



Comptroller's Report

For the Year Ended April 30

2012

Karen Cunningham, CA
University Comptroller

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



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Executive Summary

I am pleased to present the Report of the Comptroller for the fiscal year ended April 30, 2012.

This report is in addition to the University's audited financial statements and offers analysis and commentary with respect to the University's financial results for the year and the financial position at the end of the year. The audited financial statements report on the operations and financial position of the entire University and were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

The financial statements have been audited by Deloitte & Touche, LLP and their Auditor's Report is part of the audited financial statement package. For the year ended April 30, 2012, Deloitte and Touche have issued an unqualified audit opinion, meaning that according to their independent review, the audited financial statements express fairly the University's financial position and results of operations in accordance with GAAP.

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

The major highlights of the 2012 financial statements were:

- The University reported a \$3.0 million decrease in the accumulated operating deficit for the year ended April 30, 2012 eliminating the existing \$3.0 million accumulated deficit.
- The Board had approved a balanced operating budget for the year so these results represent a better than expected result. This is largely a result of higher than expected student fee income and other income as well as lower than expected expenses for salaries and benefits and utilities. The variance and reasons therefore are discussed in greater detail in the Summary of Operating Budget Financial Results of the Assistant Vice-President of Resource Planning and Budgeting.
- Net growth of \$3.2 million in the value of the University's trust and endowment accounts which is the net result of donations of \$24.6 million, investment income of \$1.9 million, less 2011-12 trust and endowment spending of \$23.3 million.
- The University spent \$23.3 on fixed assets during the year which represents a significant decrease from the prior year total of \$67.9 million as major capital projects were completed. The bulk of this spending related to the completion of the Richard J. Currie Center in Fredericton and the Hans W. Klohn Commons in Saint John. Much of the remainder of the acquisitions related to teaching space and infrastructure upgrades largely funded through Government infrastructure renewal programs.

Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2012 have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for not-for-profit organizations. Not-for-profit organizations have a choice with respect to how they report within these standards – either the Deferral method or Restricted Fund method.

UNB selected the deferral method a number of years ago. Under this method the University is required to report the operations of all Funds on a consolidated basis in the financial statements. However, all contributions with external restrictions placed on their use for specific purposes are deferred and recognized as revenue only in the period the funds are actually used for the intended purposes. This would include such things as sponsored research revenue, contributions for specific purposes, and contributions for fixed 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.

The audited financial statements are one component of the financial reports used in the management and oversight of the University operations. They offer a consolidated view of operations but the deferral accounting method results in some significant differences from the funds format financial statements which are typically used throughout the year by University management and the Board of Governors to assess operations. For example,

- Donations and research grants received are reported as revenue in the year received in the funds format financial statements but in the GAAP based audited financial statements, are only recognized to the extent the revenue is spent in the year. Unspent amounts are deferred until spent for the restricted purpose.
- Endowment contributions are not recognized in the GAAP statements as revenue at all 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 GAAP statements.

Therefore, the two accounting methods result in significant differences in amounts reported in the GAAP statements and the funds format statements.

The University operates the following four funds which are consolidated in the audited financial statements prepared in accordance with GAAP:

- Trust and Endowment Fund 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 Fund holds restricted research, capital project and other accounts which are funded from internally and externally restricted sources;
- Plant Fund holds the University's capital assets; and
- Operating Fund where the financial operations of the University are reported.

The audited financial statements include:

- Consolidated Balance Sheet which shows the financial position of the University as at the end of the fiscal year. This includes the assets owned by UNB less the liabilities, resulting in the Net Assets of the University;

- Consolidated Statement of Revenues, Expenses 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 change in the net 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.

The Consolidated Statement of Revenues, Expenses and Changes in Net Assets reports an excess of revenues over expenses before changes in internally restricted net assets, of \$21.2 million, reflecting all university activities both restricted and unrestricted. The \$21.2 million is adjusted for the changes in the net assets outlined below, illustrating the impact of various internal and external restrictions in net assets and culminating in the net operating result that is reported in the Summary of Operating Budget Financial Results of the Assistant Vice President of Resource Planning and Budgeting.

