COMPTROLLER'S REPORT

For the Year Ended April 30, 2020

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Comptroller

EST. 1785

UNIVERSITY OF NEW BRUNSWICK

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Executive Summary

This report offers commentary on the University of New Brunswick's (hereinafter "University") financial statements and should be read in conjunction with the University's consolidated financial statements and accompanying notes (hereinafter "financial statements") for the year ended April 30, 2020. 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.

While the 2019-20 fiscal year, financially, was largely unaffected by COVID-19, it is important to recognize that there is considerable uncertainly facing the University, and the World, as we continue to react and adjust to the unprecedented effects of COVID-19.

With that in mind, the major highlights of the 2019-20 financial statements include:

- The University's expenses exceeded revenues by $768 thousand.

- After reflecting changes in net assets, there is no change to the accumulated unrestricted operating deficit of $6.6 million.

- The University's total assets increased by $315 thousand. While the overall change was not significant, certain individual changes are worth noting. Specifically, capital assets increased by approximately $13.8 million, reflecting the on-going residence projects on both campuses. This includes the new Barry and Flora Beckett Residence on the Saint John campus and the renovations to Tibbits Hall, Lady Dunn Hall and Joy W. Kidd House on the Fredericton campus. Offsetting this increase is a reduction in the long-term investments of approximately $12.3 million which is largely due to negative investment returns realized as the markets' reacted to the global pandemic.

- Total net assets decreased by $6.9 million, from $327.8 million to $320.9 million. This change is largely the result of an increase in the Unfunded Employee Benefits created by the remeasurement loss on the Academic Employee Shared Risk Pension Plan and an increase in the post retirement liabilities. In addition, there was a reduction in Internally Restricted Net Assets as the University continues to use these funds to offset the operating deficit and reserve funds are used as capital projects progress. Offsetting these negative changes are increases in the Net Assets Invested in Capital Assets and an increase in the Endowed net assets.

Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2020 have been prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) 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, 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 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 2020 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 expenses over revenues before changes in net assets, of approximately $768 thousand (0.2% of revenues). This reflects all restricted and unrestricted activities of the University. The $768 thousand is then adjusted for the changes in net assets resulting from various internal and external restrictions that ultimately result in no change to the net accumulated unrestricted operating deficit of $6.6 million. While there was no change to the accumulated unrestricted operating deficit, the $768 thousand is adjusted through the changes in net assets as outlined below:

- The excess of expenses over revenues decreased by $767 thousand 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 expenses over revenues increased by $12.1 million in the year due to an increase in investments in capital assets. The increase resulted from $17.6 million in capital asset acquisitions funded from operations and $10.2 million in amortization of deferred capital contributions. These increases were offset by $15.0 million in amortization of capital assets and a net increase in external financing of $747 thousand.

- The excess of expenses over revenues decreased by $12.1 million because of an overall reduction of internally restricted net assets. This reduction is mainly the result of a transfer of $6.6 million to offset the current year's operating deficit, a net decrease in the capital reserves of $3.9 million and an increase in the internal loans of 3.1 million. These larger decreases were offset by increases in contract overhead of $1.7 million and operating budget carry forwards of $0.4 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 no change in the University's accumulated unrestricted operating deficit of $6.6 million.

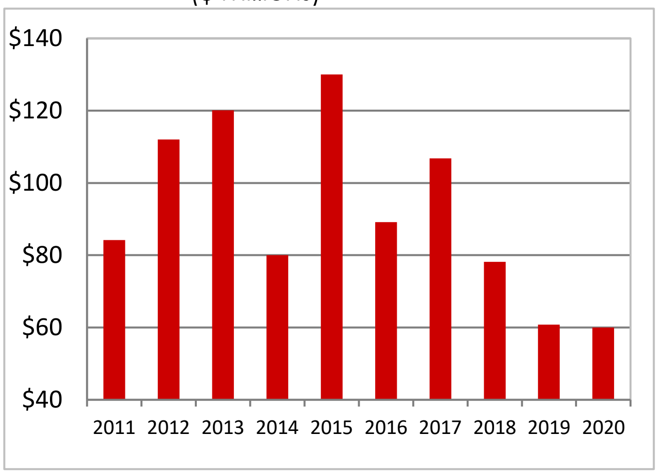
Analysis of Major items on the Consolidated Statement of Financial Position

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, 2020 (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

($ millions)



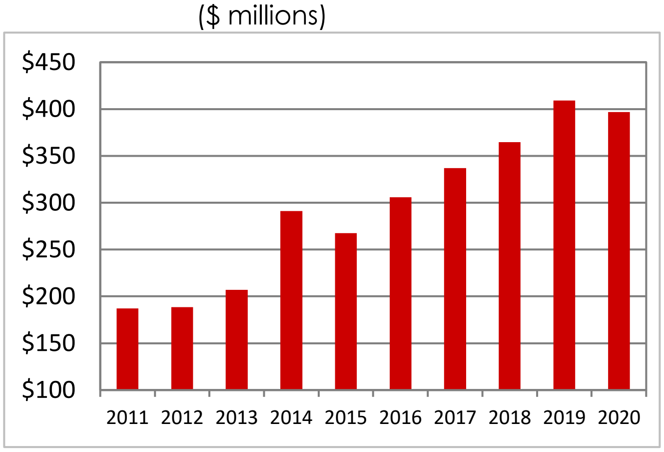
Description: Includes cash and short-term investments with maturity dates of less than 12 months. A large portion of the cash is invested in short-term, fixed income vehicles with an emphasis on preserving liquidity and capital. The remainder is invested over a longer investment horizon.

