



Consolidated Financial Statements

For the Year Ended
April 30

2016

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



University of New Brunswick

April 30, 2016

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**UNIVERSITY OF NEW BRUNSWICK
STATEMENT OF MANAGEMENT RESPONSIBILITY**

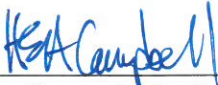
For the Year Ended April 30, 2016

The University of New Brunswick (the University) is responsible for the preparation of the consolidated financial statements and has prepared them in accordance with Accounting Standards for Non-Profit Organizations as prescribed by the Canadian Institute of Chartered Accountants.

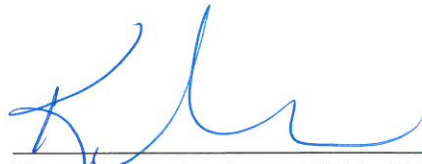
In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Governors carries out its responsibility for review of the consolidated financial statements principally through the work of its Audit Committee. The Audit Committee meets with management and the external auditors to discuss the results of audit examination and financial reporting matters. The external auditors have full access to the Audit Committee, with and without the presence of management.

The consolidated financial statements for the year ended April 30, 2016 have been reported on by Deloitte LLP, Chartered Accountants. The auditors are appointed by the Audit Committee under the authority delegated by the Board of Governors. The auditors' report outlines the scope of their audit and their opinion on the fairness of presentation of the information in the consolidated financial statements.



H.E.A. Campbell, Ph.D.
President & Vice-Chancellor



Karen Cunningham, CPA, CA
Vice-President
Administration & Finance



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Canada

Independent Auditor's Report

The Board of Governors,
The University of New Brunswick

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We have audited the accompanying consolidated financial statements of The University of New Brunswick, which comprise the statement of financial position as at April 30, 2016 and the statements of operations, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The University of New Brunswick as at April 30, 2016 and the results of its operations and its cash flows for the year the ended in accordance with Canadian accounting standards for not-for-profit organizations.

**UNIVERSITY OF NEW BRUNSWICK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at April 30, 2016

	(\$ thousands)	
	2016	2015
ASSETS		
Current assets		
Cash and short-term investments (Note 3)	\$ 89,154	\$ 130,003
Accounts receivable (Note 4)	17,642	21,135
Inventories (Note 5)	1,556	1,549
Prepaid expenses	4,555	4,575
	112,907	157,262
Deferred charges (Note 6)	4,315	4,069
Long-term investments (Note 7)	305,913	267,514
Capital assets (Note 8)	257,385	257,338
	567,613	528,921
	\$ 680,520	\$ 686,183
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 25,001	\$ 25,590
Unearned income/revenue	10,508	9,316
Current portion of long-term debt (Note 10)	1,470	1,426
	36,979	36,332
Long-term liabilities		
Long-term debt (Note 10)	20,611	22,081
Employee future benefits (Note 11)	73,732	70,941
	94,343	93,022
Long-term unearned revenue and contributions		
Long-term unearned revenue (Note 12)	1,495	1,610
Unexpended deferred contributions (Note 13)	127,324	134,319
Deferred contributions invested in capital assets (Note 14)	139,942	143,111
	268,761	279,040
Net assets (liability)		
Accumulated unrestricted operating (deficit) surplus	(3,102)	42
Unfunded employee benefits (Note 15)	(54,753)	(52,157)
Internally restricted net assets (Note 16)	104,221	107,360
Invested in capital assets (Note 17)	94,586	89,611
Endowed (Note 18)	139,485	132,933
	280,437	277,789
	\$ 680,520	\$ 686,183

Approved:



Brian Baxter
Chair, Board of Governors



H. E. A. Campbell, PH.D.
President & Vice-Chancellor

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

UNIVERSITY OF NEW BRUNSWICK
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

For the year ended April 30, 2016

	(\$ thousands)	
	2016	2015
Revenues		
Government grants	\$ 120,343	\$ 118,345
Tuition and related fees	78,052	82,302
Research grants and contracts	44,850	45,723
Ancillaries	17,128	16,664
Services and other income	16,384	17,546
Investment income	12,396	13,639
Amortization of deferred capital contributions (Note 14)	9,133	9,245
Donations	2,019	2,291
	300,305	305,755
Expenses		
Instruction and non-sponsored research	120,476	120,025
Research grants and contracts	44,410	45,728
Plant operations	29,712	30,789
Administration and general	29,026	27,219
Ancillaries	14,078	14,610
Amortization of capital assets	13,344	12,693
Library	12,318	12,409
Student Services	11,151	11,035
Scholarships and bursaries	9,980	9,641
Non-credit instruction	6,673	6,125
Central computing	6,196	5,734
Employee future benefits (Note 11)	4,278	2,681
Other	1,350	1,189
	302,992	299,878
Other		
Excess of (expenses over revenue) revenues over expenses before changes in net assets	(2,687)	5,877
Changes in net assets:		
Unfunded non-pension employee benefits	(1,522)	(3,224)
Net assets used to acquire capital assets	(4,975)	(8,582)
Change in internally restricted net assets	6,040	4,502
	(1,457)	(7,304)
Decrease in accumulated unrestricted operating surplus	\$ (3,144)	\$ (1,427)

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

**UNIVERSITY OF NEW BRUNSWICK
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

For the year ended April 30, 2016

(\$ thousands)

	2016					2015	
	Accumulated Unrestricted Operating Surplus	Unfunded Employee Benefits	Restricted for Specific Purposes	Invested in Capital Assets	Endowed	Total	Total
Net assets (liability), beginning of year	\$ 42	\$ (52,157)	\$ 107,360	\$ 89,611	\$ 132,933	\$ 277,789	\$ 259,357
Changes during the year							
Excess of (expenses over revenue) revenues over expenses	(3,144)	1,522	(6,040)	4,975	-	(2,687)	5,877
Remeasurement gains (losses)	-	(4,118)	-	-	-	(4,118)	(157)
Capitalized income and other transfers	-	-	2,901	-	(2,232)	669	1,798
Endowment contributions	-	-	-	-	8,784	8,784	10,914
Net change during the year	<u>(3,144)</u>	<u>(2,596)</u>	<u>(3,139)</u>	<u>4,975</u>	<u>6,552</u>	<u>2,648</u>	<u>18,432</u>
Net assets (liability), end of year	<u>\$ (3,102)</u>	<u>\$ (54,753)</u>	<u>\$ 104,221</u>	<u>\$ 94,586</u>	<u>\$ 139,485</u>	<u>\$ 280,437</u>	<u>\$ 277,789</u>

