COMPTROLLER'S REPORT

For the Year Ended April 30, 2022

Alexandra Ferris, CPA, CA

Comptroller

UNIVERSITY OF NEW BRUNSWICK

Table of Contents

Introduction

This report offers commentary on the University's financial statements and should be read in conjunction with the University's consolidated financial statements and accompanying notes (hereinafter referred to as the "financial statements") for the year ended April 30, 2022. The Comptroller's Report and financial statements are reviewed and approved by the University's Board of Governors on the recommendation of the Audit Committee.

The financial statements report on the operations and financial position of the entire University, including the operating fund, restricted fund, and trust & endowment. The financial statements have been audited by Deloitte, LLP and their Auditor's Report is part of the audited financial statement package.

The major highlights of the 2021-22 financial statements include:

- The University's consolidated revenues exceeded consolidated expenses by $7.3 million. The surplus can be attributed to increased tuition fees combined with a growth in overall enrolment, continued support from the Provincial Government, and growth in research. As the University returned to in person activities, ancillary services, including residences, improved considerably over the prior year.

- After reflecting changes in net assets, including transfers to internally restricted net assets and net assets invested in capital assets, the net unrestricted operating surplus is $4.0 million which decreases the accumulated unrestricted operating deficit to $4.8 million.

- The University's total assets increased by $32.4 million or 4%. This increase is largely attributed to an increase in the Cash and short-term investments balance, which increased by $40.3 million. This increase was offset primarily by a reduction in the long-term investments of approximately $10.9 million.

- Total net assets increased by $27.7 million or 8%. This change is largely the result of an increase in Internally Restricted Net Assets and the Endowed Net Assets as well as the decrease in the Accumulated Unrestricted Operating Deficit.

Basis of Accounting

The University's audited financial statements have been prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) as issued by the Chartered Professional Accountants of Canada (CPA Canada). 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, not-for-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 used for their intended purpose. This includes items such 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 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 (operating statement). The funds format financial statements are used throughout the year by the University's management to make day-to-day decisions on resource allocation and by the Board of Governors to assess performance against approved budgets.

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 (expensed) over their useful lives in the audited financial statements.

- Employee future benefits are expensed as incurred in the funds format financial statements but are reported on an actuarially determined accrual basis 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 sector 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:

- Operating – supports the University's core mission and includes teaching and administrative activities supported mainly by the unrestricted provincial operating grant; student tuition and fees; and certain ancillary revenues;

- 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

- 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.

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 2022 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 Consolidated Financial Statements, which 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 net assets, of approximately $7.3 million (2% of total revenues). This reflects all restricted and unrestricted activities of the University. The $7.3 million is then adjusted for the changes in net assets resulting from various internal and external restrictions that ultimately resulted in a decrease to the net accumulated unrestricted operating deficit of $4.0 million. The adjustments to the excess of revenues over expenses in 2021-22 were as follows:

- The excess of revenues over expenses increased by $4.4 million because of differences between the actuarially determined employee future benefit expense, the actual cash contributions made and the loss on the internal fund.

- The excess of revenues over expenses decreased by $3.0 million in the year due to a change in investments in capital assets. Specifically, there was $9.8 million in capital asset acquisitions funded from operations and $10.7 million in amortization of deferred capital contributions. These increases were offset by $16.4 million in amortization of capital assets and a net increase in external financing of $7.1 million.

- The excess of revenues over expenses decreased by $4.7 million because of an overall increase of internally restricted net assets. This increase is mainly the result of funds being set aside for future initiatives through the University's budget carry-forward policy, and an increase in contract overhead.

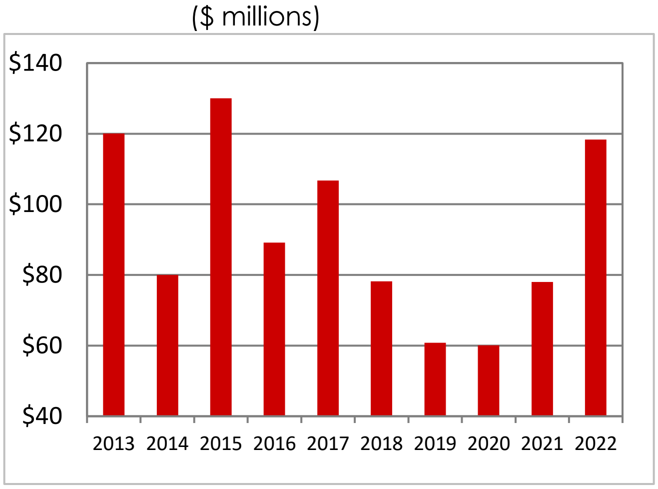
- After the above noted adjustments for changes in net assets, the Statement of Operations and Changes in Net Assets reports a net unrestricted operating surplus for the year of $4.03 million and a corresponding decrease in the University's accumulated unrestricted operating deficit from $8.87 million in 2021 to $4.84 million in 2022.

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, 2022 (with comparative balances). 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

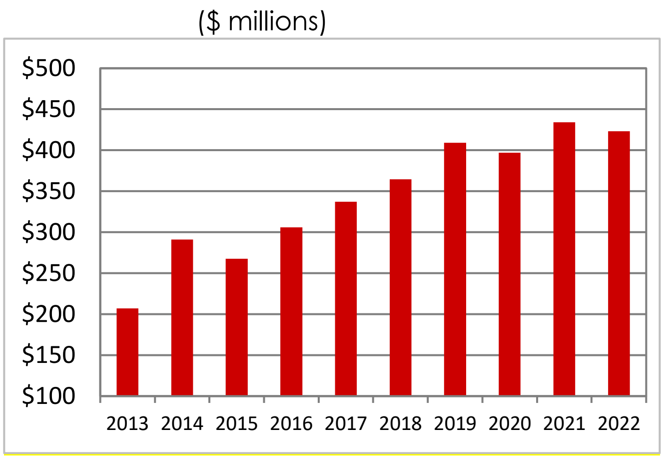


Description: Includes cash and short-term investments with maturity dates of less than 12 months. A large portion of the cash is invested in short-term, fixed income vehicles with an emphasis on preserving liquidity and capital. The remainder is invested over a longer investment horizon.