2020 Comments: The combination of cash and short-term investments remained steady between fiscal years ending April 30, 2019 and April 30, 2020.

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

($ millions)



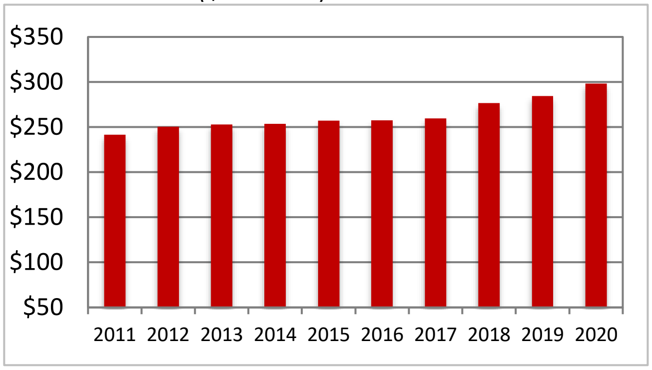
Description: Long-term investments primarily represent the assets of the Trust and Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investments Committee. Long-term investments also include fixed income vehicles with maturity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

2020 Comments: Long-term investments decreased by $12.3M due to negative investment returns on the Long-term Investment Fund and the movement of certain fixed income holdings from long-term investments to short-term investments, as the maturity dates are now less than 12 months. The Long-term Investment Fund had an annual investment return of (1.14) %, which was below the investment policy benchmark of 0.67%. Over the long-term, the returns continue to exceed what is needed to maintain the 4% spending rate.

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

Capital Assets

($ millions)



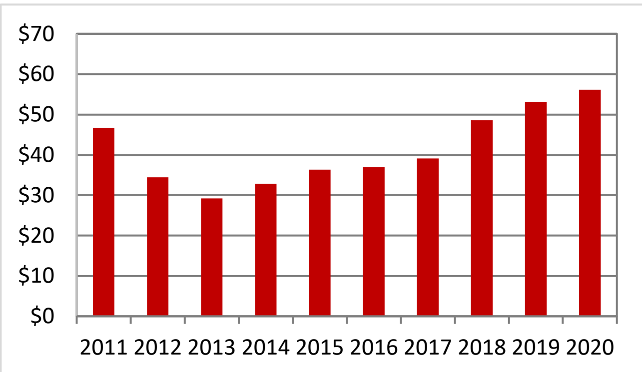
Description: Capital assets represent the undepreciated cost of University owned buildings, infrastructure, equipment, and other tangible assets used in University operations.

2020 Comments: The University had net capital asset acquisitions of $28.7M in 2020. This includes work in progress related to the Harriet Irving Research Commons, residence renewal on the Fredericton campus and the new Barry and Flora Beckett residence on the Saint Campus.

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

Current Liabilities

($ millions)



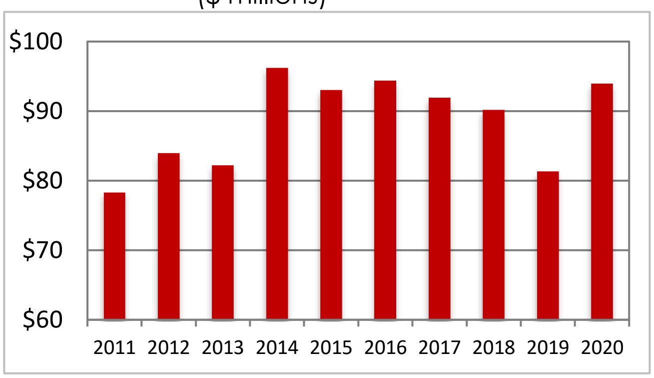
Description: Current liabilities are made up of accounts payable, accrued liabilities, unearned revenue, demand loans and the current portion of long-term debt.

2020 Comments: Current liabilities increased overall by $3.0M from 2019. This is mostly due to an increase in unearned revenue ($2.5M) and the demand loan ($2.4M) related to the renovations of the Lady Dunn residence. These increases were offset by a decrease in accounts payable and accrued liabilities related primarily to the repayment of the advances received under the Provincial nursing agreement ($5.6M) offset by an increase in payroll liabilities.