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

**UNIVERSITY OF NEW BRUNSWICK
CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended April 30, 2016

	(\$ thousands)	
	2016	2015
Operating activities		
Excess of (expenses over revenue) revenues over expenses before changes in net assets	\$ (2,687)	\$ 5,877
Add (deduct) non-cash items		
Amortization of capital assets	13,344	12,693
Amortization of other deferred charges	947	1,099
Amortization of deferred capital contributions	(9,133)	(9,245)
(Increase) decrease in unrealized gain on long-term investments	21,399	(9,194)
Recognition of remeasurement adjustments in net assets	(4,118)	(157)
Net change in operating assets and liabilities (Note 21)	6,900	2,796
	26,652	3,869
Investing activities		
(Decrease) increase in short-term investments	34,400	(49,050)
Net (purchases) and sales of long-term investments	(59,798)	32,722
Increase in other deferred charges	(1,193)	(815)
Net capital asset acquisitions	(13,391)	(16,272)
	(39,982)	(33,415)
Financing activities		
Long-term debt repayments	(1,426)	(1,367)
Capital contributions received	5,964	5,939
Net (decrease) increase in long-term unearned revenues and deferred contributions	(7,110)	13,186
Endowment contributions	8,784	10,914
Capitalized endowment income and other transfers	669	1,798
	6,881	30,470
Net (decrease) increase in cash and cash equivalents	(6,449)	924
Cash and cash equivalents, beginning of year	65,653	64,729
Cash and cash equivalents, end of year (Note 3)	\$ 59,204	\$ 65,653

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

UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended April 30, 2016
(in thousands of dollars)

1. Authority and Purpose

The University of New Brunswick (the University) operates under the authority of the University of New Brunswick Act. It is a Board-governed, comprehensive university offering undergraduate and graduate degree programs, a broad range of research, and continuing education programs and activities. The University is a registered charity and is therefore exempt from the payment of income taxes under Section 149 of the Income Tax Act.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO), Part III of the Chartered Professional Accountants (CPA) handbook.

A summary of significant accounting policies is as follows:

a) Accounting Method

The financial statements are prepared on a non-fund basis as the operations for the University have been combined for reporting purposes. The University follows the deferral method of revenue recognition.

b) Principles of Consolidation and Presentation

The University's financial statements consolidate the accounts of Enterprise UNB Inc. (EUNB). In 2010, EUNB ceased operations, although it continues to exist as a corporate entity with no assets and no liabilities.

c) Revenue Recognition

Amounts received or receivable for tuition and related fees and sales of goods and services are recognized as revenue in the period in which the goods are delivered or the services are provided. Amounts received in advance are reported as unearned revenue.

The University receives grants and donations from a number of different sources for operating, research and capital expenditures. Operating grants are recognized in the period when receivable. Operating grants received for a future period are deferred until that future period and are reported as deferred contributions.

Externally restricted capital contributions are recorded as deferred contributions until invested to acquire capital assets. Amounts invested in externally funded capital assets with limited useful lives are reported as deferred capital contributions invested in capital assets. Deferred capital contributions are amortized and recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Endowment donations that are required by the donor to be held in perpetuity are recognized as direct increases in endowed net assets in the year received. The University has a policy to protect the economic value of the endowments from the impact of inflation whereby a portion of the income earned on endowments is reserved by the Board for

UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended April 30, 2016
(in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

c) Revenue Recognition (continued)

capital preservation. Such amounts are recorded as increases in endowed net assets. Endowment inflation reserves may be reduced if the carrying value of the underlying long-term investments falls below the carrying value of endowed net assets. Such reductions in endowment inflation reserves are recorded as decreases in endowed net assets.

Externally restricted contributions for purposes other than endowment or the acquisition of capital assets are deferred and recognized as revenue in the year in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributors.

Unrestricted contributions are recognized as revenue when received or receivable.

Pledged amounts are not recorded in the accounts.

Restricted investment income is deferred and recognized as revenue in the period in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

d) Expense Recognition

The University uses the accrual basis of accounting for expenses.

e) Contributed Services

Many of the activities of the University are dependent on services donated by volunteers. The value of donated services is not recognized in these statements.

f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in bank and investments with original maturity of 90 days or less.

g) Short-Term Investments

Short-term investments consist of Guaranteed Investment Certificates issued by Canadian chartered banks with terms to maturity ranging from 91 days to one year.

**UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
(in thousands of dollars)**

2. Summary of Significant Accounting Policies (continued)

h) Inventories

Inventories for resale are held by the bookstore on the Fredericton campus and the Bio-Medical unit in the Faculty of Engineering. These inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated amount that could be realized upon the sale of the inventory, net of estimated costs associated with its sale or disposal. Inventories held for consumption are in place in the Chemistry Department, Facilities Management and Central Computing. These inventories are valued at cost with cost determined using the average cost method of inventory valuation.

i) Deferred Charges

Deferred charges include amounts expended on energy management projects which result in demonstrated net savings through reduced energy costs. Such amounts are amortized on a straight line basis over the expected payback period.

The University also incurs certain lease-specific direct costs associated with major land development projects. These costs are recorded as deferred charges and amortized on a straight-line basis over the term of the respective lease.

j) Investments

Investments in pooled funds, equities and fixed income securities are recorded at fair value. The change in fair value related to endowed and/or externally restricted accounts is reflected as a change in Unexpended Deferred Contributions on the Consolidated Statement of Financial Position. The change related to unrestricted or internally restricted accounts is reflected in the Consolidated Statement of Operations and Changes in Net Assets.

k) Capital Assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of donation. Capital assets disposed of are removed from the accounts at their net book value. Repairs and maintenance costs are charged to operating expense. Betterments which extend the estimated life of an asset, increase its service capacity or lower future costs are capitalized.

Capital assets are amortized on a straight line basis over their estimated useful lives:

Buildings	40 years
Roads and Tunnels	20 years
Land Improvements	20 years
Computer Network Infrastructure	20 years
Furniture and Equipment	10 years
Computer Hardware	5 years
Vehicles	5 years

UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended April 30, 2016
(in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

k) Capital Assets (continued)

Costs of construction in progress on capital assets, including interest, are capitalized within the respective asset classes. Amortization is charged only once the asset is available for use.

l) Impairment of Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. There were no impairment provisions recorded in the years ended April 30, 2016 and April 30, 2015.

m) Employee Future Benefits

The actuarial values of the non-pension liabilities (early retirement plans, retirement allowance and post-retirement benefits) are updated each year by our actuaries. The current service cost and finance costs as determined by the actuaries are expensed each year in the statement of operations and re-measurement adjustments are adjusted directly to net assets each year.

An actuarial funding valuation is available for the faculty pension plan (see Note 2 (n)) and is used to value the plan for accounting purposes in accordance with section 3462 of the CPA handbook. No actuarial funding valuation is available for the other future employee benefit plans therefore they have been measured using actuarial valuations for accounting purposes. As UNB budgets for these items on a cash basis, any differences between the actuarial expense and the cash outlay are reported as an adjustment to net assets restricted for unfunded employee benefits to reflect the fact these funds have been appropriated for future payments.