- Reported expenses are adjusted by a net amount of \$7.8 million related to accounting for the capitalization and amortization of capital assets, as 2011-12 fixed asset additions funded from the operating budget exceeded amortization expense on assets funded from operations (this amount is recorded as an increase in net assets invested in capital assets).
- Reported expenses reflect an adjustment of \$14.4 million relating to timing differences on approved operating budget expenditures and changes in special purpose reserves (these amounts are recorded as increases in internally restricted net assets for general operating or specific purposes).
- Reported revenues include a decrease of \$1.1 million in internally restricted donations and income on internally restricted donations (this amount is recorded as a decrease in net assets restricted for specific purposes). This mainly results from investment gains within the University's Trust and endowment investment fund.
- Reported expenses reflect a net adjustment of \$3.0 million related to the accounting for employee future benefits to reflect the difference between the actuarially determined accounting cost and actual benefits paid during the year (this amount is recorded as a net increase in unfunded non-pension employee benefits).

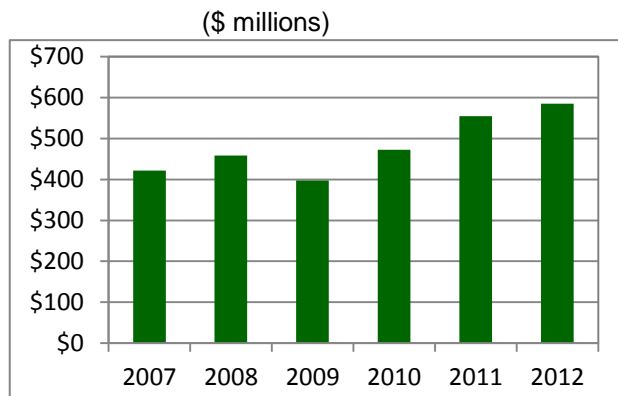
After the above-noted adjustments for changes in net assets, the Statement of Operations reports a net decrease of \$3.0 million in the University's accumulated operating deficit that eliminated the accumulated deficit existing at the beginning of the year.

Analysis of Major Items on the Consolidated Balance Sheet

The Consolidated Balance Sheet reports the assets owned and controlled by the University; the Liabilities owed by UNB and the Net Assets of the University as at the end of the fiscal year – April 30, 2012 (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 the values reported in various categories on the Consolidated Balance Sheet for the past 6 years.

Total Assets

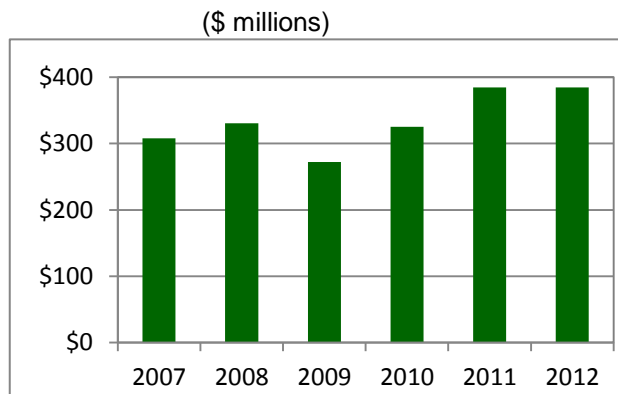


Description: Total assets represent the lower of cost and fair market value of all assets (excluding approximately 8,300 acres of land holdings) owned by the University in accordance with GAAP.

2011-12 Comments: The major driver of the increase in assets is an increase in cash and equivalents (\$27.8 million in 2012) due to favourable cash flows.

Trends: Total assets have trended upward since 2007 from \$421.5 million to \$584.9 million in 2012 primarily due to increased capital activity. The changes in the major asset components are discussed in the subsequent tables.