Trend: While current liabilities have been steadily increasing, the subsequent distribution of the employee rate stabilization surplus and the retroactive pay to the Professional & Technical Staff Union members, current liabilities are expected to decrease in 2020-21.

Long-Term Liabilities

($ millions)

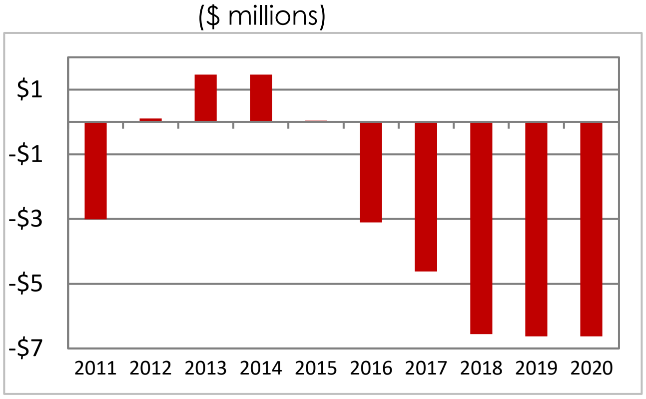


Description: Long-term liabilities consist of long-term debt and employee future benefits.

2020 Comments: With no new long-term debt issued in the year, long-term debt decreased by $1.6M as principle payments were made. There was however a considerable change ($14.2M) in the employee future benefits related mainly to the valuation of the Academic Employee Shared Risk Pension Plan (AESRPP) and the post-retirement benefits liability.

Trend: Overall, long-term debt is expected to increase as components of the residence renewal are completed and internal loans and short-term liabilities are converted to long-term external debt.

Accumulated Unrestricted Operating Surplus (Deficit)

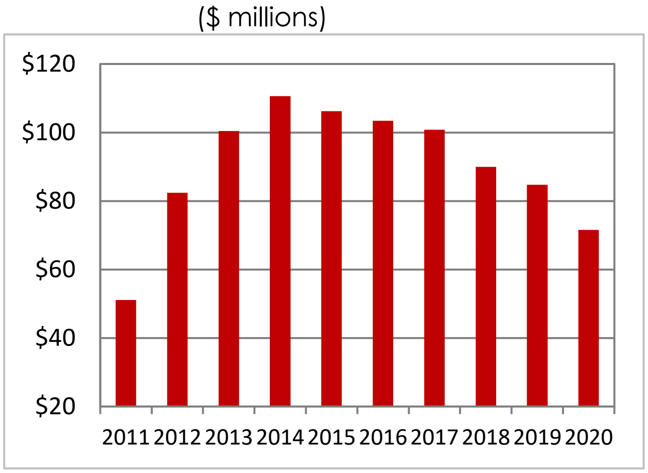


Description: This balance represents the accumulation of unrestricted operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual net unrestricted operating surplus or deficit.

2020 Comments: After transfers from internally restricted net assets, the University reported no in-year change to the accumulated unrestricted operating deficit.

Trend: Over the last three years, there has been minimal change to the accumulated unrestricted deficit. 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

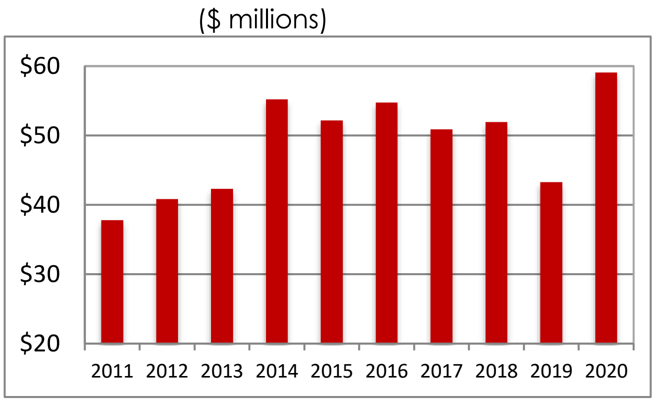


Description: This balance represents net assets that have been internally restricted based on the priorities established by the Board of Governors, management, faculties, and departments.

2020 Comments: The IRNA balance has decreased by $12.4 million from 2019. While there are variances in several individual accounts included in this balance, the most significant use of funds was the $6.6 million applied against the 2019-20 operating fund deficit. In addition to this transfer, there were a number of capital projects completed or in progress during the year for which IRNA funds were applied.

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.

2020 Comments: The increase of $16.6M relates primarily to the in-year adjustments resulting from the updated actuarial valuations and specifically, the unrealized loss on the academic employee shared risk pension plan (AESRPP) along with changes to the post-employment benefits.

Trend: The significant in year change was mainly the result of unfavorable returns on the AESRPP plan assets. The plan experienced the opposite effect in the prior year which is contributing the more significant in year change.