Details of the cost of such plans, and the related liabilities, are disclosed in Note 11.

n) Pension Plans

The staff pension plan is a multi-employer plan that is administered by the Province of New Brunswick. Effective January 1, 2014, it was converted to a shared risk pension plan. The faculty pension plan was converted to a shared risk pension plan effective July 1, 2013 by the plan sponsors; the University and the union representing the faculty. Details with respect to both plans are contained in Note 23. Pension expense for the staff pension plan is equal to employer contributions to the plan. Pension expense for the faculty pension plan is determined based on the actuarial funding valuation and is equal to the current service cost plus finance cost. Re-measurement gains and losses are adjusted directly to net assets. Contribution rates are determined by the Trustees of the pension plans based on the advice of an actuary.

UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended April 30, 2016
(in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

o) Internal Restrictions

The University has an approved policy permitting most responsibility centres to carry forward unspent budgeted appropriations in a year for spending in future years. In addition, the University's Board of Governors specifically approves restrictions of net assets generated from operations for specific purposes. Details of net assets restricted for specific purposes are disclosed in Note 16.

p) Accounting Estimates

The preparation of financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

If actual results differ from the estimates, the impact is recorded in future periods when the difference is known. The most significant estimates made include the allowance for uncollectible accounts, the estimated useful life of capital assets, and the accrued liabilities for early retirement, retiring allowance, post-retirement benefits and the academic employee shared risk pension plan.

q) Financial Instruments

The fair value of long-term investments is determined by using published price quotations in an active market at year end.

Financial assets and financial liabilities are initially recognized at fair value when the University becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments except for investments and derivative are measured at amortized cost.

r) Derivative Financial Instruments (Hedges)

Derivative financial instruments are utilized by the University in the management of its interest rate exposure.

The University enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The University designates its interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

The University formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various interest rate hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Statement of Financial Position. The University also formally assesses, both at the hedge's inception and on an ongoing basis, whether the

**UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
(in thousands of dollars)**

2. Summary of Significant Accounting Policies (continued)

r) Derivative Financial Instruments (Hedges) (continued)

interest rate swaps that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

For interest rate swaps, interest on the hedged item is recognized using the instruments stated interest rate. Net amounts receivable or payable on the interest rate swap are recorded on the accrual basis of accounting and are recognized as an adjustment to interest on the hedged item in the period in which they accrue.

3. Cash and Short-Term Investments

	2016	2015
Cash and cash equivalents	\$ 59,204	\$ 65,653
Short-term investments	29,950	64,350
	<u>\$ 89,154</u>	<u>\$ 130,003</u>

4. Accounts Receivable

	2016	2015
General	\$ 10,505	\$ 11,732
Federal funding agencies	3,358	4,040
HST rebates	1,374	1,622
Student receivables	2,082	2,489
Research receivables	1,891	1,894
Travel advances	269	229
	<u>19,479</u>	<u>22,006</u>
Less: Allowance for doubtful accounts	<u>(1,837)</u>	<u>(871)</u>
	<u>\$ 17,642</u>	<u>\$ 21,135</u>

5. Inventories

	2016	2015
Physical Plant	\$ 750	\$ 863
Chemistry	353	316
Bookstores	150	140
Bio-Medical Program	163	134
Other	140	96
	<u>\$ 1,556</u>	<u>\$ 1,549</u>

**UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
(in thousands of dollars)**

6. Deferred Charges

	2016	2015
Energy management charges	\$ 4,140	\$ 3,894
Land development charges	175	175
	<u>\$ 4,315</u>	<u>\$ 4,069</u>

7. Long-Term Investments

	2016	2015
Equity Securities	\$ 171,610	\$ 169,356
Fixed income securities	134,240	98,096
Cash and cash equivalents	63	62
	<u>\$ 305,913</u>	<u>\$ 267,514</u>

Investments are managed in accordance with a Board approved Statement of Investment Objectives and Policy. The Statement includes guidelines for portfolio risk management including diversification policies, asset mix guidelines and rate of return expectations.

Investments may be made through pooled funds of external investment managers. The Investments Committee must approve the use of the pooled fund if guidelines governing the pooled fund differ from the University's Statement of Investment Objectives and Policy.

8. Capital Assets

	2016		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 1,072	\$ -	\$ 1,072
Land improvements	14,947	3,583	11,364
Buildings	398,100	194,288	203,812
Roads and tunnels	26,006	10,398	15,608
Furniture and equipment	106,011	85,770	20,241
Vehicles	2,687	2,241	446
Computer hardware	60,385	58,070	2,315
Computer network infrastructure	3,162	635	2,527
	<u>\$ 612,370</u>	<u>\$ 354,985</u>	<u>\$ 257,385</u>

As at April 30, 2016, the University had \$1,934 (2015 - \$4,824) in work in progress that is included in the cost of Buildings \$1,803 (2015 - \$2,837), Roads and Tunnels \$131 (2015 - \$168) and Furniture and Equipment nil (2015 - \$1,819). These amounts will not be amortized until the additions are put in use.

**UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
(in thousands of dollars)**

8. Capital Assets (continued)

	2015		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 1,072	\$ -	\$ 1,072
Land improvements	14,667	3,032	11,635
Buildings	391,981	187,477	204,504
Roads and tunnels	25,060	9,294	15,766
Furniture and equipment	101,363	82,075	19,288
Vehicles	2,520	2,138	382
Computer hardware	60,116	58,110	2,006
Computer network infrastructure	3,162	477	2,685
	\$ 599,941	\$ 342,603	\$ 257,338

9. Accounts Payable and Accrued Liabilities

	2016	2015
Trade payables and accruals	\$ 7,875	\$ 10,789
Employee benefit reserves	6,434	5,672
Professional development allowance accounts	2,800	2,537
Payroll liabilities	4,612	3,324
Unused employee vacation pay	2,216	2,215
Other	726	794
Holdbacks and contractor deposits	338	259
	\$ 25,001	\$ 25,590

10. Long-Term Debt

	2016	2015
Mortgage payable	\$ 19	\$ 56
Bank loans	22,062	23,451
	22,081	23,507
Less: Current portion	(1,470)	(1,426)
	\$ 20,611	\$ 22,081

Mortgages Payable

Canada Mortgage and Housing Corporation mortgages on University operated student residences are repayable in equal semi-annual blended instalments of principal and interest.

UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended April 30, 2016
(in thousands of dollars)

10. Long-Term Debt (continued)

Mortgages Payable (continued)

Interest Rate	Maturity Date	2016	2015
5.38%	August 1, 2016	\$ <u>19</u>	\$ <u>56</u>

Bank Loans

	Interest Rate	Maturity Date	2016	2015
Residence Buildings	6.45%	2020	\$ 657	\$ 794
Residence Buildings	6.50%	2022	538	610
Residence Buildings	6.45%	2028	3,384	3,562
Residence Buildings	5.34%	2031	6,144	6,401
Academic Buildings	5.10%	2030	5,671	5,960
Health and Wellness Facility	2.64%	2027	5,668	6,124
			<u>\$ 22,062</u>	<u>\$ 23,451</u>

The Residence Buildings loans maturing in 2020 and 2022 are ten-year term floating rate loans related to student residence buildings on the Fredericton Campus. The rate is adjusted monthly based on the Canadian Bankers Acceptance, Canadian Dealer Offered Rate (Canadian BA, CDOR). For hedging purposes, the University entered into two interest rate swap transactions with the bank to effectively change its interest rate exposure from a floating rate to a fixed rate basis. The swaps involve the exchange of one-month promissory notes at floating interest rates for promissory notes at fixed interest rates of 6.45% and 6.50% respectively. The floating interest rate is set at the Canadian BA, CDOR rate which is an exact offset to the floating rate term loan. The maturity dates of the swaps are 2020 and 2022 respectively.

The Residence Buildings loan maturing in 2028 is a floating rate term loan negotiated with a Canadian chartered bank to partially finance the construction of a new student residence on the Saint John campus. The ten-year term loan has a related amortization period to August 2028. The rate is adjusted monthly based on the Canadian BA, CDOR rate. For hedging purposes, the University entered into an interest rate swap transaction with the bank to effectively change its interest rate exposure from a floating rate to a fixed rate basis. The swap involves the exchange of one-month promissory notes at floating interest rates for promissory notes at a fixed interest rate of 6.45%. The floating interest rate is set at the Canadian BA, CDOR rate, which is an exact offset to the floating rate term loan. The maturity date of the swap is August 2028.

The Residence Building loan maturing in 2031 is a floating rate loan negotiated with a Canadian chartered bank to partially finance the construction of a new apartment style student residence on the Fredericton campus. The ten-year term loan has a related amortization period to September 2031. The rate is adjusted monthly based on the Canadian BA, CDOR rate. For hedging purposes the University entered into an interest rate swap transaction with the bank to effectively change its interest rate exposure from a floating rate to a fixed rate basis. The swap involves the exchange of one month promissory notes at floating interest rates for promissory notes at a fixed interest rate of 5.34%.

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10. Long-Term Debt (continued)

Bank Loans (continued)

The floating interest rate is set at the Canadian BA, CDOR rate, which is an exact offset to the floating rate term loan. The maturity date of the swap is September 2031.

The Academic Buildings loan is a floating rate loan negotiated with a Canadian chartered bank to partially finance the construction of a major renovation and addition to an existing academic building on the Saint John Campus. The 10-year term loan has a related amortization period to April 2030. The rate is adjusted monthly based on the Canadian BA, CDOR rate. For hedging purposes, the University entered into an interest rate swap transaction with the bank to effectively change its interest rate exposure from a floating rate to a fixed rate basis. The swap involves the exchange of one month promissory notes at floating interest rates for promissory notes at a fixed interest of 5.10%. The floating interest rate is set at the Canadian BA, CDOR rate, which is an exact offset to the floating rate term loan. The maturity date of the swap is April 2030.

The Health and Wellness Facility loan is a floating rate loan negotiated with a Canadian chartered bank to partially finance the construction of a Health and Wellness Facility on the Fredericton campus. The ten-year term loan has a related amortization period to February 2027. The rate is adjusted monthly based on the Canadian BA, CDOR rate. For hedging purposes the University entered into an interest rate swap transaction with the bank to effectively change its interest rate exposure from a floating rate to a fixed rate basis. The swap involves the exchange of one month promissory notes at floating interest rates for promissory notes at a fixed interest rate of 2.64%. The floating interest rate is set at the Canadian BA, CDOR rate, which is an exact offset to the floating rate term loan. The maturity date of the swap is February 2027.

- (a) Interest paid on long-term debt during the year ended April 30, 2016 totalled \$1,102 (2015 - \$1,138).
- (b) Principal payments required on long-term debt in each of the next five years are as follows:

2017	\$	1,470
2018	\$	1,514
2019	\$	1,582
2020	\$	1,653
2021	\$	1,555

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11. Employee Future Benefits

	2016	2015
Retiring allowances	\$ 26,066	\$ 27,180
Early retirement plans	21,235	21,811
Academic employee shared risk pension plan	20,608	13,805
Post retirement benefits	5,167	7,522
Other employee benefit plans	656	623
	<u>\$ 73,732</u>	<u>\$ 70,941</u>

Details of the expense and remeasurement items are as follows. Remeasurement items are recognized directly in net assets.

	2016		
	Expense	Remeasurement items	Total
Retiring allowance	\$ 2,983	\$ (2,368)	\$ 615
Early retirement plans	598	-	598
Post-retirement benefits	697	(2,822)	(2,125)
	4,278	(5,190)	(912)
Academic employee shared risk pension plan	6,075	9,308	15,383
	<u>\$ 10,353</u>	<u>\$ 4,118</u>	<u>\$ 14,471</u>

The academic employee shared risk pension plan expense is included on the instruction and non-sponsored research line on the statement of operations.

	2015		
	Expense	Remeasurement items	Total
Retiring allowance	\$ 2,868	\$ -	\$ 2,868
Early retirement plans	(1,081)	-	(1,081)
Post-retirement benefits	894	(2,335)	(1,441)
	2,681	(2,335)	346
Academic employee shared risk pension plan	5,931	2,492	8,423
	<u>\$ 8,612</u>	<u>\$ 157</u>	<u>\$ 8,769</u>

a) Retiring Allowance Benefit

Calculated at the rate of one week's final pay per year of service to a maximum of twenty five years, retiring allowances are paid to retiring employees, laid off employees, and the estates of deceased employees who had at least five years of service and who were active employees at the time of death. The retiring allowance liability reflects the estimated present value of the expected future benefit payments, as calculated by the plan actuary.

**UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
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11. Employee Future Benefits (continued)

a) Retiring Allowance Benefit (continued)

The most recent complete actuarial valuation of this plan was completed as at April 30, 2014. The actuary provides an annual update to the valuation reflecting revised assumptions as appropriate in years when a valuation is not performed.

The discount rate to be used is prescribed by the Chartered Professional Accountants of Canada as the market rate of interest on high-quality bonds of an appropriate duration which match the expected timing of the payments. The rate used was 3.2% per annum as at April 30, 2016 (2015 – 3.9% per annum).