2022 Comments: The combination of cash and short-term investments increased by $40.3M for the fiscal year ending April 30, 2022. This increase is largely timing related. Costs incurred in the previous fiscal year (renovations to Joy Kidd) that were financed internally, were recovered externally in fiscal 2021-22. In addition, the University received its first operating grant payment, $13.3M, for the 2022-23 fiscal year in April 2022.

Trend: The year-end cash balance has fluctuated over the past ten years but remains strong. A key factor in the large balance is the fact that the research year ends in March and a significant portion of the new year's funding is received in April.

Long-term Investments

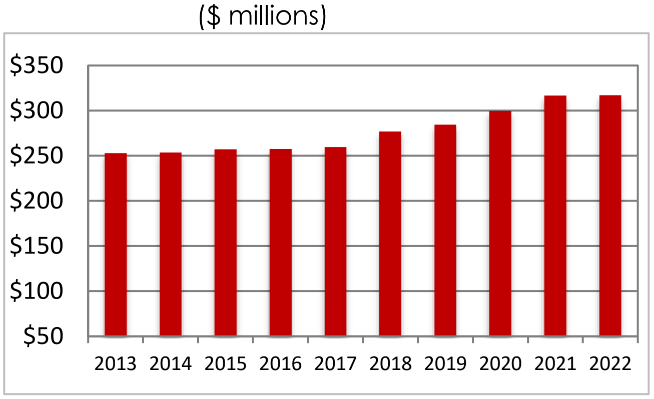


Description: Long-term investments primarily represent the assets of the Trust and Endowment Fund and specific purpose contributions held in trust. The investment pool assets are under the oversight of the Board of Governors Investments Committee. Long-term investments also include fixed income vehicles with maturity dates greater than 12 months.

2022 Comments: Long-term investments had a net decrease of $10.9M due to negative investment returns on the Long-term Investment Fund as well as expenditures from the Fund exceeding donations into the Fund. The Long-term Investment Fund had an annual investment return of (0.67)% compared to 18.69% in 2021.

Trend: The University's investments have performed well over the last ten years, but returns have been volatile since the pandemic.

Capital Assets

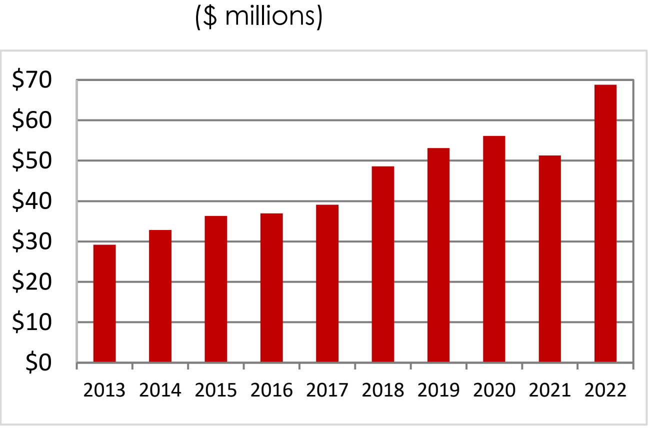


Description: Capital assets represent the undepreciated cost of University owned buildings, infrastructure, equipment, and other tangible assets used in University operations.

2022 Comments: The University had net capital asset acquisitions of $16.9M in 2021-22. This includes the work required to complete the Joy Kidd Residence, the Lady Dunn Residence, Toole Hall and the IUC Science podium and roof replacement.

Trend: Capital asset acquisition levels have been stable over the last number of years but are expected to grow as the University continues with residence renewals as well as plans for the Health & Social Innovation Centre, the Engineering and Computer Science renewal, the Law School renewal, and other capital infrastructure projects.

Current Liabilities

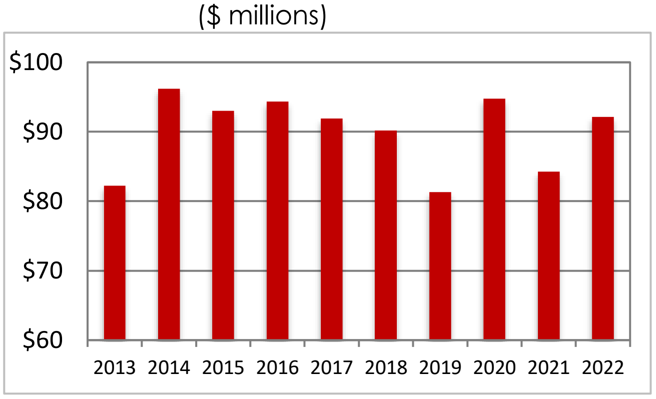


Description: Current liabilities are made up of accounts payable, accrued liabilities, unearned revenue, demand loans and the current portion of long-term debt.

2022 Comments: Current liabilities increased by $17.5M from 2021. This is mostly due to an increase in the current portion of unearned revenue which is largely related to the receipt of the first 2022-23 operating grant payment in April 2022. The amount received in advance was $13.3M. The remaining increase is due to an increase in deferred tuition revenue and trade payables.

Trend: Except for the 2020-21 fiscal year, current liabilities have been steadily increasing.

Long-Term Liabilities

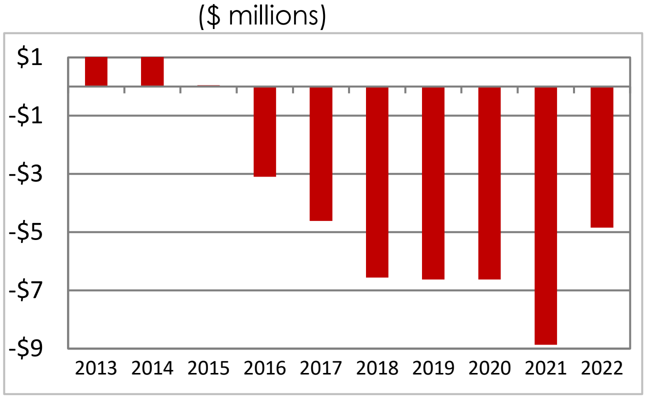


Description: Long-term liabilities consist of long-term debt and employee future benefits.

2022 Comments: In 2021-22, there was $9.3M of new debt issued for the Joy Kidd Residence resulting in an overall net increase to long-term debt of $6.9M. There was a $1.0M increase in the liability related to employee future benefits, this liability is determined annually by the University's actuaries.

