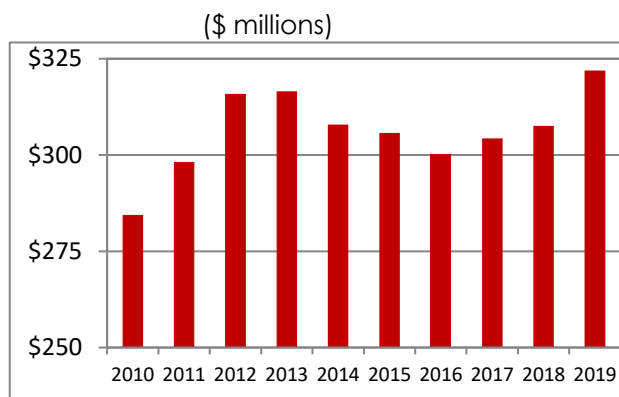
## Analysis of Major items on the Consolidated Statement of Operations and Change in Net Assets

The Consolidated Statement of Operations and Changes in Net Assets shows the gross revenues and expenses of the University on a consolidated basis. This includes results from the Restricted Fund (including Physical Plant), Endowment Fund and Operating Fund accounted for according to Accounting Standards for Non-Profit organizations (ANSPO). As previously discussed, these results are not merely a summation of the three funds because the accounting policies require that some items, such as unspent restricted funds, be deferred and brought into income when the funds are actually spent. In addition, endowment contributions which are required to be held in perpetuity are reported as direct increases in Endowed Net Assets in accordance with the accounting standards and are never recognized as revenue.

Revenues are categorized on the Consolidated Statement of Operations and Changes in Net Assets according to the source of the revenue, such as Government grants, Tuition and student fees, Research revenue, Donations and Investment income. Expenses are categorized according to function such as Instruction, Research, Plant operations, Administration, Student services, and Libraries. This presentation is consistent with prior years.

The following charts offer additional information with respect to revenues, expenses and the net operating results for the past ten years.

### Total Revenue

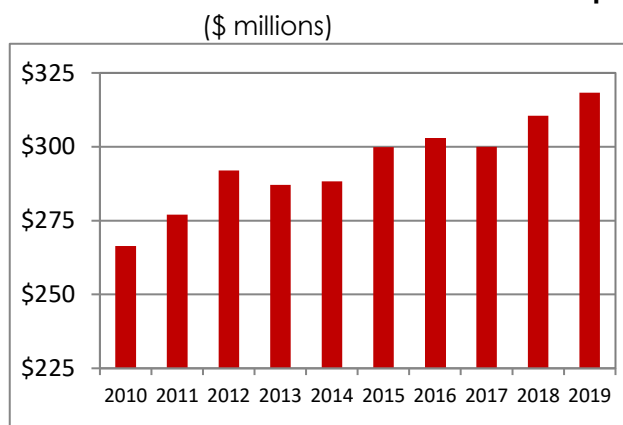


**Description:** Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when they are received.

**2019 Comments:** Total revenue increased by \$14.4M from 2018. A significant amount of the increase is related to investment income (\$7.8M) in combination with general increases across most other revenue streams.

**Trend:** Revenues have fluctuated over the past ten years, with total growth at approximately 14%. The changes in the major revenue stream components are discussed in the subsequent tables.

## Total Expenses

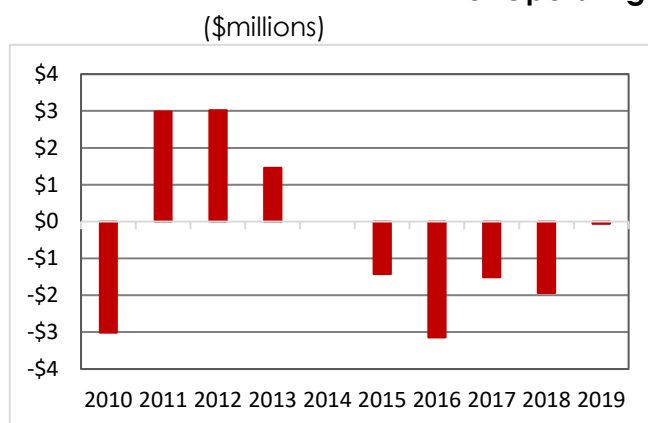


**Description:** Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their estimated useful lives and amortization expense is included in annual expenses.

**2019 Comments:** Total expenses increased by \$7.8M (2.5%) from 2018. The largest increase was in Research grants and contracts (\$6.1M) which is reflective of the activity in this Fund.

**Trend:** Expenses have grown over the past ten years by \$52M (19.5%) and while the University's expenses are reported by function, the largest expenses are payroll related. Salary and payroll related decisions are often governed by collective agreements.