Changes in the retiring allowance liability are as follows:

	2016	2015
Balance, beginning of year	\$ 27,180	\$ 26,213
Changes during the year:		
Current service cost	1,883	1,812
Interest on benefit obligation	1,100	1,056
Retiring allowances paid	(1,729)	(1,901)
Actuarial gain	(2,368)	-
Balance, end of year	<u>\$ 26,066</u>	<u>\$ 27,180</u>

Details of retiring allowance expense and rereasurement items are as follows:

	2016	2015
Current service cost	\$ 1,883	\$ 1,812
Interest on benefit obligation	1,100	1,056
Actuarial gain	(2,368)	-
	<u>\$ 615</u>	<u>\$ 2,868</u>

b) Early Retirement Plans

Academic employees who have retired under the terms of a supplementary early retirement plan, and senior executives who have retired under the terms of a supplementary retirement plan, are entitled to receive supplementary retirement benefits payable by the University. The early retirement plan liability reflects the estimated present value of these expected future benefit payments, as calculated by the plan actuary. The most recent complete actuarial valuation of this plan was completed as at April 30, 2014. The actuary provides an annual update to the valuation reflecting revised assumptions as appropriate in years when a full valuation is not performed.

The discount rate to be used is prescribed by the Chartered Professional Accounts of Canada as the market rate of interest on high-quality bonds of an appropriate duration which match the expected timing of the payments. The rate used was 3.9% per annum as at April 30, 2016 (2015 – 3.9% per annum).

**UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
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11. Employee Future Benefits (continued)

b) Early Retirement Plans (continued)

Changes in the early retirement plans liability are as follows:

	2016	2015
Balance, beginning of year	\$ 21,811	\$ 22,554
Changes during the year:		
Interest on benefit obligation	808	853
Retirements and current service cost	66	63
Benefits paid	<u>(1,450)</u>	<u>(1,659)</u>
Balance, end of year	<u><u>\$ 21,235</u></u>	<u><u>\$ 21,811</u></u>

Details of early retirement plan expense and remeasurement items are as follows:

	2016	2015
Interest on benefit obligation	\$ 808	\$ 853
Retirements during the year	66	63
Net investment gain on internal fund	<u>(276)</u>	<u>(1,997)</u>
	<u><u>\$ 598</u></u>	<u><u>\$ (1,081)</u></u>

c) Academic Employees Shared Risk Pension Plan (AESRP)

The Academic employees' pension plan was converted to a shared risk plan as of July 1, 2013 and is described in more detail in Note 23. The employees and employer contribute at a blended rate of 11.5% of pensionable salary. Pension benefits accrued at varying rates dependent on the plan in place at the time of the service.

The most recent funding valuation, which was used for the purposes of valuing the pension benefit obligation, was completed as of July 1, 2015. Key assumptions are as follows:

	July 1, 2015	July 1, 2014
Discount rate	4.50	4.50
Inflation	2.00	2.00
Salary escalation	3.00	3.00 plus annual PTR adjustments
Expected long-term return on assets	5.80	5.89

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**For the year ended April 30, 2016
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11. Employee Future Benefits (continued)

c) Academic Employees Shared Risk Pension Plan (AESRP) (continued)

Details of the net liability related to the plan are as follows:

	2016	2015
Balance, beginning of year	\$ 13,805	\$ 13,825
Changes during the year:		
Interest on benefit obligation	552	553
Current service cost	5,523	5,378
Contributions	(8,580)	(8,443)
Actuarial loss	9,308	2,492
Balance, end of year	<u>\$ 20,608</u>	<u>\$ 13,805</u>

Details of the AESRP expense and remeasurement items are as follows:

	2016	2015
Interest on benefit obligation	\$ 552	\$ 553
Retirements during the year	5,523	5,378
Actuarial loss	9,308	2,492
	<u>\$ 15,383</u>	<u>\$ 8,423</u>

d) Post-Retirement Benefits

The University pays for one half of the cost of group life insurance and supplementary health and dental benefits for active employees. For certain employees who retire prior to age 65, the University continues to pay for one half the cost of these benefits until the retiree reaches age 65. Other retirees are entitled to continue coverage under these plans at their own cost.

Contribution rates for these self-insured benefit plans are determined on a combined basis for active employees and retirees. Since the paid claims for retirees are generally larger than the paid claims for active employees, the difference between the paid claims for retirees and the contribution rates represent a retiree subsidy.

The Post-Retirement Benefit liability includes both the projected University contributions for those employees who are eligible for continued cost sharing of benefits to age 65, as well as the University contribution to the rate subsidy for all retirees.

The discount rate used is prescribed by the Chartered Professional Accountants of Canada as the market rate of interest on high quality bonds of an appropriate duration which match the expected timing of the payments. The rate used was 3.7% per annum as at April 30, 2016 (2015 – 3.7%)

The most recent complete actuarial valuation of this plan was completed as at May 1, 2016. The actuary provides an annual update to the valuation reflecting revised assumptions as

**UNIVERSITY OF NEW BRUNSWICK
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**For the year ended April 30, 2016
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11. Employee Future Benefits (continued)

d) Post-Retirement Benefits (continued)

appropriate in years when a full valuation is not performed.

Changes in the post-retirement benefit liability are as follows:

	2016	2015
Balance, beginning of year	\$ 7,522	\$ 9,194
Changes during the year:		
Current service cost	411	486
Interest on benefit obligation	287	408
Benefits paid	(231)	(231)
Actuarial (gain) loss	<u>(2,822)</u>	<u>(2,335)</u>
Balance, end of year	<u>\$ 5,167</u>	<u>\$ 7,522</u>

Details of post-retirement benefit expense and remeasurement items are as follows:

	2016	2015
Current service cost	\$ 411	\$ 486
Interest on benefit obligation	286	408
Actuarial (gain) loss	<u>(2,822)</u>	<u>(2,335)</u>
	<u>\$ (2,125)</u>	<u>\$ (1,441)</u>

e) Other Employee Benefit Plans

The University sponsors a number of insured and self-insured benefit plans for employees. The University's share of the annual premiums for insured plans is recorded as an expense on an accrual basis. The University's share of the actuarially determined annual cost of self-insured plans is recorded as an expense and related liability.

Details of the liability related to employee benefit plans are as follows:

	2016	2015
Long-Term Disability Plan	\$ 412	\$ 406
Health and Dental Plan	<u>244</u>	<u>217</u>
	<u>\$ 656</u>	<u>\$ 623</u>

UNIVERSITY OF NEW BRUNSWICK
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12. Long-Term Unearned Revenue

Deferred revenue consists of the unamortized balance of a prepaid long-term land lease. The original amount of \$2,300,000 is being recognized as income on a straight-line basis over the twenty year period of the lease ending in 2031.