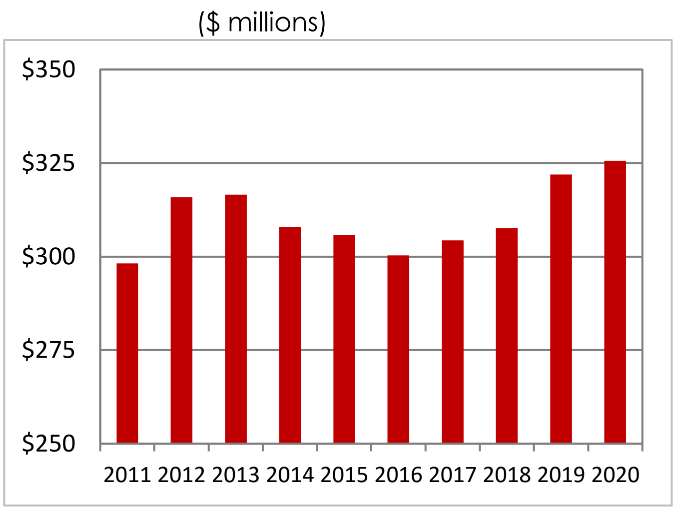
Analysis of Major items on the Consolidated Statement of Operations and Change in Net Assets

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 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



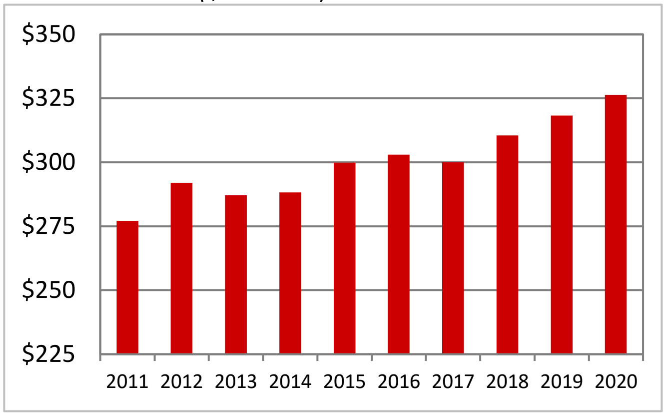
Description: Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when they are received.

2020 Comments: Total revenue increased by $3.7M (1%) from 2019. The changes in the major revenue stream components are discussed in the subsequent tables.

Trend: Revenues have fluctuated over the past ten years, with total growth at approximately 10%. While there is uncertainty created by COVID-19, the University is moving forward with its strategic vision and expects revenues to continue to grow.

Total Expenses

($ millions)



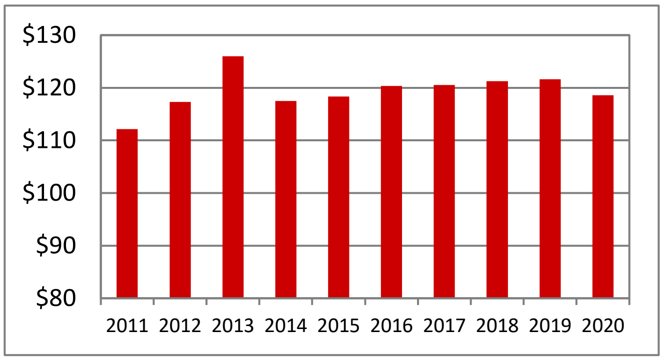
Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their estimated useful lives and amortization expense is included in annual expenses.

2020 Comments: Total expenses increased by $8.1M (2.5%) from 2019. The largest increase was in Employee Future Benefits which includes expenses related to retirement allowances, post-employment benefits, early retirement plans, etc.

Trend: Expenses have grown over the past ten years by $49M (17.8%) and while the University's expenses are reported by function, the most significant expense category is payroll. Salary and payroll related decisions are often governed by collective agreements.

Government Grants

($ millions)



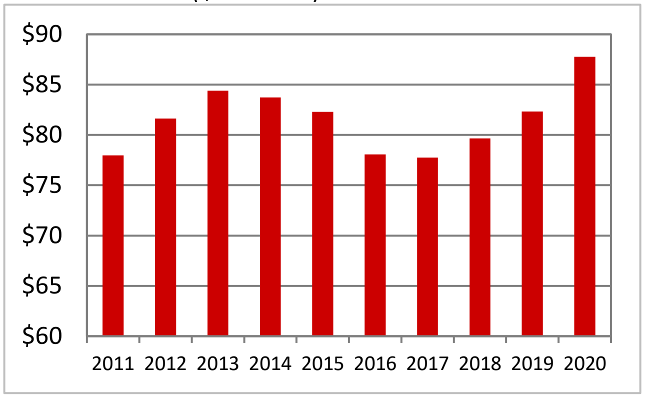
Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2020 Comments: Despite a 1% increase in the annual operating grant, total government grant revenue decreased by $3.0M (2.5%) due mainly to the end of the funding agreement for the nursing program (in 2019 revenues related to this agreement were $3.4M).