Total Liabilities

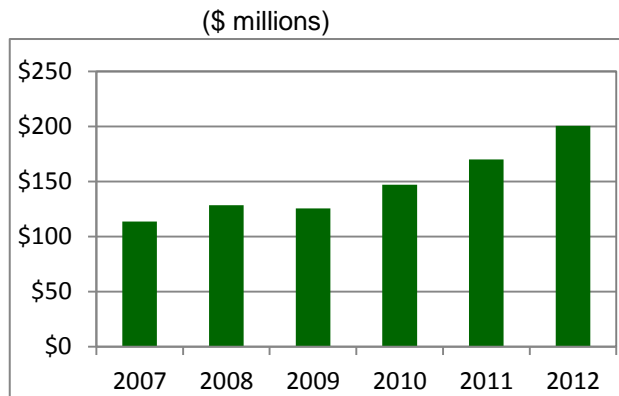


Description: Total liabilities represent the sum of amounts owed to external parties under various contracts and arrangements.

2011-12 Comments: Long term debt and unearned revenue increased and accounts payable decreased by corresponding amounts in 2012 resulting in virtually no change in the total liability balance.

Trends: Total liabilities have generally shown an increase over the past 5 years from \$307.8 million. However, the growth has ceased over the last year with total liabilities remaining somewhat constant at around \$384 million.

Total Net Assets

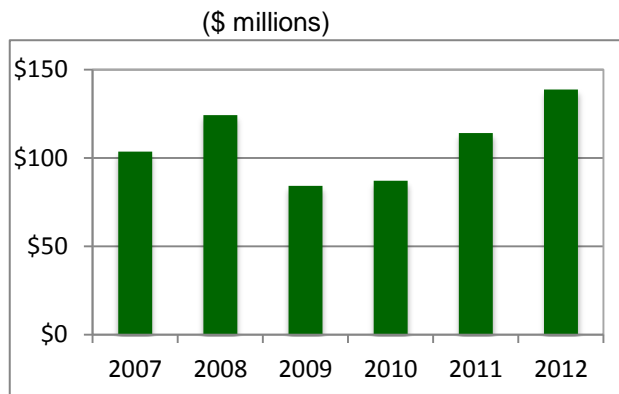


Description: Net assets is the result of deducting total liabilities from total assets. This amount is categorized as restricted, invested in capital assets, endowed, related to unfunded non-pension employee benefits or operating.

2011-12 Comments: Net assets increased by \$30.6 million in 2012 in the categories of Restricted (\$13.1 million), Endowed (\$10.9 million) and Invested in capital assets (\$6.6 million).

Trend: Net assets have shown a steady increase over the past 5 years in the same categories – Restricted (\$31.9 million), Endowed (\$26.4 million) and Invested in capital assets (\$27.8 million).

Current Assets

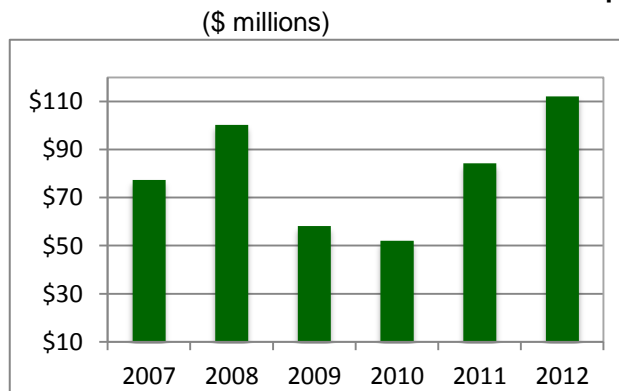


Description: Current assets represent assets that are cash or near cash or are expected to be converted to cash within the next 12 months.

2011-12 Highlights: Current assets increased by \$ 24.7 million primarily due to an increased cash position.

Trend: Total \$138.8 million in 2012 versus \$103.7 million in 2007. The bulk of the increase is in cash balances. Inventory values have also declined as the Saint John bookstore operations were outsourced in 2011-12. Bookstore operations on both campuses are now outsourced.