Trend: The long-term liability balance has fluctuated over the last couple of years largely due to the fluctuations in the gains and losses experienced within the employee future benefits. Long-term debt is expected to increase as the University contemplates future capital projects and the funding sources for these projects.

Accumulated Unrestricted Operating Surplus (Deficit)

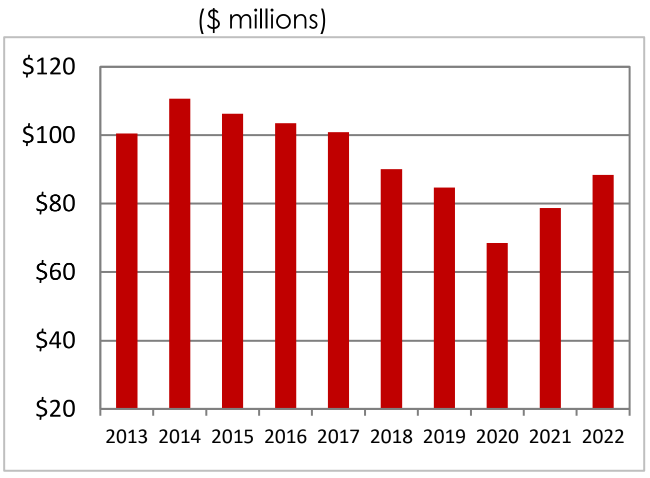


Description: This balance represents the accumulation of unrestricted operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual net unrestricted operating surplus or deficit.

2022 Comments: The University reported a net unrestricted operating surplus of $4.0M for fiscal 2021-22 which has decreased the accumulated unrestricted operating deficit to $4.8M.

Trend: This is the first time in the seven years that there has been a reduction in the accumulated unrestricted operating deficit. The accumulated deficit will only be reduced through the accumulation of surpluses or transfers from internally restricted net assets.

Internally Restricted Net Assets (IRNA)

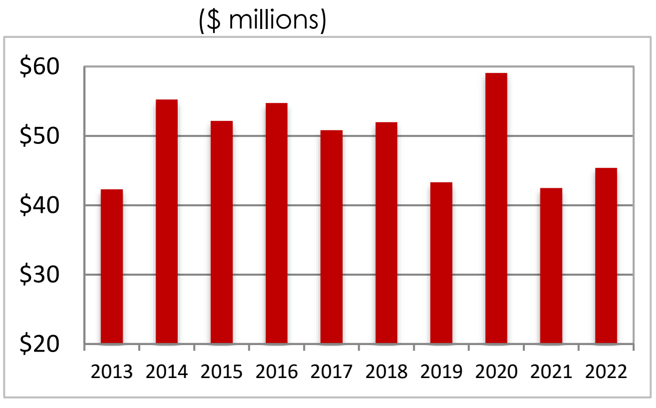


Description: This balance represents net assets that have been internally restricted based on the priorities established by the Board of Governors, management, faculties, and departments.

2022 Comments: The IRNA balance has increased by $9.7M from 2021. While there are variances in each individual category included within this balance, the most significant changes relate to an increase in internally restricted funds relating to the repayment of internal loans ($5.6M); transfers resulting from operating budget carry forwards ($3.2M); and an increase in contract overhead ($1.4M).

Trend: This balance will continue to fluctuate as funds are approved for internal loans and these internal loans are repaid. 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.

2022 Comments: The increase of $2.9M relates primarily to the in-year adjustments resulting from the updated actuarial valuations specifically related to the Academic Employees Shared Risk Pension Plan (AESRPP) and the retirement allowances and a net investment loss experienced in the internal fund associated with the early retirement plans.

Trend: The AESRP plan assets have been volatile since the start of the pandemic which has led to fluctuations in this balance.

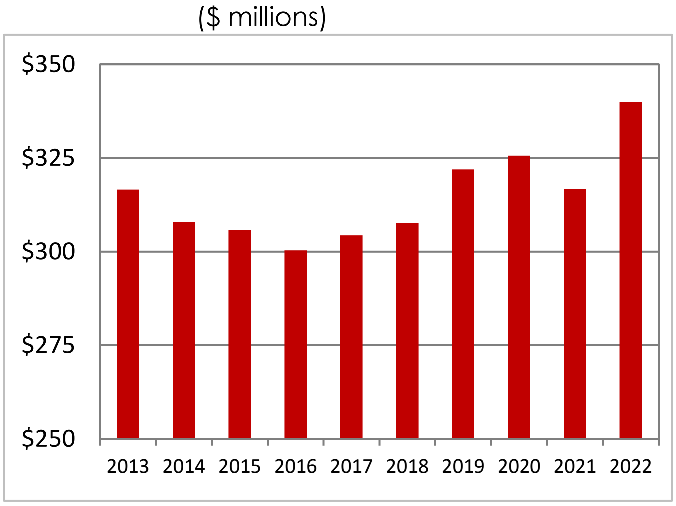
Analysis of Major items on the Consolidated Statement of Operations and Change in Net Assets

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 (including ancillary services) accounted for according to Accounting Standards for Non-Profit organizations. As previously discussed, these results are not merely a summation of the three funds because 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 grants and contracts, Investment income and Donations. Expenses are categorized according to function such as Instruction and non-sponsored research, Research grants and contracts, Plant operations, Administration and General, Student services, and Libraries. This presentation is consistent with prior years.

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

Total Revenue

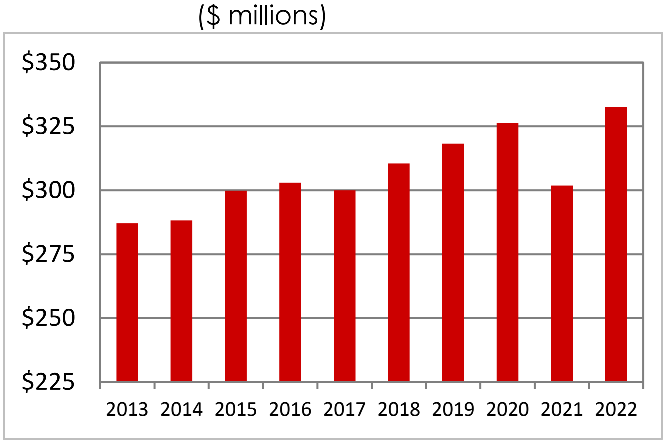


Description: Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when the funds are received.