## Net Operating Result

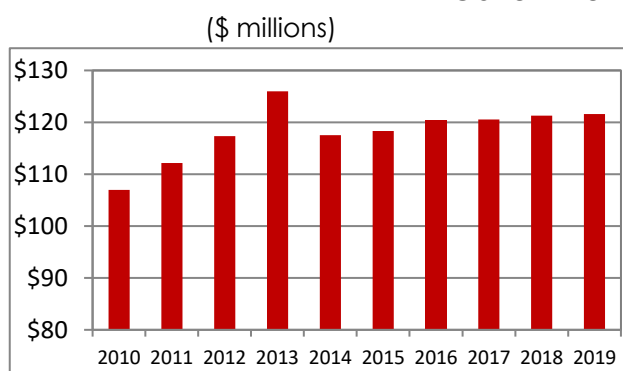


**Description:** The net operating result is the unrestricted operating surplus (deficit) for the year net of internally and externally restricted amounts.

**2019 Comments:** The University reported a net unrestricted operating deficit of \$65K after one-time transfers from internally restricted net assets of \$3.7M.

**Trend:** Since 2012, the unrestricted operating results have continued to decrease and for the last five years have seen deficits. With the current year's deficit, there is now an accumulated unrestricted operating deficit of \$6.6M.

## Government Grants

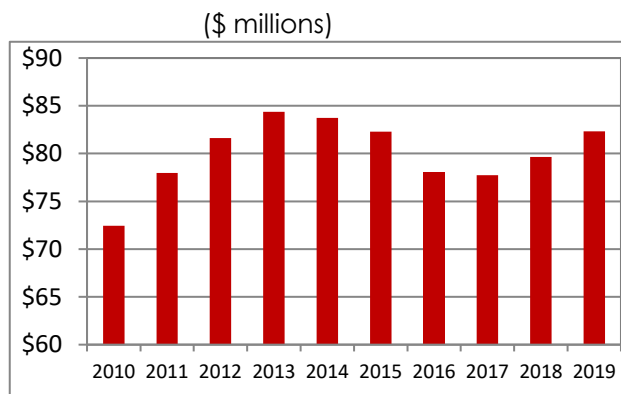


**Description:** Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

**2019 Comments:** Despite a 1% increase in the annual operating grant, total government grant revenue increased by only \$0.3M (0.3%) due to a slight reduction in the nursing grant and less capital funding.

**Trend:** The Province and the University signed a four-year agreement in March 2018. This agreement outlines an annual allocation increase, in the operating grant, of 1.0% for 2019-20 and 2% for 2020-21. There is uncertainty with respect to funding for the nursing programs and uncertainty with other government grant funding as governments change and priorities shift.

### Student Fees

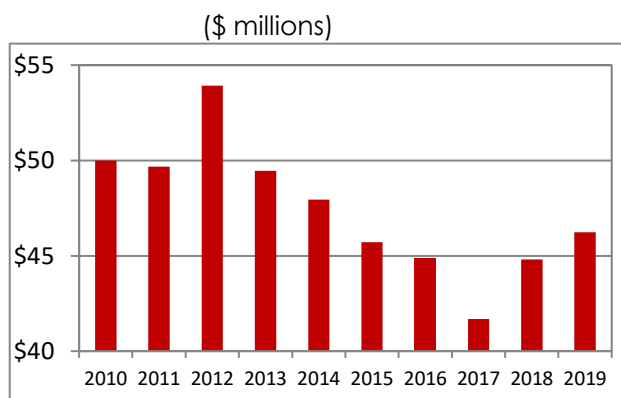


**Description:** Student fee revenues include tuition and other fees paid by students for specific purposes.

**2019 Comments:** Fee revenue from students increased by \$2.7M (3.4%). This is primarily due to an increase in tuition revenue which is related to a change in the enrolment mix and a 2% increase in tuition fees.

**Trend:** After four years of decline, student fee income increased in both 2018 and 2019. Student fees are expected to continue to increase as the tuition reset is implemented.

### Research Grants and Contracts

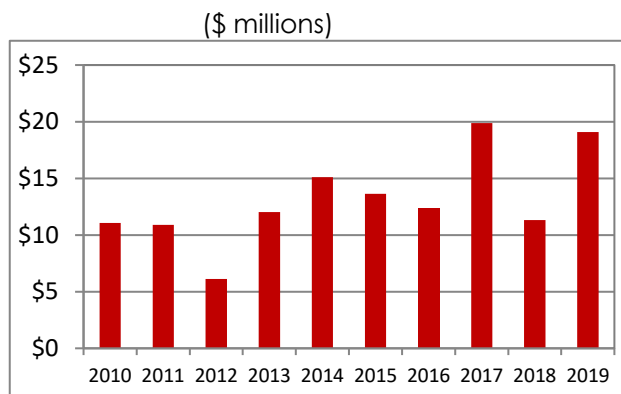


**Description:** Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

**2019 Comments:** Research grants and contracts revenue increased by \$1.4M (3.2%) from 2018.

**Trend:** For the last two years, initiatives such as the Smart Grid Centre and the Canadian Institute for Cybersecurity have contributed to an upward trend in research revenues. This is expected to continue.