	2016	2015
Original lease amount	\$ 2,300	\$ 2,300
Accumulated amortization	<u>(690)</u>	<u>(575)</u>
	1,610	1,725
Less: Current portion	<u>(115)</u>	<u>(115)</u>
	<u><u>\$ 1,495</u></u>	<u><u>\$ 1,610</u></u>

13. Unexpended Deferred Contributions

Unexpended deferred contributions represent amounts which are subject to externally imposed restrictions. Accordingly, they are deferred and reported as revenue when the related expenses occur.

Changes in the balance of deferred contributions are as follows:

	2016	2015
Balance, beginning of year	\$ 134,319	\$ 121,018
Changes during the year:		
Restricted contributions\income	45,102	66,744
Transferred to unamortized deferred capital contributions	(2,644)	(1,744)
Other transfers	(1,329)	(4,574)
Recognized as revenue	<u>(48,124)</u>	<u>(47,125)</u>
Balance, end of year	<u><u>\$ 127,324</u></u>	<u><u>\$ 134,319</u></u>

The account balance is made up of the following:

	2016	2015
Sponsored research	\$ 27,223	\$ 35,159
Unexpended restricted donations	64,358	59,570
Unexpended endowment income	35,743	39,328
Unexpended infrastructure funding	<u>-</u>	<u>262</u>
	<u><u>\$ 127,324</u></u>	<u><u>\$ 134,319</u></u>

**UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
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14. Deferred Contributions Invested in Capital Assets

Deferred contributions invested in capital assets represent the unamortized amount of donations and grants used for the purchase of capital assets.

Changes in the balance of deferred contributions invested in capital assets are as follows:

	2016	2015
Balance, beginning of year	\$ 143,111	\$ 146,417
Changes during the year:		
Contributions received during the year	5,964	5,939
Recognized as revenue	<u>(9,133)</u>	<u>(9,245)</u>
Balance, end of year	<u>\$ 139,942</u>	<u>\$ 143,111</u>

15. Unfunded Employee Benefits

The unfunded portion of amounts expensed with respect to unused vacation pay entitlement for support staff, supplementary early retirement and executive retirement plans, retiring allowance benefits, post-retirement benefits and the academic employee shared risk pension plans are recorded as an internally restricted deficit. This is to reflect the fact that under the terms of these plans, the majority of these payments will be made in years subsequent to the expense being incurred, and are included as operating budget expenditures in the year paid.

	2016	2015
Unfunded Non-Pension Employee Benefits		
Retiring allowances	\$ 26,066	\$ 27,180
Academic employees shared risk pension plan	20,608	13,805
Post-retirement plans	5,167	7,522
Early retirement plans	696	1,435
Staff unused vacation pay entitlement	<u>2,216</u>	<u>2,215</u>
	<u>\$ 54,753</u>	<u>\$ 52,157</u>

16. Internally Restricted Net Assets

The University restricts the use of portions of its operating net assets for specific purposes. In support of multi-year and specific purpose planning, the University has a policy which permits departments to carry over unspent current non-salary budget amounts to future fiscal periods. This carry forward is accomplished by an internal restriction of operating net assets.

Other restrictions are recorded to reflect funds that have been internally restricted for specific projects and purposes including one-time non-recurring expenditures and specific contingencies for areas of operational risks, as approved by the University's Board of Governors.

UNIVERSITY OF NEW BRUNSWICK
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For the year ended April 30, 2016
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16. Internally Restricted Net Assets (continued)

Amounts included in Net Assets Restricted for Specific Purposes have been classified into the following categories to reflect the intended purposes of the funds.

Capital

These amounts have been restricted for specific capital projects to be completed in a future year.

Risk

These amounts have been generated from operational activities and restricted for the mitigation of specific and general risks of the University, including self-insurance reserves.

Entrepreneurial activities

Faculties and departments undertake significant levels of activity that generate net revenues above that in the operating budget. The excess of revenues over expenses from these activities have been restricted for use in completion of the activity, enhancement of the program or to offset future costs in the area.

Specific projects

Sourced from operating funds, these amounts have been restricted for use in a number of specific projects or for specific purposes over varying time horizons.

Strategic Priorities

Sourced primarily from operational activities, these items have been restricted for future use in implementing strategic directions and priorities.

Operating budget carry-forwards

These amounts represent unspent non-salary budget savings related to timing, multi-year planning or savings realized through efficiencies. These amounts are restricted according to policy for future use in the department or faculty.

Scholarships, bursaries and awards

These amounts have been sourced from donations and internally restricted income and can only be spent according to the originally designated purpose.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended April 30, 2016
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16. Internally Restricted Net Assets (continued)

Contract overhead

These funds were received for research or contract overhead in accordance with the terms of the granting agency or contractor and have been restricted for use by the Office of Research Services and originating units in accordance with University policy.

Details of net assets restricted for specific purposes are as follows:

	2016	2015
Capital	\$ 23,638	\$ 27,294
Specific projects	21,010	11,432
Entrepreneurial activities	18,827	20,470
Operating budget carry-forwards	12,464	10,680
Strategic priorities	10,518	16,520
Risk	8,508	12,391
Contract overhead	5,062	4,192
Scholarships, bursaries and other awards	4,194	4,381
	<u>\$ 104,221</u>	<u>\$ 107,360</u>

17. Net Assets Invested in Capital Assets

Net assets invested in capital assets represent the amount of net assets that are not available for other purposes because they have been used to fund the purchase of capital assets. It consists of unamortized capital assets purchased with unrestricted funds, net of related debt.

	2016	2015
Capital assets (Note 8)	\$ 257,385	\$ 257,338
Amounts financed by long-term debt (Note 10)	(22,081)	(23,507)
Amounts financed by working capital	(776)	(1,109)
Deferred contributions invested in capital assets (Note 14)	<u>(139,942)</u>	<u>(143,111)</u>
Net assets invested in capital assets	<u>\$ 94,586</u>	<u>\$ 89,611</u>

The change in net assets invested in capital assets is calculated as follows:

	2016	2015
Changes during the year		
Acquisitions of capital assets funded from operations	\$ 7,428	\$ 10,333
Net decrease in internal financing	332	331
Decrease in long-term debt	1,426	1,366
Amortization expense	(13,344)	(12,693)
Amortization of deferred contributions invested capital assets (Note 14)	<u>9,133</u>	<u>9,245</u>
Net increase in net assets invested in capital assets	<u>\$ 4,975</u>	<u>\$ 8,582</u>

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18. Endowed Net Assets

Endowed net assets consist of restricted donations to the University, the principal of which is required to be maintained intact, as well as funds which have been internally endowed by the University's Board of Governors and endowment inflation reserves. The investment income generated from endowments must be used in accordance with the purposes specified by the donors or by the Board.