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. While the University received confirmation that there would be no significant changes to the operating grant in 2020-21, there is uncertainty overall with government funding as governments change and priorities shift.

Tuition and Related Fees

($ millions)



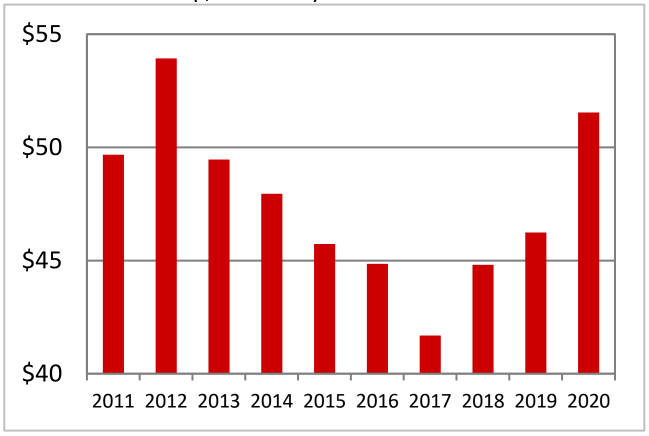
Description: Tuition and related fee revenues include tuition and other fees paid by students for specific purposes.

2020 Comments: Student fee revenue increased by $5.4M (6.6%) from 2019. While enrolment remained largely unchanged, the increase can be attributed to 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%. This reset was in line with the Memorandum of Understanding between the University and the Province.

Trend: Provided that enrolment does not decrease, tuition and related fees are expected to continue to grow as more students begin their studies under the tuition reset and legacy students graduate.

Research Grants and Contracts

($ millions)



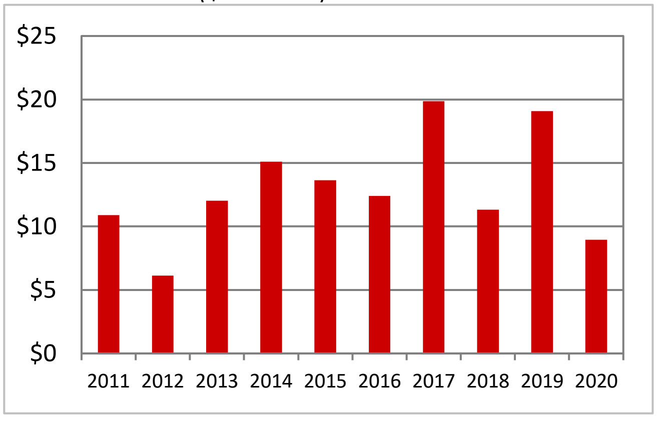
Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

2020 Comments: Research grants and contracts revenue increased by $5.3.M (11%) from 2019. This increase is attributed to various on-going initiatives such as the Smart Grid Centre, Canadian Institute of Cybersecurity and the Marine Additive Manufacturing Centre of Excellence.

Trend: Growth in this category is expected to continue as the University adopts and implements its new 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.

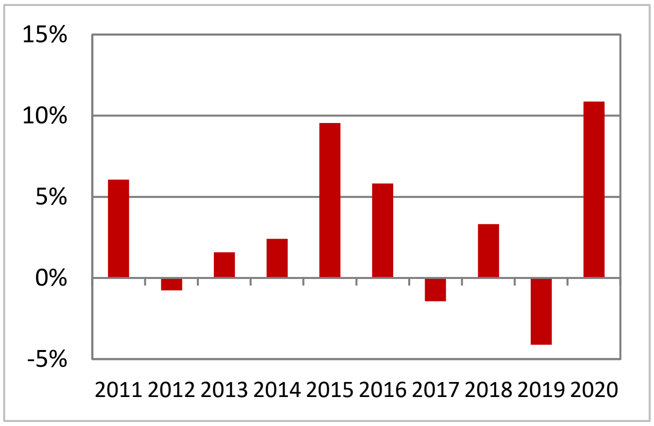
2020 Comments: Capital markets were volatile during the last quarter of the fiscal year due to the markets' reaction to the global pandemic. In 2019-20, the University's Long-term Investment Fund earned (1.14) % for the year, compared to 8.74% for 2019 and the investment policy benchmark of 0.67%.

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

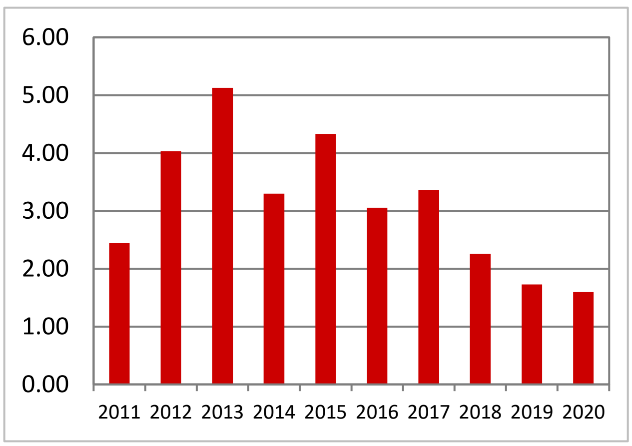


Description: This shows the growth in actual operating expenses per student. A stable or declining percentage is preferred.