### Investment Income



**Description:** Under ASNPO standards, investment earnings on externally restricted donations are deferred and recognized as income in the year spent. Investment earnings on unrestricted donations and other unrestricted investments are recognized as earned.

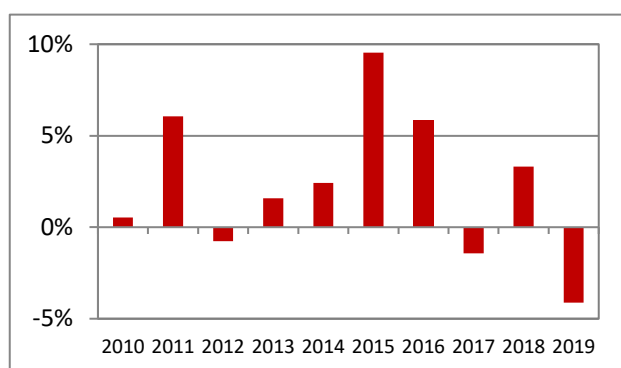
**2019 Comments:** Capital markets were healthy in 2018-19 with the University's Long-term Investment Fund earning 8.74% for the year (2.97% for 2018), compared to the investment policy benchmark of 8.18%. This is above the amount required to support annual endowment spending.

**Trend:** Investment income earned is dependent on market returns and the amount recognized is dependent on spending. As such, it is subject to volatility.

## Key Financial Indicators

Financial indicators have been developed as a quick assessment tool for use by management and the Board to assess the financial position and condition of the University. The following indicators have been selected by management to assess a variety of areas. Each indicator is briefly described below and analyzed in the context of the University.

### Growth in Operating Expenses per FTE Student

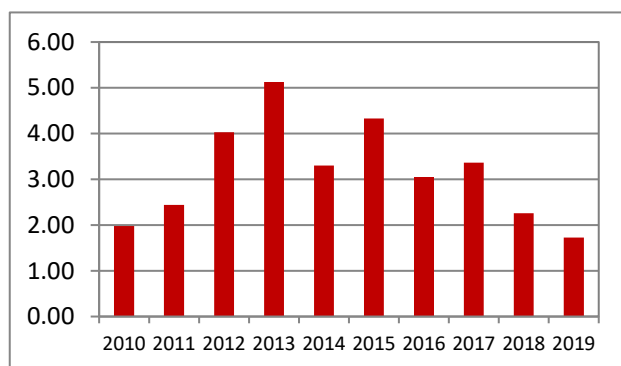


**Description:** This shows the growth in actual operating expenses per student. A stable or declining percentage is preferred.

**2019 Comments:** The operating expenses declined slightly while student enrolment increased slightly, this resulted in a 4.1% decline in the operating expense per FTE student.

**Trend:** Growth in operating expenses per student has fluctuated over the last ten years. This is expected to stabilize as we move towards a balanced budget and continue to focus on student enrolment.

### Working Capital Ratio

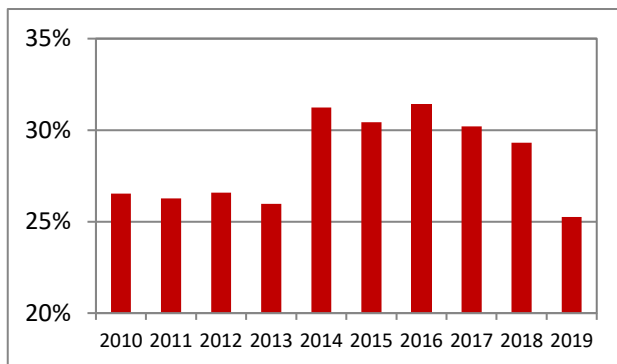


**Description:** The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity. A ratio of 3 or more is very strong.

**2019 Comments:** This ratio decreased from 2.3 in 2018 to 1.7 in 2019. This decrease is due primarily to the reinvestment of this year's Guaranteed Investment Certificate maturities into a laddered portfolio of 1-4 years and into the Long-term Investment Fund (a move from short-term investments to long-term investments).

**Trend:** This ratio has been on a steady decline. In 2018, a new investment policy was approved which has resulted in the transfer of a larger portion of current assets (i.e. cash and short-term investments) to longer term investments.