2022 Comments: Total revenues increased by $22.0M (7%) from 2021. This increase is reflective of an increase in tuition fees and enrolment as well as increases in research grants and contracts and ancillary services (residences, food services, etc.). The increase in ancillary services is reflective of the return to in person activities.

Trend: Revenues have fluctuated over the past ten years. The changes in the major revenue stream components are discussed in subsequent sections.

Total Expenses

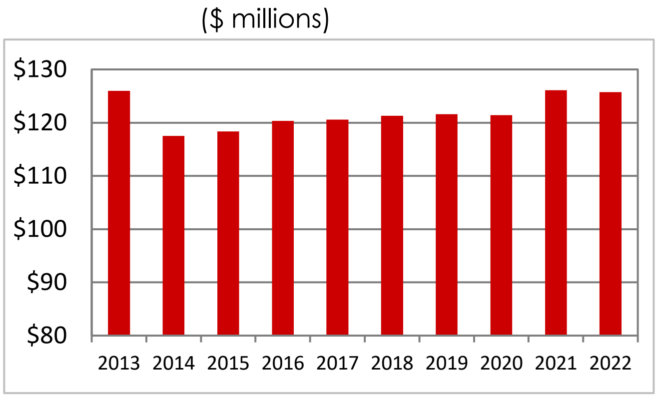


Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized (expensed) over their estimated useful lives.

2022 Comments: Total expenses increased by $29.6M (10%) from 2021. The largest increases were in Research Grants & Contracts and Ancillary Services, which saw comparable increases in revenue. Also contributing to this increase was an increase in expenses related to Instruction and Non-Sponsored Research, which includes the costs related to the academic shared risk pension plan.

Trend: With the exception of the prior year, the University's expenses have been steadily increasing. This is expected to continue as the University continues to grow.

Government Grants



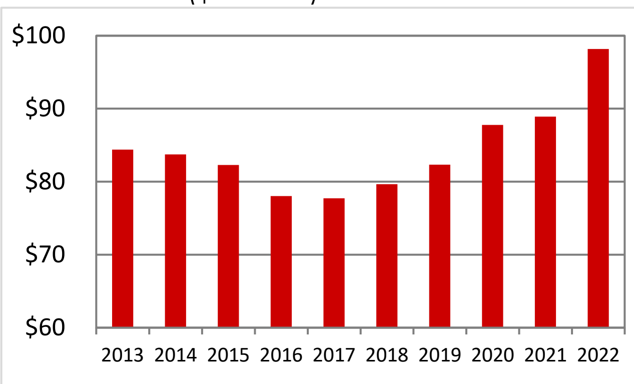
Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2022 Comments: While the provincial operating grant increased by 1% from 2021, total government grant revenue remained largely unchanged. Offsetting the increase in the operating grant was a change in the funding structure for government grants received for specific projects. Historically, the University had multiple years to spend certain restricted grants (non-space / alternation & renovation) but this changed in 2019-20 and as a result, the University was required to spend, previously deferred amounts and the amount of restricted grant revenue recognized was $1.7M less than 2020-21.

Trend: While there is uncertainty with respect to the province's long-term funding commitment, the Province extended the four-year Memorandum of Understanding, that expired at the end of the 2020-21 fiscal year, for fiscal 2021-22 with a 1% increase and has committed to a 1.5% increase to both the unrestricted and restricted operating grants for the 2022-23 fiscal year.

Tuition and Related Fees

($ millions)



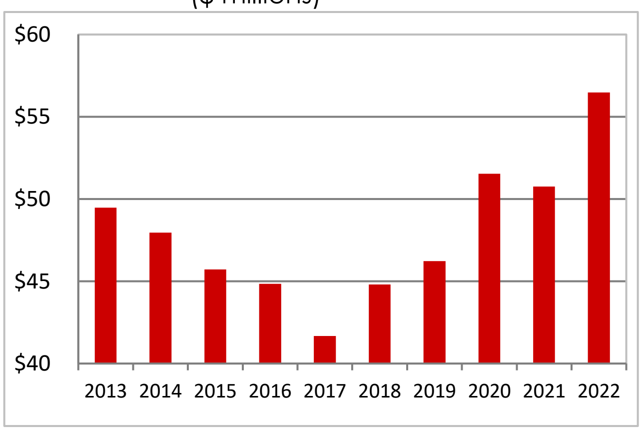
Description: Tuition and related fee revenues include tuition and other fees paid by students for specific purposes.

2022 Comments: Student fee revenue increased by $9.2M (10%) from 2021. This increase reflects an increase in enrolment and a 3% increase in tuition rates as well as the continued impact of the tuition reset that went into effect in 2019-20. The tuition reset, which applies only to new students, saw increases in tuition ranging from 5.45% to just under 25%. Legacy, those enrolled before 2019-20, have a tuition cap of 2%. Each year, there are fewer legacy students and more students paying the reset tuition amounts.

Trend: Growth in tuition and related fees is expected to continue. In the 2022-23 fiscal year, tuition fees increased by 4.5%. Enrolment is also expected to increase as the University continues to move forward with its Strategic Vision, *UNB Towards 2030.*

Research Grants and Contracts

($ millions)



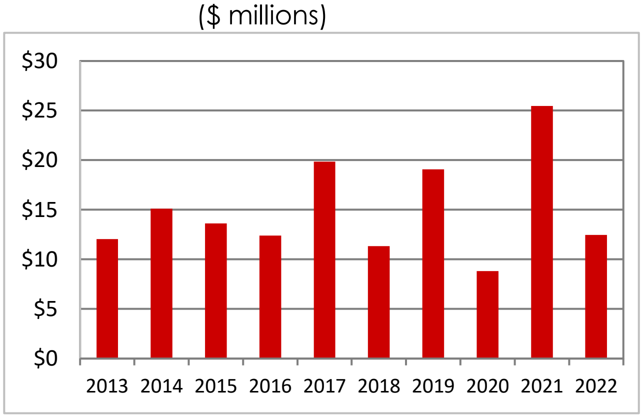
Description: Research grants and contracts revenue is received from governments, agencies, and companies for research and specific projects. Amounts received are deferred until spent for the project or the project is completed.

2022 Comments: Research grants and contracts revenue increased by $5.7M (11%) from 2021. This increase is reflective of the ongoing activity related to various initiatives, including the Smart Grid Centre, the McKenna Institute, Canadian Institute for Cybersecurity, Experiential Education, and Provincial funding for labour market initiatives.