The income from internally endowed funds is to be used for the payment of scholarships and to fund specific operating expenses.

Total endowments are as follows:

	2016	2015
Externally endowed	\$ 128,184	\$ 121,792
Internally endowed	<u>11,301</u>	<u>11,141</u>
Total endowments	<u>\$ 139,485</u>	<u>\$ 132,933</u>

19. Capital Disclosures

The University defines its capital as the amounts included in unrestricted net assets, internally restricted net assets (Note 16), unfunded non-pension employee benefits (Note 15), endowed net assets (Note 18), long-term liabilities (Notes 10 and 11), and unexpended deferred contributions (Note 13). The University's objective in managing its capital is to ensure that the University will continue as a going concern, maintaining and enhancing its ability to attract students and fulfill its mission.

A significant portion of the University's capital is externally restricted. The University has investment policies (Note 7), spending policies and internal controls to ensure that such funds are safeguarded and are used for the purposes designated by the contributor. The University's unrestricted operating capital is funded primarily through the unrestricted operating grant received from the Province of New Brunswick (the Province) and student fee income. The Province's funding policy imposes limits on the level of accumulated operating deficit that the University can incur. Accumulated deficits in excess of the limit may be deducted from the next year's operating grant.

The University must comply with externally imposed covenants on its long-term debt. This includes a requirement that annual earnings before interest and amortization be maintained at or above a stated multiple of annual principal and interest payments on the debt. The University was in compliance with its loan covenants for the year ended April 30, 2016.

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20. Contingent Liabilities and Commitments

Contingent Liabilities Related to Legal Matters

The University is a defendant in various legal proceedings. Potential costs, if any, related to claims against the University in these proceedings have not been reflected in these financial statements. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the University that the resolution of these claims will not have a material effect on the financial position of the University. Any loss or gain that may result from these proceedings will be accounted for in the period in which the settlement occurs.

Contingent Liabilities Related to Canadian University Reciprocal Insurance Exchange

The University is one of 56 Canadian university subscribers to the Canadian University Reciprocal Insurance Exchange (CURIE), a self-insurance co-operative established to provide property and general liability insurance coverage. The anticipated cost of claims based on actuarial projections is funded through member premiums. As a member institution, the University is exposed to share in any net losses experienced by CURIE should premiums be insufficient to cover losses and expenses. The University is committed to this insurance arrangement until December 31, 2017. Each CURIE member is required to participate for a minimum of five years which allows financial risk to be spread over time as well as among other subscribers.

As at December 31, 2015, CURIE had a surplus of \$69.7 million for adverse experience.

Land Development Activities

The University leases and develops certain non-core land holdings. Under the various development agreements, the University is committed to paying for specified infrastructure costs when activity and development meet certain thresholds. Depending on the extent and timing of these activities, the University has current exposure for up to \$10.8 million in future costs. The majority of these costs would be funded by future proceeds from land development activities.

21. Statement of Cash Flows

The net change in operating assets and liabilities consists of the following:

	2016	2015
Accounts receivable	\$ 3,493	\$ 1,838
Inventories	(7)	(19)
Prepaid expenses	20	(654)
Accounts payable and accrued liabilities	(589)	2,410
Unearned revenue	1,192	979
Employee future benefits	2,791	(1,758)
	<u>\$ 6,900</u>	<u>\$ 2,796</u>

UNIVERSITY OF NEW BRUNSWICK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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22. Financial Instruments

a) Fair Value of Financial Assets and Financial Liabilities

The carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their relatively short-terms to maturity.

The fair value of long-term investments is determined by using published price quotations in an active market at year end.

b) Foreign Currency Risk

The University transacts certain revenues and expenditures in foreign currencies and is therefore exposed to foreign currency fluctuations. The University does not actively manage this risk.

The University is also exposed to foreign currency risk on a portion of its long-term equity investments held in its trust and endowment portfolio. The University believes that, over a long time frame, fluctuations in currency tend to offset. The University believes that there is a role for currency management within the fund in order to reduce some of the volatility that may result from interim currency fluctuations. The decision as to the extent of currency management used is based on the trade-off between the cost of management versus the benefits of reduced volatility and risk of adverse impact on spending patterns.

c) Interest Rate Risk Management

The University has interest bearing loans on which general interest rate fluctuations apply.

The University uses derivatives to manage interest rate exposures. Interest rate swaps allow the University to raise long-term borrowings at floating rates and effectively swap them into fixed rates that are lower than those available to the University if fixed-rate borrowings were made directly. Under interest rate swaps, the University agrees with the counterparty to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to the notional amount.

Although the University has no intention of settling these instruments as at April 30, 2016, the interest rate swap contracts have a fair value of \$4,256 (2015 - \$4,179) greater than the recorded value and will be adjusted to nil when the debt matures.

d) Credit Risk

The University is exposed to credit-related losses in the event of non-performance by counterparties to its financial instruments, including accounts receivable. The amounts disclosed in the Consolidated Statement of Financial Position are net of allowances for doubtful accounts, estimated by the University's management based on previous experience and its assessment of the current economic environment. The University does not have a significant exposure to any individual customer or counterparty.

UNIVERSITY OF NEW BRUNSWICK
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For the year ended April 30, 2016
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22. Financial Instruments (continued)

e) *Market Risk*

The University is subject to market risk, which is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The concentration of risk is minimized because of the diverse investment portfolio held by the University, as mandated by the diversification policies included in the Board approved Statement of Investment Objectives and Policy.

23. Pension Plans

The University contributes to two separate employee pension plans. As explained in the following two sections, both plans are Shared Risk Pension Plans (SRP) which are subject to legislation under the *Provincial Pension Benefits Act (PBA)*. The PBA contains a number of requirements that must be met in order to qualify for registration by the New Brunswick Superintendent of Pensions. SRP plans are also subject to the *Federal Income Tax Act*. SRPs' are governed jointly by the employees and the employer through a Board of Trustees which must include equal representation from both groups. The objective of SRP plans is to provide secure, but not guaranteed pension benefits to members of the plans and predictability and stability in contribution rates to both employers and employees. These objectives are achieved through the development of a risk management framework that adheres to the legislated criteria, results in a low probability that base benefits will be reduced, and sets out the specific steps to be taken should the plan funding fall below, or exceed specified thresholds. These steps include the non-approval of indexing benefits; increasing contribution rates (to a predetermined maximum) and reducing base benefits when the plan is underfunded; and reversing previous benefit reductions and decreasing contribution rates (to a predetermined maximum) when the plan has excess funding.

Pension Plan for Support Staff

Support staff are members of the Public Service Shared Risk Pension Plan (PSSRP) which was converted by the Province of New Brunswick from the former Public Service Superannuation Plan effective January 1, 2014. The PSSRP provides pensions based on the length of service and enhanced average career earnings. Certain portions of the benefits, such as indexing, are conditional on plan performance. Base benefits earned by members up to December 31, 2013 are guaranteed not to be reduced. Normal retirement age is 65 with reduced benefits available starting at age 60.