### Long-term Liabilities as a percentage of Total Revenue

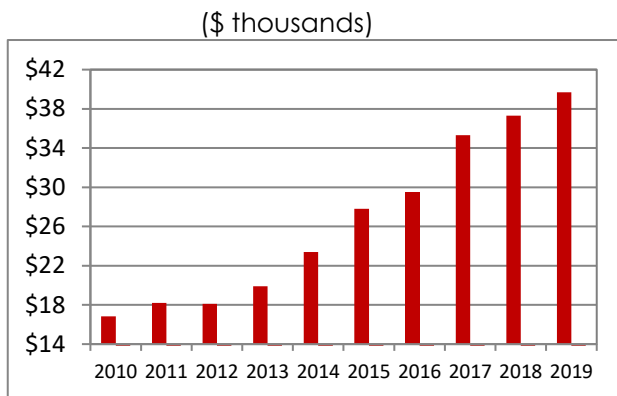


**Description:** This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

**2019 Comments:** This indicator saw a decrease of 4.0% in 2019 from 29.3% to 25.3%. This is the lowest percentage in the last 10 years and was primarily driven by the decrease in the Employee future benefits and the increase in total revenues.

**Trend:** The percentage has fluctuated between 26.0% and 31.4% over the past nine years. The percentage increased in 2014 when additional debt was taken on to partially finance a new building. It is expected to increase again as the University completes various residence related projects which will be partially funded through external debt.

### Endowment and Long-term Trust Funds per FTE Student

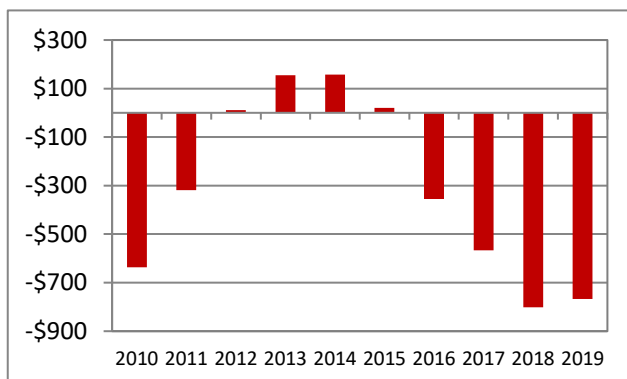


**Description:** This indicator shows the value of the endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

**2019 Comments:** The funds per student increased in 2019 by just over \$2.0 thousand. An increase in endowments is responsible for the change.

**Trend:** The general trend has been an increase in funds per student. This is due to the continued increase in endowment market values.

### Accumulated Unrestricted Operating (Deficit) Surplus per FTE Student



**Description:** This indicator is intended to give an idea of the deficit burden that must be supported by each student.

**2019 Comments:** The accumulated unrestricted operating deficit remained relatively unchanged as one-time transfers from internally restricted net assets were used to offset the in year deficits.

**Trend:** This indicator is expected to remain relatively unchanged as the University continues to use reserves to offset in year deficits and move to a balanced budget. It will improve only when surpluses are applied to the accumulated deficit or a decision is made to transfer internally restricted net asset to cover the accumulated balance.

## Deferred Maintenance

Deferred maintenance (DM) refers to maintenance and repair activities that were not performed when they should have been or were scheduled to be and which, therefore, have been put off, or deferred, to a future period. Maintenance and repairs are activities directed toward keeping capital assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use. This indicator gives a picture of the condition of the University's capital assets.

As one of the oldest Universities in Canada, UNB is in a more challenging position than many universities due to the age of many campus buildings.

Deferred maintenance continues to be a challenge, as annual capital spending is not sufficient to maintain current infrastructure. Estimated at \$298 million (Fredericton Campus \$261 million, Saint John Campus \$37 million), the accumulated deferred maintenance balance at UNB remains a major concern. Annual spending is not sufficient to keep up with required maintenance. Management continues to look at and evaluate various options to help address the accumulated deferred maintenance amount.

There is currently an annual shortfall in funding for deferred maintenance between \$3.8M and \$10.7M depending on the recommended annual spending percentage used. The following tables provide additional information.

Campus	Total Area (Sq. Ft)	Avg. Age of Buildings (Years)	Replacement Value (\$millions)	Deferred Maintenance (\$millions)	Facilities Condition Index*
Fredericton	2.7M	57.7	818	261	31.91%
Saint John	<u>0.6M</u>	36.7	<u>179</u>	<u>37</u>	<u>20.67%</u>
Total	3.3M		997	298	29.89%

\* Deferred maintenance divided by current replacement value.  
A value over 10% considered poor.