2020 Comments: While both the operating expenses and student enrolment increased from the prior year, the growth in operating expenses was approximately 10% while enrolment increased by less than 1% resulting in a 10% increase in the operating expense per FTE student ratio.

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 in 2020-21 however, it is likely to continue to fluctuate as the University adapts and changes to the effects of COVID-19.

Working Capital Ratio

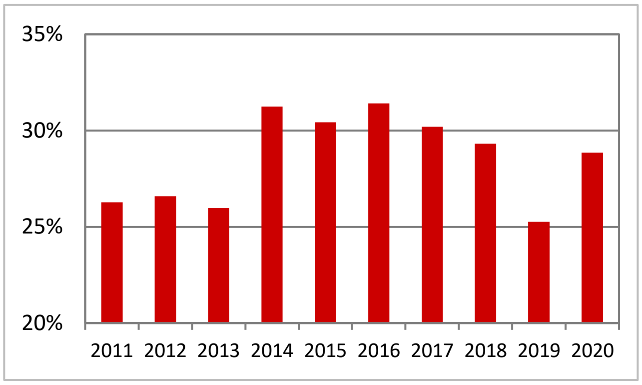


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity. A ratio of 3 or more is very strong.

2020 Comments: This ratio declined for the fourth year in a row from 1.7 in 2019 to 1.6 in 2020. This decrease is due primarily to the growth in current liabilities compared to fairly stable current assets.

Trend: This ratio has been on a steady decline however is expected to improve as capital projects are completed and the demand loans are converted to long term debt.

Long-term Liabilities as a percentage of Total Revenue



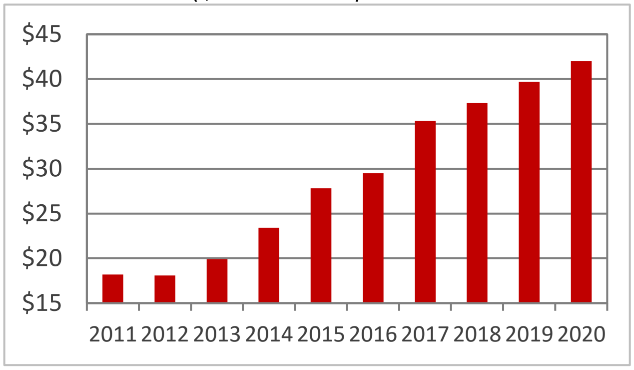
Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2020 Comments: This indicator increased by 3.6% in 2020 from 25.3% to 28.9%. This percentage is in line with 2018 and similarly to the prior year, the change was primarily driven by a change in the Employee future benefits. In 2019 it was a positive change and in 2020 it was a negative change.

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 additional debt was taken on to finance a new building. It is expected to increase again as the University continues with residence renewal.

Endowment and Long-term Trust Funds per FTE Student

($ thousands)

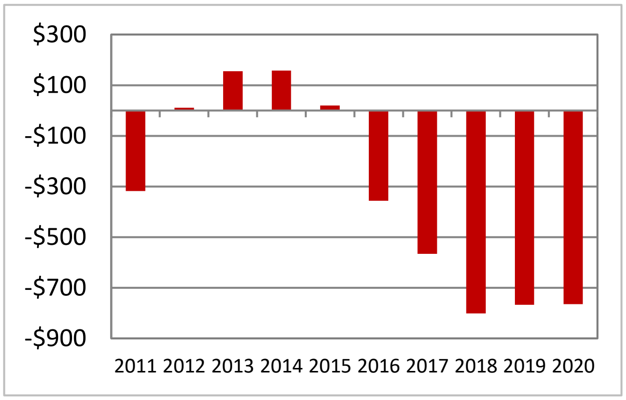


Description: This indicator shows the value of the endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2020 Comments: The endowment and trust fund assets per student increased in 2019-20 by just over $2.0K to $42.0K per student.

Trend: As the endowment fund continues to grow, this financial indicator will continue to improve.

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.

2020 Comments: The accumulated unrestricted operating deficit remained 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. 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 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 current infrastructure. Estimated at $297 million (Fredericton Campus $275 million, Saint John Campus $22 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 between $5.3 million and $12.3 million 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	56.8	815	275	34%
Saint John	0.7M	37.8	192	22	12%
Total	3.4M		1,007	297	29%

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

Building and Space Budget for 2019-20*	($millions)
Fredericton Campus	5.8
Saint John Campus	2.0
Total	7.8
Sightlines Study recommends a minimum of 1.3% of replacement value**	13.1
Shortfall	(5.3)
APPA: Leadership in Educational Facilities recommends a minimum of 2.0% of replacement value***	20.1
Shortfall	(12.3)

*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.