Contribution rates are established by the Board of Trustees in accordance with the Funding Policy for the Plan. Initial rates have been set at 7.5% of pensionable earnings up to Yearly Maximum Pensionable Earnings (YMPE) and 10.7% above YMPE for employees and currently at 12.5% of pensionable earnings by the employer. Rates can fluctuate in accordance with the Funding Policy. UNB is only responsible to make contributions at the annually established current employer contribution rate.

Under the predecessor plan, the University was not required to make deficit amortization or "special" payments to the plan.

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23. Pension Plans (continued)

Pension Plan for Support Staff (continued)

The PSSRP is a multi-employer, defined benefit plan. Contributions are made by both the University and the employees at rates established by the Board of Trustees. UNB does not have membership on this Board. Since it is not practicable or feasible to obtain all the information required for a materially precise attribution of the University's portion of the obligation; the University uses defined contribution accounting to account for its contribution to the PSSRP.

Academic Employee Shared Risk Pension Plan

Academic employees of the University are members of the Academic Employee Shared Risk Pension Plan (AESRP). The former Academic Employee Pension Plan was converted to the AESRP effective July 1, 2013 by agreement of the University and the Association of University of New Brunswick Teachers (AUNBT). The AESRP provides pensions based on the length of service and adjusted average career salary (designed to take into account the salary scale unique to academic employees). Certain portions of the benefits, such as indexing, are conditional on plan performance. Normal retirement age is 65 with reduced benefits available starting at age 60.

Contribution rates are established by the Board of Trustees in accordance with the Funding Policy for the Plan. Initial rates have been set at a blended (above and below YMPE) rate of 11.5% of pensionable earnings for employees and matched by the employer. Rates can fluctuate in accordance with the Funding Policy to a maximum of 2.25% above or below the initial contribution rate. UNB has no financial obligation or responsibility except to make contributions at the current employer contribution rate. The AESRP valuation at July 1, 2015 reaffirmed the assumptions and confirmed the funding status of the plan in accordance with the Pension Benefits Act to be in excess of 105% therefore the Board of Trustees has maintained the contribution rates at 11.5% of pensionable earnings by each party.

The characteristics of the AESRP as described in the agreement between UNB and the AUNBT to convert the former AEPP to the AESRP are as follows:

- Purpose of AESRP is to provide secure (but not guaranteed) pension benefits
- Risk focused management approach to provide high degree of certainty that base benefits can be paid in the majority of future scenarios
- Future cost of living adjustments (COLA's) and best average salary formula based benefits are replaced by contingent indexing
- Plan is to provide a reasonable expectation, but no guarantee that some COLA can be granted
- Plan designed to result in low probability of base benefits ever being reduced

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23. Pension Plans (continued)

Academic Employee Shared Risk Pension Plan (continued)

- Funding Policy includes specific steps to recover from unacceptable funding levels that take priority over reduction of base benefits.

Canadian accounting standards as written do not contemplate pension plans designed as SRP Plans under the Pension Benefits Act. SRP plans do not fit the definition of a defined benefit or a defined contribution plan as outlined in the CPA Handbook. However, variability in employer contribution rates (up to 2.25% of employee pensionable salary in a year) could occur in the future that could conceivably relate to service by existing employees in this period. The accounting standards require that the AESRP is accounted for by UNB as a defined benefit plan because of the rate variability risk to the University. The University shares the risk of the Plan on an equitable basis with the Plan members. Funding contributions, including any contribution adjustments, are shared equally (50/50 basis) between the University and the Plan members. There is a joint governance structure in place whereby the University and the Plan members share control over decisions relating to the administration of the Plan and the level of benefits and contributions. As such, the amounts recognized in the financial statements reflect 50% of the net benefit liability (asset) and 50% of the related costs (including rerevaluations).

In the event of a wind-up of the Plan within five years of the conversion date, the plan would be wound up under the provisions of the former AEPP as a fixed contribution plan.

All assumptions relating to the AESRP have been made on a going-concern basis and the University does not foresee a wind-up of the Plan.

The most recent actuarial valuation of the Plan for funding purposes was completed as at July 1, 2015. The valuation reported a funding policy excess of \$53,465 (July 1, 2014 - \$40,133).

The financial position of the plan on a funding policy basis is determined by deducting the funding policy liability from the funding policy value of the assets. The funding policy asset value includes the present value of excess contributions \$84,703 (July 1, 2014 - \$77,641) defined as the excess of expected contributions less normal cost for each year in the 15 years after the valuation date. The funding policy liability is the actuarial present value of past base benefits and past ancillary benefits but does not include any adjustment for future progress through the ranks adjustments.

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23. Pension Plans (continued)

The results of the most recent funding valuation at are presented below.

	July 1, 2015	July 1, 2014
Funding policy value of assets		
Market value	\$ 289,514	\$ 272,148
Present value of excess contributions	<u>84,703</u>	<u>77,641</u>
	374,217	349,789
Funding policy liability	<u>320,752</u>	<u>309,656</u>
Net plan surplus	<u><u>\$ 53,465</u></u>	<u><u>\$ 40,133</u></u>

The liability determined under the actuarial funding valuation at July 1, 2015 was extrapolated to April 30, 2016 using the actual benefits paid and indexing granted to April 30th. The market value of plan assets is taken at April 30, 2016. The extrapolation also reflects the interest cost using the assumptions contained in the funding policy valuation. Benefit accruals from employee service during the year are based on the funding policy normal cost. The University only reflects 50% of estimated liability and cost components in April 30, 2016 financial statements as the plan is jointly governed by the University and the AUNBT.

The funding policy valuation results presented include the present value of excess contributions for 15 years following the valuation date. This amount is added to the asset value for policy testing only in order to determine if the indexing at a certain measurement date may be provided. This does not represent an actual asset as per the accounting standards and is therefore excluded when determining the accounting position for financial statement purposes. The liability under the funding policy is the deemed measure of obligation for purposes of the accounting standards, using an actuarial funding valuation approach. This amount excludes the indexing for future years as required by the funding policy.

The results of the extrapolation, as at April 30, 2016, for accounting purposes are presented below.

	2016	2015
Market value of assets	\$ 290,860	\$ 293,204
Liability	<u>332,076</u>	<u>320,814</u>
Net liability	<u>(41,216)</u>	<u>(27,610)</u>
Net liability University 50%	<u><u>\$ (20,608)</u></u>	<u><u>\$ (13,805)</u></u>

24. Comparative Figures

Certain amounts in prior periods have been reclassified to conform to the current year's presentation.