Calculations of the annual shortfall in spending to address deferred maintenance using the Sightlines Study based on functional obsolescence targets and the "APPA: Leadership in Educational Facilities" recommendations.

<b>Building and Space Budget for 2019-20*</b>	(\$millions)
Fredericton Campus	7.2
Saint John Campus	2.0
Total	9.2
Sightlines Study recommends a minimum of 1.3% of replacement value**	13.0
Shortfall	(3.8)
APPA: Leadership in Educational Facilities recommends a minimum of 2.0% of replacement value***	19.9
Shortfall	(10.7)
<p>*Budget intended to support DM as well as program, regulatory compliance and accessibility projects. Therefore, any DM shortfall will be greater depending on the allocation of the budget to program, regulatory compliance and accessibility projects.</p> <p>**The Sightlines recommendation is a range from 1.3% to 3% of replacement value. 3% of replacement value is \$29.9M which would increase the shortfall to \$20.7M.</p> <p>*** The APPA recommendation is a range from 2.0% to 4.0% of replacement value. 4.0% of replacement value is \$39.9M which would increase the shortfall to \$30.7M.</p>	



## Supplementary Information to the Notes to the Financial Statements

### Accounting for the Shared Risk Pension Plan

The former academic pension plan (AEPP) was converted to a shared risk plan (AESRPP) effective July 1, 2013 pursuant to an MOU between the AUNBT and UNB. Under the AEPP both parties were only responsible for making contributions as agreed to through the collective bargaining process with no liability to fund any deficit resting with the University. Parties agreed a change was required to make the plan sustainable. The AESRPP model was chosen because it provides some security over benefit payments to retirees while also providing stability in contribution rates for both the employer and employees.

Because the plan is jointly governed by the University and the Faculty Association only 50% of the actuarially determined plan deficit is recorded as a liability on the Consolidated Statement of Financial Position. It is important to note that the University does not "owe" this money to anyone, nor would it ever be responsible to pay the plan deficit under the terms of the plan agreement and legislation over shared risk pension plans.

Consistent with our accounting for non-pension employee benefit liabilities, this unfunded amount has been disclosed separately in the Net assets section of the Consolidated Statement of Financial Position to identify that the liability is not funded. The University's 50% share of the liability for 2019 is \$10.8 million, which is a decrease of approximately \$9.5 million from 2018. This significant decrease is attributed to better than anticipated returns on the plan assets.

In addition, accounting standards require that the actuarially determined annual expense amount be reported partially on the Consolidated Statement of Operations and partially as a direct charge against net assets on the Consolidated Statement of Financial Position. Note 23 to the financial statements provides an overall summary of the plan, the expense and the liability.

### Internally Restricted Net Assets

As stated earlier, the University follows not-for-profit accounting standards as established by the Chartered Professional Accountants of Canada (CPA Canada). These standards require that funds received from external parties with restrictions on the spending of those funds be accounted for differently than unrestricted funds. Externally restricted funds are reported as deferred contributions and not recognized as revenue until the funds are spent for the purpose specified by the external party. Funds with no external restrictions are recognized as revenue immediately.

UNB, like most Canadian universities, places internal restrictions on some of the funds received, or net operating surpluses earned, based on the priorities established by the Board of Governors, management, faculties and departments. These are not external restrictions but

they are still binding as they have been approved by the governing body of the University. These funds may be restricted according to a Board decision (for example program fees, scholarships and bursaries, capital budget projects, risk mitigation reserves, etc...) or according to University policy or practice (operating budget carry-forwards, contract overhead, surpluses in non-core operations).

From an accounting and reporting perspective, this means the amounts are first recognized as revenue in the operating account and then internally restricted and reported as internally restricted net assets on UNB's Consolidated Statement of Financial Position. Universities establish these protocols in order to incent wise resource utilization; to provide a tool to facilitate long-term planning of programs and initiatives; to allow savings to accumulate over a number of years to fund a project or initiative of a significant magnitude; to establish reserves to mitigate against risks; as well as in recognition of the decentralized nature of many university operations to promote self-sufficiency and budget management.

UNB has made efforts over the years to be transparent in disclosing the amount and nature of both internally and externally restricted accounts. In the audited financial statements as at April 30, 2019, the University reported \$172.5 million in unspent deferred contributions (externally restricted amounts received for specific purposes), \$152.4 million in deferred capital contributions (external funding for capital assets that is amortized to revenue over the lives of the assets the funds were used to acquire), \$84.7 million in internally restricted net assets (restricted by a policy of the Board of Governors or a decision for specific purposes), and \$178.5 million in endowed net assets (\$166.4 million externally endowed and \$12.1 million internally endowed). These funds must be held in perpetuity with only investment income available for spending according to the established criteria of the endowment.