Trend: The expectation is that research and other contract revenue will continue to grow as the University continues to implement its Strategic Vision *UNB Toward 2030* which includes aspirations to double the annual value of the University's research grants and contracts.

Investment Income

($ millions)



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

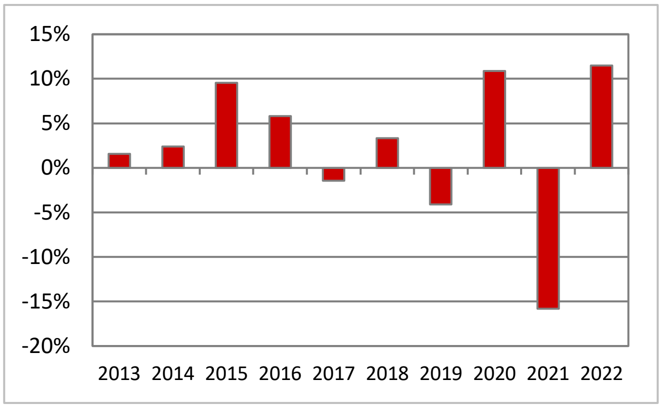
2022 Comments: Investor uncertainty surrounding Russia's invasion of Ukraine, and monetary tightening by central banks to control rising inflation resulted in significant volatility in the markets to close out the 2021-22 fiscal year. As a result, the University's Long-term Investment Fund earned (0.67)% for the year, compared to 18.69% for 2020-21.

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 of Governors 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

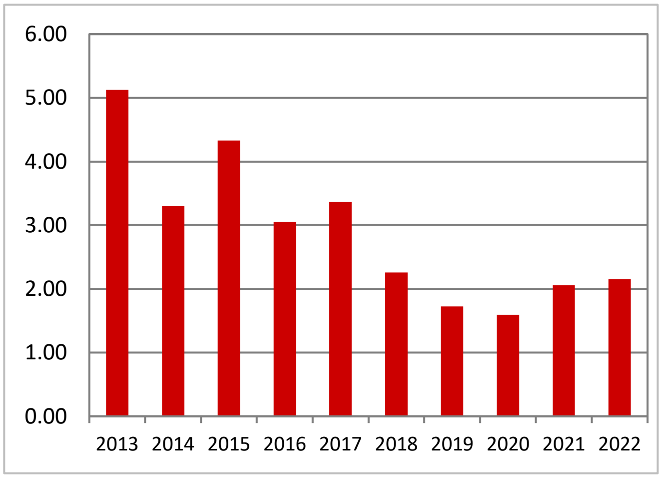


Description: This shows the growth/decline in actual operating expenses per student. Under normal circumstances a stable or declining percentage is preferred.

2022 Comments: The change in this indicator is reflective of the impact of COVID-19 on the University's operations. In the 2020-21 fiscal year, operating expenses declined by approximately $50.0M. With the return to on campus activity in 2021-22, operating expenses increased by approximately $35.4M. This includes increases in ancillary services. The increase in operating expenses was approximately 17% while enrolment increased by only 5%.

Trend: Growth in operating expenses per student has fluctuated over the last ten years and was expected to stabilize as the University moved to a balanced budget before the pandemic. The effects of COVID-19 have created continuing fluctuations in 2021-22.

Working Capital Ratio

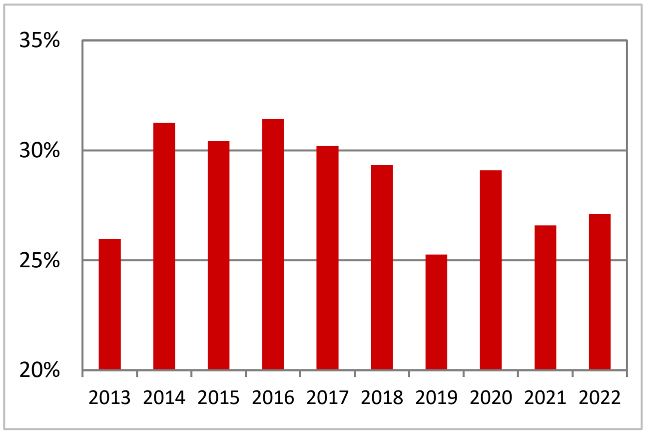


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity. A ratio of 3 or more is very strong.

2022 Comments: This ratio improved slightly from 2.1 in 2021 to 2.2 in 2022. This is reflective of an increase in both the current assets and current liabilities, specifically an increase in cash & cash equivalents and in the current portion of unearned revenue.

Trend: This ratio will fluctuate because of timing differences affecting both current assets and current liabilities as well as decisions by management specifically as it relates to the financing arrangements for capital projects.

Long-term Liabilities as a percentage of Total Revenue



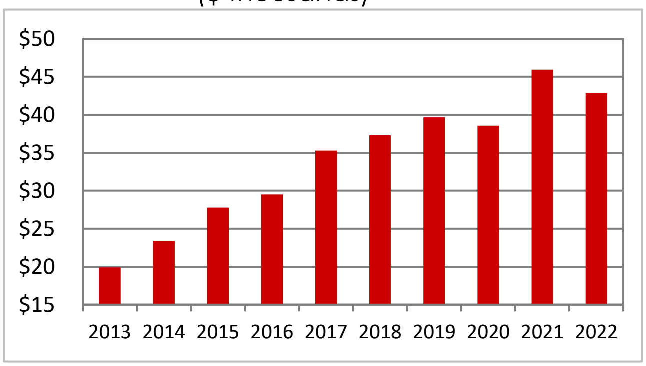
Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2022 Comments: This indicator increased minimally (0.6%) in 2021-22 from 26.6% to 27.2%. This is in line with the prior year and is reflective of an increase in both the long-term liabilities (9% growth) and an increase in revenues (7% growth).

Trend: Apart from 2019, this measure has fluctuated between 26.0% and 31.4% over the past ten years. The percentage increased in 2014 when the Academic pension plan was converted to a shared risk plan. This measure is expected to fluctuate as the University executes its growth plan while it continues with residence renewal and other capital infrastructure projects.