**The Sightlines recommendation is a range from 1.3% to 3% of replacement value. 3% of replacement value is $30.2M which would increase the shortfall to $22.4M.

*** The APPA recommendation is a range from 2.0% to 4.0% of replacement value. 4.0% of replacement value is $40.3M which would increase the shortfall to $32.5M.

While there are significant challenges ahead, it is important to recognize that there several capital projects that are ongoing and in the planning phases that will address considerable amounts of deferred maintenece. These projects include the Health and Social Innovation Centre, Engineering building renewal, Fredericton residence renewal and the Research Commons at the Harriet Irving Library.

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 (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. The AESRP 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, 2020 is $19.9 million, which is an increase of approximately $9.2 million from 2019. This significant change is attributed to poorer than anticipated returns on the plan assets and essentially eliminates the reduction in the liability experienced in 2019 as a result of stronger than anticipated returns.

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 24 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 the Consolidated Statement of Financial Position. The University established 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, 2020, the University reported $163.3 million in unspent deferred contributions (externally restricted amounts received for specific purposes), $153.3 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), $72.3 million in internally restricted net assets (restricted by a policy of the Board of Governors or a decision for specific purposes), and $188.6 million in endowed net assets ($176.1 million externally endowed and $12.5 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 17 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, 2020 were $72.3 million compared to $84.7 million as of April 30, 2019.

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 (2020 - $24.6M / 2019 $28.5M) – these funds come from various sources such as the provincial non-space and A&R funding; land development and lease revenue; facility fees and technology fees charged to students; as well as funds received from the provincial government for the deferred maintenance program 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.

	$ millions		
CAPITAL	**2020**	**2019**	**Change**
Infrastructure Renewal Projects	10.9	8.2	2.7
Health & Social Innovation Centre	4.3	6.7	-2.4
Funds from Land & Lease Transactions	3.1	3.8	-0.7
Currie Center Future Maintenance Fund	2.0	2.3	-0.3
Fredericton Residence Renewal & Ancillary Projects Fund	1.6	5.0	-3.4
Klohn Commons Future Maintenance Fund	1.1	1.1	0.0
Saint John Residence Renewal Fund	0.9	1.0	-0.1
Engineering Program Fund Projects	0.5	0.3	0.2
Alumni Memorial Building Renovation	0.5	0.5	0.0
FR-Facilities Management Fleet Renewal	0.4	0.0	0.4
Tech Fee Program	0.3	0.3	0.0
Fredericton Kinesiology Building	-1.5	-1.2	-0.3
Various Others	0.5	0.5	0.0
TOTAL CAPITAL	**24.6**	**28.5**	**-3.9**

Risk (2020 - $10.9 M / 2019 – $11.0M) – 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.

	$ millions		
RISK	**2020**	**2019**	**Change**
Employee Benefit Reserve	6.3	6.4	-0.1
Vice President Contingencies	2.4	2.2	0.2
Insurance Reserves	0.9	0.9	0.0
Disabled Life Premium	0.6	0.6	0.0
Short Term Investment Fund Reserve	0.6	0.6	0.0
Various Others	0.1	0.3	-0.2
TOTAL RISK	**10.9**	**11.0**	**-0.1**

Entrepreneurial (2020 - $15.6M / 2019 - $19.6M) – 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 expenses 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.

	$ millions		
ENTREPRENEURIAL	**2020**	**2019**	**Change**
SJ - Nursing Reserve	3.1	0.7	2.4
Engineering Program Differential	0.9	1.0	-0.1
Biomedical Institute	0.8	0.7	0.1
UNBSJ MBA Program	0.8	1.4	-0.6
Faculty of Education - Trinidad & Tobago	0.7	0.6	0.1
Research Royalties	0.4	0.6	-0.2
Canadian Rivers Institute	0.4	0.4	0.0
Q1 labs - Researcher Portion	0.2	0.3	-0.1
Vice President Research Risk Contingency	0.1	0.2	-0.1
Funding from Trust for Nursing Faculty Position	0.1	0.1	0.0
College of Extended Learning - Business Dev. Funds	0.0	0.1	-0.1
SJ – Dept of Nursing Provincial Agreement Contingency	0.0	3.0	-3.0
FR - Faculty of Nursing Provincial Agreement Contingency	0.0	2.6	-2.6
Various Others	8.1	7.9	0.2
TOTAL ENTREPRENEURIAL	**15.6**	**19.6**	**-4.0**