Note 16 to the Consolidated Financial Statements presents the details of the internally restricted net assets by category. This format is consistent with prior years with the exception of the presentation of the internal loans which is now reported separately within this note. Total internally restricted net assets as at April 30, 2019 were \$84.7 million compared to \$90.0 million as at April 30, 2018.

Some additional information about the amounts in the various categories is provided below as well as some details with respect to the types of items included in each category.

Capital (2019 - \$28.5M / 2018 (restated) \$28.3M) – these funds come from various sources including the operating account (budgeted), savings from the energy management program, government grants, and decisions by the Board of Governors to internally restrict previous year's operating surpluses. The decision to restrict portions of past years' operating surpluses for capital purposes was made in an attempt to address the very serious issue of accumulated deferred maintenance. Internally restricted funds for capital purposes come from multiple sources.

<b>CAPITAL</b>	<b>\$ millions</b>		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Infrastructure Renewal Projects	8.2	8.0	0.2
Ward Chipman Library Refurbishment	6.7	6.7	0.0
Fredericton Residence Renewal & Ancillary Projects Fund	5.0	7.3	-2.3
Funds from Land & Lease Transactions	3.8	3.3	0.5
Currie Center Future Maintenance Fund	2.3	2.1	0.2
Klohn Commons Future Maintenance Fund	1.1	1.1	0.0
Saint John Residence Renewal Fund	1.0	0.8	0.2
Alumni Memorial Building Renovation	0.5	0.5	0.0
Engineering Program Fund Projects	0.3	0.2	0.1
Tech Fee Program	0.3	0.4	-0.1
SJ Reserve for Strategic Priorities-Shortfall SIF Funding	0.0	0.3	-0.3
Fredericton Kinesiology Building	-1.2	-3.1	1.9
Various Others	0.5	0.7	-0.2
<b>TOTAL CAPITAL</b>	<b>28.5</b>	<b>28.3</b>	<b>0.2</b>

In the prior year, internal loans for capital projects were netted against the capital balance within the Internally Restricted Net Assets. To increase transparency, the internal loans balance is now reported separately within Note 16 and the details are noted below.

Risk (2019 - \$11.0 M / 2018 - \$10.0M) – many of these funds have arisen from operating account surpluses which management, upon approval of the Board of Governors, has internally restricted to mitigate specific and general risks. Some amounts have arisen from specific sources (for example, insurance premium refunds and surpluses in the employee benefits stabilization accounts) which have also been internally restricted to guard against future risk.

<b>RISK</b>	<b>\$ millions</b>		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Employee Benefit Reserve	6.4	5.7	0.7
Vice President Contingencies	2.2	2.4	-0.2
Insurance Reserves	0.9	1.0	-0.1
Disabled Life Premium	0.6	0.6	0.0
Short Term Investment Fund Reserve	0.6	0.0	0.6
Various Others	0.3	0.3	0.0
<b>TOTAL RISK</b>	<b>11.0</b>	<b>10.0</b>	<b>1.0</b>

Entrepreneurial (2019 - \$19.6M / 2018 - \$21.5M) – these funds come from a wide variety of sources but are primarily cost recovery and net revenue oriented initiatives taken on by various departments or individuals within the University. The costs associated with these initiatives must be covered from revenues generated from the initiatives and neither the revenues nor the costs are budgeted for in the operating budget. Any surpluses generated from these activities are internally restricted according to University policy and are available to the originating unit as an incentive to develop and grow the business in the future according to the University's strategic plan. According to UNB Policy, the funds may not be accessed for general operations.

\$ millions			
ENTREPRENEURIAL	2019	2018	Change
SJ - Faculty of Nursing Provincial Agreement Contingency	3.0	2.9	0.1
FR - Faculty of Nursing Provincial Agreement Contingency	2.6	2.8	-0.2
UNBSJ MBA Program	1.4	1.6	-0.2
Engineering Program Differential	1.0	1.3	-0.3
License Practical Nurse Pilot Reserve	0.7	0.3	0.4
Biomedical Institute	0.7	0.7	0.0
Faculty of Education - Trinidad & Tobago	0.6	0.9	-0.3
Research Royalties	0.6	0.4	0.2
Canadian Rivers Institute	0.4	0.7	-0.3
Q1 labs - Researcher Portion	0.3	0.3	0.0
Vice President Research Risk Contingency	0.2	0.3	-0.1
Funding from Trust for Nursing Faculty Position	0.1	0.2	-0.1
College of Extended Learning - Business Dev. Funds	0.1	0.8	-0.7
Various Others	7.9	8.3	-0.4
<b>TOTAL ENTREPRENEURIAL</b>	<b>19.6</b>	<b>21.5</b>	<b>-1.9</b>

Specific Projects (2019 – \$8.8M / 2018 - \$7.7M) – the funds in these accounts have largely come from operating accounts and represent both unspent amounts at the fiscal year end related to specific projects which are already in progress, and unplanned savings in the implementation of other projects that have been internally restricted for future projects. Other amounts are budgeted annually in the operating accounts but are not spent each year and are allowed to accumulate to eventually be used for their intended purpose.