Endowment and Trust Funds per FTE Student

($ thousands)

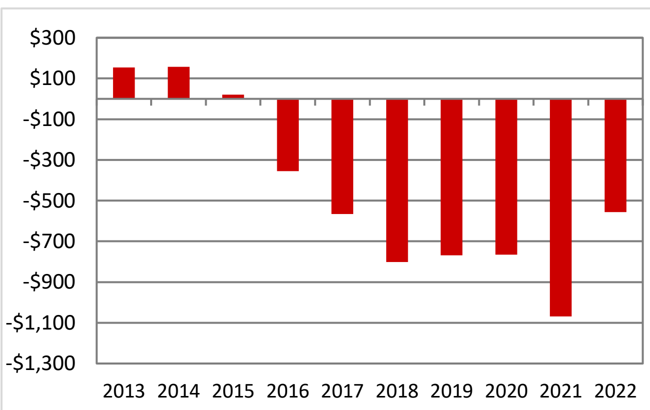


Description: This indicator shows the value of the endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2022 Comments: The endowment and trust fund assets per student decreased in 2021-22 by just over $3.0K to $42.8K per student. This decrease was the result of both an increase in enrolment and a decrease in the market value of assets.

Trend: This financial indicator is impacted by the market value of trust and endowment assets, which has experienced volatility in recent years.

Accumulated Unrestricted Operating (Deficit) Surplus per FTE Student



Description: This indicator is intended to measure the deficit burden that must be supported by each student.

2022 Comments: The accumulated unrestricted operating deficit decreased by $4.0M from 2021 and with an increase in enrolment, the deficit burden per student decreased from $1,068 per student to $556 per student.

Trend: This indicator will continue to improve as enrolment increases, surpluses are applied to the accumulated deficit, and / or a decision is made to transfer internally restricted net assets to cover the accumulated deficit 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 other universities due to the age of many campus buildings. As such, deferred maintenance is an ongoing challenge, as annual capital spending is not sufficient to maintain the University's current infrastructure. Estimated at $315 million (Fredericton Campus $295 million, Saint John Campus $20 million), the accumulated deferred maintenance balance at UNB remains a major concern. Annual spending is not sufficient to keep up with required maintenance.

There is currently an annual shortfall in funding for deferred maintenance of approximately $19.8 million. This target, calculated at 2.4% of the current replacement value, is a minimum target to stop the increasing backlog and risk profile. Additional funding would be required to also address the existing deferred maintenance balance.

The following tables provide additional information.

Campus	Total Area (Sq. Ft)	Avg. Age of Buildings (Years)	Current Replacement Value ($millions)	Deferred Maintenance ($millions)	Facilities Condition Index*
Fredericton	2.6M	61.0	1,146	295	26%
Saint John	0.7M	39.8	220	20	9%
Total	3.3M		1,366	315	23%

* Deferred maintenance divided by current replacement value.
A value greater than 10% is considered poor.

The calculation of the annual shortfall in spending, to address deferred maintenance, is based on an annual spending rate of 2.4% which was identified in Sightlines' historic study using functional obsolescence targets. Historically, the University has also reported on the "APPA: Leadership in Educational Facilities" recommendation which is a range from 2.0% to 4.0% of current replacement value. It's important to note however, that they exclude major infrastructure (e.g. utility distribution lines, central utility plants, etc.) and as a result, are not part of the current year's analysis.

Building and Space Budget for 2021-22*	($millions)
Fredericton Campus**	11.8
Saint John Campus	1.2
Total	13.0
Historic Sightlines studies recommended annual spending of 2.4% of replacement value***	32.8
Shortfall	(19.8)

* 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.

** Includes renewal funding budgeted from the residence system.

*** The 2.4% is a minimum target to stop the increasing backlog and risk profile.

While there are significant challenges ahead, it is important to recognize that there are several capital projects that are ongoing and in the planning phases that will address considerable amounts of deferred maintenance. These projects include the Engineering & Computer Science renewal project, the Health and Social Innovation Centre, ongoing residence renewal and the renewal of the Law School.

As the University continues to execute its Strategic Vision which includes creating a modern, integrated and sustainable UNB, the reduction of deferred maintenance remains a priority as the University aspires to reduce this liability by 50% by 2030.

Supplementary Information

Donation Revenue

As stated earlier, the University follows not-for-profit accounting standards as established by 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.

In accordance with these accounting standards, donations are recorded in the financial statements as follows:

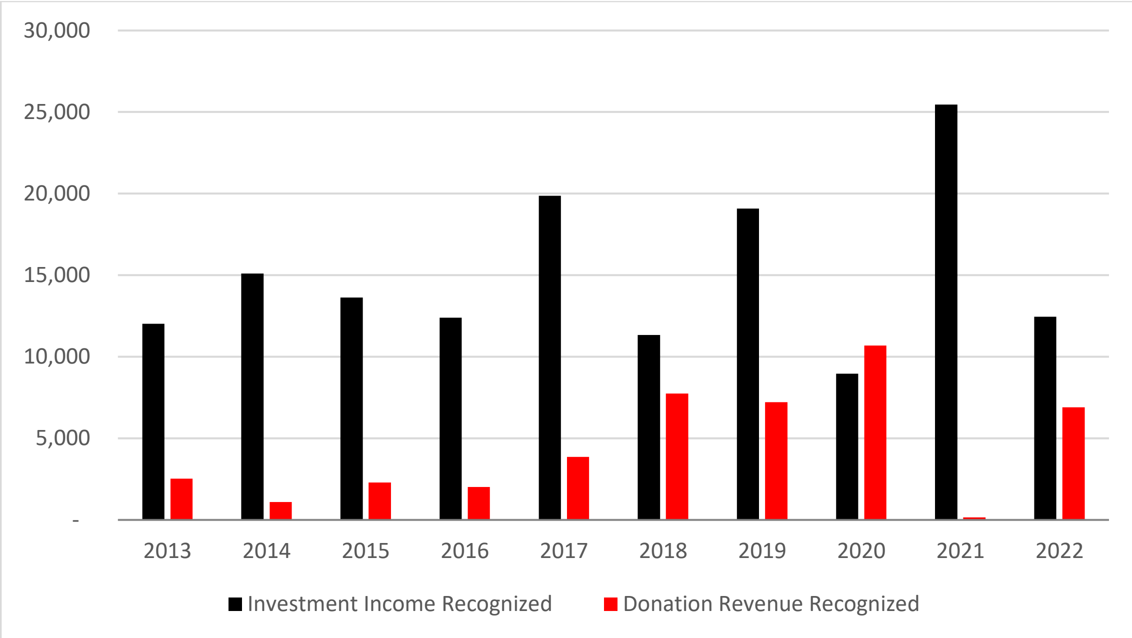
- Unrestricted donations are recorded as revenue when received
- Restricted donations are recorded as revenue when the related expenditures are incurred
- Unspent restricted donations are recorded as liabilities (unexpended deferred contributions or deferred capital contributions)
- Endowed donations are not recorded as revenue but are added directly to Endowed Net Assets.