<u>Specific Projects</u> (2020 - $7.1M / 2019 – $8.8M) – 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	**2020**	**2019**	**Change**
Administrative Leaves/Searches	0.1	0.1	0.0
Engineering Program Fees	2.4	2.3	0.1
Fundraising Campaign	0.3	0.2	0.1
Library Acquisitions	0.4	1.6	-1.2
Project Focus	0.3	0.3	0.0
Retirement Allowance Reserve	0.3	0.3	0.0
Vice President Academic (F) College of Extended Learning	0.6	0.9	-0.3
Various Others	2.7	3.1	-0.4
TOTAL SPECIFIC PROJECTS	**7.1**	**8.8**	**-1.7**

<u>Strategic Priorities (2020 - $3.4M / 2019 - $4.5M)</u> - the funds in this category have come from one-time operating items including special HST rebates and operating surpluses. While lower than the prior year, 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 goal to produce a balanced budget for the 2020-21 fiscal year. While the University was on track to achieve a balanced budget, the termination of the Provincial nursing agreement and the uncertainly created by the effects of COVID-19, have created unforeseen financial challenges, the impact of which is sting being assessed.

	$ millions		
STRATEGIC PRIORITIES	**2020**	**2019**	**Change**
Operating Deficit Support Fund	1.4	2.4	-1.0
FR - Academic Development Fund	1.0	1.0	0.0
SJ - Academic Development Fund	0.2	0.3	-0.1
Various Others	0.8	0.8	0.0
TOTAL STRATEGIC PRIORITIES	**3.4**	**4.5**	**-1.1**

Operating Budget Carry Forwards (2020 - $11.3M / 2019 – $10.9M) – there is a 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 monies to fund larger projects that would not otherwise be possible through regular annual operating budgets.

	$ millions		
OPERATING BUDGET CARRY FORWARDS	**2020**	**2019**	**Change**
FR-College of Extended Learning	0.3	0.2	0.1
FR-Facilities Management	0.3	0.8	-0.5
FR-Faculty of Arts	0.6	0.5	0.1
FR-Faculty of Computer Science	0.5	0.4	0.1
FR-Faculty of Education	0.8	0.8	0.0
FR-Faculty of Engineering	0.9	0.7	0.2
FR-Faculty of Kinesiology	0.2	0.1	0.1
FR-Faculty of Management	0.3	0.3	0.0
FR-Faculty of Science	0.4	0.5	-0.1
FR-Harriet Irving Library & Branches	0.0	0.5	-0.5
FR-Renaissance College	0.2	0.2	0.0
FR-Student Services	0.7	0.6	0.1
FR-Vice-President Academic (Fredericton)	1.3	1.5	-0.2
SJ-Faculty of Business	0.3	0.2	0.1
SJ-Faculty of Science, Applied Science & Engineering	0.3	0.3	0.0
SJ-Vice President	0.3	0.1	0.2
UW-Information Technology Services	-0.2	-0.7	0.5
UW- President - Integrated Recruitment & Retention	0.1	0.1	0.0
UW-President - Special Projects	0.3	0.4	-0.1
UW-School of Graduate Studies	0.5	0.6	-0.1
UW-University Comptroller	0.7	0.6	0.1
UW-Vice-President (Advancement)	1.1	1.1	0.0
Various Others	1.4	1.1	0.3
TOTAL OPERATING BUDGET CARRY FORWARDS	**11.3**	**10.9**	**0.4**

Scholarships, Bursaries and Other Awards (2020 - $5.9M / 2019 - $6.5M) – 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.

Contract overhead (2020 - $6.6M / 2019 - $4.9M) – 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 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 (2020 - $13.1M / 2019 - $10.0M) – 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	**2020**	**2019**	**Change**
Central Heating Plant Boiler Project	-7.8	-8.1	0.3
Barry and Flora Beckett Residence	-3.0	0.0	-3.0
AUC Ice Plant Renewal	-1.0	-1.1	0.1
Central Heating Plant Generator	-0.5	-0.5	0.0
VOIP Recovery	-0.4	0.0	-0.4
HIL Library Infrastructure	-0.2	-0.3	0.1
Enterprise Network Storage	-0.2	0.0	-0.2
TOTAL Internal Loans	**-13.1**	**-10.0**	**-3.1**

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 typically not available to be used on operating expenses without a specific change approved by the Board of Governors.

As noted above, 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 as a result of the change in the Provincial nursing agreement along with the costs and lost revenue associated with the effects of COVID-19. There are additional amounts identified but not yet transferred to this account pending final review by management and where required, approval of the Board. The following table notes the categories and accounts from where the currently allocated funds originated.

Category & Description	**$ Millions**
Entrepreneurial	
Various Others	0.17
Specific Projects	
Library Acquisitions	0.12
Various Others	0.07
Strategic Priorities	
Various Others	0.05
Capital	
Infrastructure Renewal Projects	0.03
Saint John 19-20 Surplus	0.32
Strategic Priorities	
Operating Deficit Support Fund (Opening)	0.61
Total amounts reserved for Deficit Support (Strategic Priorities)	1.37

Non-Pension Employee Benefit Costs

The University operates several 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 12 to the financial statements.