\$ millions			
SPECIFIC PROJECTS	2019	2018	Change
Administrative Leaves/Searches	0.1	1.2	-1.1
Engineering Program Fees	2.3	0.0	2.3
Fundraising Campaign	0.2	0.1	0.1
Library Acquisitions	1.6	1.1	0.5
Project Focus	0.3	0.4	-0.1
Retirement Allowance Reserve	0.3	0.3	0.0
Vice President Academic (F) College of Extended Learning	0.9	1.1	-0.2
Various Others	3.1	3.5	-0.4
<b>TOTAL SPECIFIC PROJECTS</b>	<b>8.8</b>	<b>7.7</b>	<b>1.1</b>

Two notable changes in the current year's balance are the addition of the Engineering Program Fees and the reduction in the Administrative Leaves. The Engineering Program Fees had previously been reported as an unexpended deferred contributions and the reserve balance for administrative leaves has been transferred to the unfunded employee benefits.

Strategic Priorities (2019 - \$4.5M / 2018 - \$8.4M) - the funds in this category have come from one-time operating items including special HST rebates and operating surpluses. The largest balance within this category is the Operating Deficit Support Fund. In 2017, \$11.3 million was reallocated from various other categories to create this fund with the ultimate goal to produce a balanced budget for the 2020-21 fiscal year. In 2019, \$3.7 million of the Operating Deficit

Support Fund was used to reduce the current year's operating fund deficit, an additional \$0.4 million was transferred into this reserve for the 2019-20 fiscal year. Funds from the Prioritization Implementation were transferred to the Kinesiology building funding shortfall (Capital).

	\$ millions		
STRATEGIC PRIORITIES	2019	2018	Change
Operating Deficit Support Fund	2.4	5.7	-3.3
FR - Academic Development Fund	1.0	0.9	0.1
SJ - Academic Development Fund	0.3	0.4	-0.1
Funds for Prioritization Implementation	0.0	1.0	-1.0
Various Others	0.8	0.4	0.4
<b>TOTAL STRATEGIC PRIORITIES</b>	<b>4.5</b>	<b>8.4</b>	<b>-3.9</b>

Operating Budget Carry Forwards (2019 - \$10.9M / 2018 - \$14.0M) – there is a long standing, Board approved policy that allows academic and operational units to “carry forward” any non-salary budget savings – that is the amount of any non-salary amounts that were budgeted but not spent during the year. The intent of this policy is to encourage long-term planning, provide flexibility to execute those plans and provide a means of accumulating funds to fund larger projects that would not otherwise be possible through regular annual operating budgets. While the Dean or department head may decide to use all or a portion of these funds to cover operating costs, the funds are not available for general University operating costs.

	\$ millions		
OPERATING BUDGET CARRY FORWARDS	2019	2018	Change
FR-College of Extended Learning	0.2	0.2	0.0
FR-Facilities Management	0.8	0.8	0.0
FR-Faculty of Arts	0.5	0.6	-0.1
FR-Faculty of Business Administration	0.3	0.4	-0.1
FR-Faculty of Computer Science	0.4	0.7	-0.3
FR-Faculty of Education	0.8	0.9	-0.1
FR-Faculty of Engineering	0.7	0.6	0.1
FR-Faculty of Kinesiology	0.1	0.2	-0.1
FR-Faculty of Science	0.5	0.6	-0.1
FR-Harriet Irving Library & Branches	0.5	0.5	0.0
FR-Renaissance College	0.2	0.3	-0.1
FR-Student Services	0.6	0.8	-0.2
FR-Vice President Academic (Fredericton)	1.5	2.2	-0.7
SJ-Faculty of Business	0.2	0.2	0.0
SJ-Faculty of Science, Applied Science & Engineering	0.3	0.2	0.1
SJ-Vice President	0.1	0.1	0.0
UW-Information Technology Services	-0.7	0.2	-0.9
UW-President - Integrated Recruitment & Retention	0.1	0.1	0.0
UW-President - Special Projects	0.4	0.8	-0.4
UW-School of Graduate Studies	0.6	0.5	0.1
UW-University Comptroller	0.6	0.6	0.0
UW-Vice President (Advancement)	1.1	1.0	0.1
Various Others	1.1	1.5	-0.4
<b>TOTAL OPERATING BUDGET CARRY FORWARDS</b>	<b>10.9</b>	<b>14.0</b>	<b>-3.1</b>

Scholarships, Bursaries and Other Awards (2019 - \$6.5M / 2018 - \$5.4M) – these amounts arose partially from annual transfers from operating accounts and partially from the proceeds of prior year's property sales. In both cases, the funds represent decisions of management and the Board to allocate funds to increase scholarships and bursaries funded from external restrictions and endowment accounts. These funds are not available for general operating expenses.