In addition, the University has a practice of spending the investment income earned on a restricted donation before spending the original donation received. This practice impacts the amount of investment income and donation revenue recognized in any given year.

For the fiscal year ending April 30, 2022, the University received $16.7 million in donation revenue however only $6.9 million was recognized on the Consolidated Statement of Operations and Changes in Net Assets. Of the $9.8 million difference, $6.7 million was reported as a direct increase to the Endowed Net Assets because of donor stipulations requiring the funds to be held in perpetuity and $3.1 million was reported as Unexpended Deferred Contributions and will be recognized as revenue when the funds are spent in accordance with the external restrictions.

The amount of donations deferred and ultimately, the amount of donation revenue recognized, directly relates to the investment income earned. As noted above, the Long-term Investment Fund earned (0.67)% for the year, which meant the investment income earned in 2021-22 was not sufficient to meet the University's Trust and Endowment spending requirements. As a result, more donation revenue was recognized including donations that had been previously deferred.

The chart below illustrates and compares the investment income and donation revenues recognized over the last ten years.



Internally Restricted Net Assets

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, risk mitigation reserves, etc.) or according to a University policy or practice (operating budget carry forwards, contract overhead, surpluses in non-core operations, etc.).

From an accounting and reporting perspective, this means the amounts are first recognized as revenue in the Consolidated Statement of Operations and then internally restricted and reported as internally restricted net assets on the Consolidated Statement of Financial Position. The University established these protocols to incent wise resource utilization; to provide a tool to facilitate long-term planning of programs and initiatives; to allow savings to accumulate over several 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 April 30, 2022 audited financial statements, the University reported $194.9 million in unspent deferred contributions (externally restricted amounts received for specific purposes), $149.9 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), $88.4 million in internally restricted net assets (restricted by a policy of the Board of Governors or a decision for specific purposes), and $215.9 million in endowed net assets ($202.4 million externally endowed and $13.5 million internally endowed). Endowed net assets 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. Total internally restricted net assets as of April 30, 2022, were $88.4 million compared to $78.7 million as of April 30, 2021.

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 (2022 - $29.8M / 2021 - $29.4M*) – these funds come from various sources such as the land development and lease revenue; facility fees and technology fees charged to students; as well as ancillary revenues set aside for future residence capital renewal 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 to address the very serious issue of accumulated deferred maintenance.

	$ millions		
CAPITAL	**2022**	**2021**	**Change**
Infrastructure Renewal Projects	13.2	11.4	1.8
Funds from Land & Lease Transactions	3.7	3.7	0.0
Health & Social Innovation Centre	3.4	3.6	-0.2
Fredericton Residence Renewal & Ancillary Projects Fund	2.9	3.8	-0.9
Currie Center Future Maintenance Fund	2.4	2.2	0.2
Tweedale Centre*	1.1	1.6	-0.5
Klohn Commons Future Maintenance Fund	1.0	1.1	-0.1
Engineering Program Fund Projects	0.7	0.6	0.1
Saint John Residence Renewal Fund	0.7	0.5	0.2
Alumni Memorial Building Renovation	0.5	0.5	0.0
FR-Facilities Management Fleet Renewal	0.4	0.4	0.0
Saint John VOIP Project 14-15	0.3	0.3	0.0
Tech Fee Program	0.2	0.4	-0.2
Central Heating Plant Wood Boiler Design	0.1	0.4	-0.3
Fredericton Kinesiology Building	-1.4	-1.5	0.1
Various Others	0.6	0.4	0.2
TOTAL CAPITAL	**29.8**	**29.4**	**0.4**

*In previous years, the Tweedale Centre was incorrectly reported as part of Scholarships, Bursaries and Other Awards. The funds set aside for the Tweedale Centre originated from a land sale in 1986. The excess funds from that sale, were internally restricted to cover future costs associated with the Centre.

Risk (2022 - $10.0 M / 2021 - $11.1 M) – 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.

	$ millions		
RISK	**2022**	**2021**	**Change**
Short Term Investment Fund Reserve	3.3	3.6	-0.3
Vice President Contingencies	2.9	2.3	0.6
Employer Rate Stabilization Reserve	2.2	3.6	-1.4
Insurance Reserves	1.1	1.1	0.0
Disabled Life Premium	0.5	0.5	0.0
TOTAL RISK	**10.0**	**11.1**	**-1.1**

Entrepreneurial (2022 - $14.9M / 2021 - $14.3M) – 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. 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.

	$ millions		
ENTREPRENEURIAL	**2022**	**2021**	**Change**
SJ - MBA Program	2.3	0.9	1.4
SJ - Nursing Reserve	0.9	3.3	-2.4
Biomedical Institute	0.9	0.9	0.0
Limerick Pulp & Paper Centre	0.8	0.5	0.3
NB Institute for Research, Data & Training	0.6	0.4	0.2
Canadian Rivers Institute	0.4	0.4	0.0
Atlantic Innovation Fund	0.4	0.3	0.1
Laboratory for Forest Soils & Environment Quality	0.4	0.3	0.1
Research Royalties	0.3	0.4	-0.1
Q1 labs - Researcher Portion	0.3	0.2	0.1
Engineering Program Differential	0.2	0.4	-0.2
Faculty of Education - Trinidad & Tobago	0.2	0.2	0.0
Various Others	7.2	6.1	1.1
TOTAL ENTREPRENEURIAL	**14.9**	**14.3**	**0.6**

Specific Projects (2022 - $10.6M / 2021 - $9.5M) – 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 can accumulate to eventually be used for their intended purpose.

	$ millions		
SPECIFIC PROJECTS	**2022**	**2021**	**Change**
Engineering Program Fees	3.0	2.5	0.5
SJ - Committed Strategic Projects	1.6	0.0	1.6
Administrative Leaves/Searches	0.8	1.0	-0.2
Budget Deferrals	0.7	1.1	-0.4
Ongoing Position Returns	0.6	0.6	0.0
Vice President Academic (F) College of Extended Learning	0.6	0.6	0.0
COVID-19 Provision	0.3	0.3	0.0
Library Acquisitions	0.3	0.2	0.1
Various Others	2.7	3.2	-0.5
TOTAL SPECIFIC PROJECTS	**10.6**	**9.5**	**1.1**

<u>Strategic Priorities (2022 - $9.6M / 2021 - $9.0M)</u> - the funds in this category have come from one-time operating items including HST rebates and operating surpluses.

	$ millions		
STRATEGIC PRIORITIES	**2022**	**2021**	**Change**
Operating Deficit Support Fund	7.7	6.4	1.3
FR - Academic Development Fund	0.9	1.1	-0.2
SJ - Academic Development Fund	0.5	0.9	-0.4
Unallocated One Time Priorities	0.4	0.3	0.1
Various Others	0.1	0.3	-0.2
TOTAL STRATEGIC PRIORITIES	**9.6**	**9.0**	**0.6**

<u>Operating Budget Carry Forwards</u> (2022 - $14.1M / 2021 - $10.9M) – there is a Board approved policy that allows academic and operational units to "carry forward" any unspent non-salary budget, 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 monies to fund larger projects that would not otherwise be possible through regular annual operating budgets.

	$ millions		
OPERATING BUDGET CARRY FORWARDS	**2022**	**2021**	**Change**
Canadian Institute for Cybersecurity	0.4	0.2	0.2
FR-College of Extended Learning	0.2	0.2	0.0
FR-Facilities Management	0.8	0.5	0.3
FR-Faculty of Arts	0.6	0.4	0.2
FR-Faculty of Computer Science	0.4	0.3	0.1
FR-Faculty of Education	0.6	0.4	0.2
FR-Faculty of Engineering	0.4	0.4	0.0
FR-Faculty of Kinesiology	0.5	0.3	0.2
FR-Faculty of Management	0.4	0.3	0.1
FR-Faculty of Nursing	0.4	0.3	0.1
FR-Faculty of Science	0.6	0.5	0.1
FR-Student Services	0.7	0.6	0.1
FR-Vice-President Academic (Fredericton)	1.6	1.2	0.4
SJ-Faculty of Science, Applied Science & Engineering	0.4	0.2	0.2
SJ-Vice President	0.7	0.5	0.2
UW-Information Technology Services	0.7	0.3	0.4
UW-President - Special Projects	1.6	1.5	0.1
UW-School of Graduate Studies	0.7	0.5	0.2
UW-University Comptroller	0.4	0.5	-0.1
UW-Vice-President (Advancement)	0.3	0.4	-0.1
Various Others	1.7	1.4	0.3
TOTAL OPERATING BUDGET CARRY FORWARDS	**14.1**	**10.9**	**3.2**

Scholarships, Bursaries and Other Awards (2021 - $6.3M / 2021 - $6.7M*) – these amounts arose from donations and internally restricted income and contain un-awarded operating funds set aside for scholarships, bursaries, and other student assistance in addition to a limited number of internally restricted scholarship trust funds that were designated by the Board from allocations of unbudgeted proceeds from land sales. These funds are not available for general operating expenses.

*In previous years, the Tweedale Centre was incorrectly reported as part of Scholarships, Bursaries and Other Awards. The funds set aside for the Tweedale Centre originated from a land sale in 1986. The excess funds from that sale, were internally restricted to cover future costs associated with the Centre.

Contract overhead (2022 - $8.1M / 2021 - $6.7M) – 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. The University policy provides that at least 40% of overhead payments are to be retained by the department undertaking the project 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 and to the Vice President Research for research initiatives and graduate training programs.

Internal loans (2022 - $9.5M/ 2021 - $15.1M) – 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		
Internal Loans	**2022**	**2021**	**Change**
Central Heating Plant Boiler Project	-6.7	-7.3	0.6
Firewall Replacement	-1.3	0.0	-1.3
AUC Ice Plant Renewal	-0.7	-0.8	0.1
Central Heating Plant Generator	-0.5	-0.5	0.0
VOIP Recovery	-0.2	-0.3	0.1
Enterprise Network Storage	-0.1	-0.1	0.0
HIL Library Infrastructure	0.0	-0.2	0.2
DKT Residence Renewal Projects	0.0	-5.9	5.9
TOTAL Internal Loans	**-9.5**	**-15.1**	**5.6**

Energy management (2022 – $5.5M / 2021 – $3.8M) – the energy management program provides a source of financing for projects that control and reduce energy consumption. The program was established in 1997 with approval from the Board of Governors. Projects are approved, through an established committee, with the expectation that, through utility cost avoidance, the project cost would be recovered in five to eight years.

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 (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.

As noted above, certain amounts that are centrally controlled have been reallocated to the Deficit Support Fund to be maintained as a contingency for future years' deficits. The change in the current year's Deficit Support Fund is outlined on the next page.

Deficit Support Changes in 2022				$ Millions
Opening Balance 2022				6.38
Less:	**Transfers from Deficit Support Fund in the year**			
		Strategic Priorities		
			Operating Deficit Support Fund	-0.76
Add:	**Transfers to Deficit Support Fund in the year**			
		Entrepreneurial		1.76
		Operating Budget Carry Forwards		0.22
		Specific Projects		0.06
Closing Deficit Support Balance 2022				7.66

Accounting for the Shared Risk Pension Plan

The former academic pension plan (AEPP) was converted to a shared risk plan (AESRP) 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 that a change was required to make the plan sustainable. A shared risk 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 at April 30, 2022 is $12.9 million, which is an increase of approximately $5.9 million from 2021. This change is largely attributed to the actual return on assets being less than the discount rate. Over the last number of years, this amount has fluctuated considerably as the market value of the underlying assets have fluctuated throughout the pandemic.

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.

Non-Pension Employee Benefit Costs

The University operates several cost shared employee benefit plans including health & dental, group life family protection, and long-term disability (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 $20,000 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 appropriately 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 in certain specific circumstances. The liabilities relative to these programs are detailed in Note 11 to the financial statements.