Contract overhead (2019 - \$4.9M / 2018 - \$5.2M) – this amount is the remaining unspent value of the departmental share of funds received on research and other contracts to assist the University in covering indirect costs associated with fulfilling the research or contract commitments that are not specifically identified in the project budget. University policy provides that at least 50% of overhead payments are to be retained by the department undertaking the project in order to provide an incentive to departments to undertake research contracts. These funds are controlled by the department and are recorded as internally restricted net assets as they are not available for use in general operations according to the approved University policy. The other portion of contract overhead funds are controlled by central administration to pay for indirect research costs incurred in the operating fund, for University or Campus priorities, or applied to an operating deficit.

Internal loans (2019 - \$10.0M / 2018 - \$10.5M) – the internal loans program provides a source of long-term financing for capital projects and / or major equipment purchases in appropriate circumstances. The program may also be used to provide internal or short-term financing for projects waiting for external financing arrangements to be finalized. Internally financed projects are only considered in circumstances where there is an identified expected cash flow stream available to service the internal debt.

	\$ millions		
<b>Internal Loans</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Central Heating Plant Boiler Project	-8.1	-8.1	0.0
AUC Ice Plant Renewal	-1.1	-1.3	0.2
Central Heating Plant Generator	-0.5	-0.6	0.1
HIL Library Infrastructure	-0.3	-0.3	0.0
Residence Laundry Equipment	0.0	-0.1	0.1
VOIP Recovery	0.0	-0.1	0.1
<b>TOTAL Internal Loans</b>	<b>-10.0</b>	<b>-10.5</b>	<b>0.5</b>

As detailed above, there are a wide variety of funds that are reported as internally restricted. In some cases, the funds have been paid to the University by students and other stakeholders with the expectation that they will only be spent on specific initiatives (i.e. the technology fee will be spent on technology). In other cases, the funds have been generated by faculty and staff through effective management of their budgets, with the intent to spend the funds in the future on enhancements and large scale projects. The commonality is that in all cases, the funds have been internally restricted in the past so that they can be accessed in the future for the benefit of a specific program, activity or project. These funds are not available to be used on operating expenses without a specific change approved by the Board of Governors.

As noted above and as part of the planning to achieve a balanced budget for 2020-21, certain amounts that are centrally controlled have been reallocated to create a Deficit Support fund that is to be used to cover the operating deficit expected to arise in 2019-20. There are additional amounts identified but not yet transferred to this account pending final review by management. The following table notes the categories and accounts from where the currently allocated funds originated.

<b>Category &amp; Description</b>	<b>\$ Millions</b>
<b>Specific Projects</b>	
Various Others	0.35
<b>Strategic Priorities</b>	
Operating Deficit Support Fund	2.03
<b>Total amounts reserved for Deficit Support (Strategic Priorities)</b>	2.4

#### Non-Pension Employee Benefit Costs

The University operates a number of cost shared employee benefit plans including health & dental, group life family protection, and LTD benefits. The overall cost of these benefit plans is paid 50% by the University and 50% by employees. These plans are largely self-insured, with risk management tools in place to limit the University's (and employees') exposure to adverse claims experience. These tools include the purchase of large amount pooling coverage on the health & dental plan whereby the Plan's exposure is capped at \$50,000 per individual claim, and similar insurance on the LTD Plan to limit the Plan's exposure to 5 years of coverage per individual claim.

All plans are operated in accordance with prudent actuarial principles with respect to setting premium rates and maintenance of appropriate funded benefit reserves for each plan. In addition to these plan specific reserves, employer and employee rate stabilization reserves are maintained to help provide an additional measure of security for benefits, and to stabilize premiums. In the event of a plan surplus, 50% of the plan surplus is added to the employer rate stabilization account and 50% of the surplus is added to the employee rate stabilization account. In the event of a plan deficit, 50% of the deficit is funded from each of the employer and employee rate stabilization accounts. As noted, the benefit reserves and the employer and employee rate stabilization accounts are funded reserves that are invested as part of the University's trust and endowment investment pool.

The University also offers other employee benefits including a retirement allowance program, past early retirement offerings, post-retirement group life insurance and supplementary health and dental benefits are offered in certain specific circumstances. The liabilities relative to these programs are detailed in note 11 to the financial statements.