Cash and Equivalents

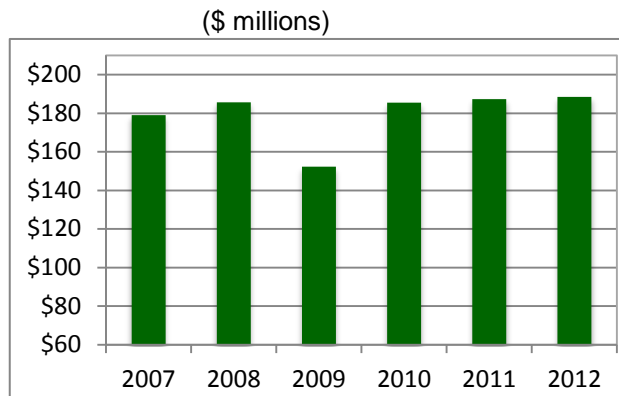


Description: Includes cash and short term investments with maturity dates of less than 12 months. Cash is invested in short term, fixed income vehicles with an emphasis on preserving liquidity and capital.

2011-12 Comments: Cash and equivalents increased by \$27.4 million during 2011-12. Cash balances are dependent on the timing of receipts and disbursements and can fluctuate significantly depending cash requirements.

Trend: The past two years have seen large year-end cash balances. This is not unprecedented as can be seen from the 2007 and 2008 fiscal years.

Long Term Investments

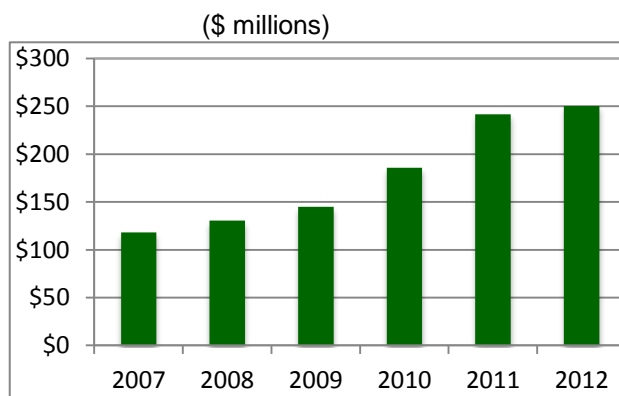


Description: Long term investments primarily represent the assets of the Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investment Committee.

2011-12 Comments: Investment returns on the Endowment Fund in the year were low so that new gifts and interest just covered spending requirements resulting in virtually no growth in long term investments.

Trend: Like the rest of the world, UNB's investments suffered a major decline in the recession of 2008 of \$33.4 million but have rebounded subsequently to \$188.4 million in 2012 representing a net increase since 2007 of \$9.4 million. The Investment Committee continues to monitor the investments and ensure the assets are invested in accordance with approved Investment Objectives and Policy.

Capital Assets

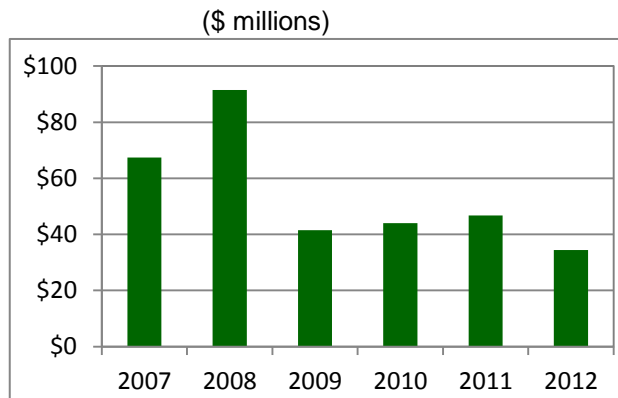


Description: Capital assets represent the un-depreciated cost of University owned buildings, infrastructure, equipment and other tangible assets used in University operations.

2011-12 Comments: Net capital assets grew by \$8.9 million in the year representing the completion of a period of major capital development at UNB. Both the Richard J. Currie Center and the Hans W. Klohn Commons were completed in the year.

Trend: The past 5 years has been a period of unprecedented capital activity in UNB's history, resulting from the Forging our Futures capital campaign and infrastructure renewal funding provided by both the federal and provincial governments.

Current Liabilities

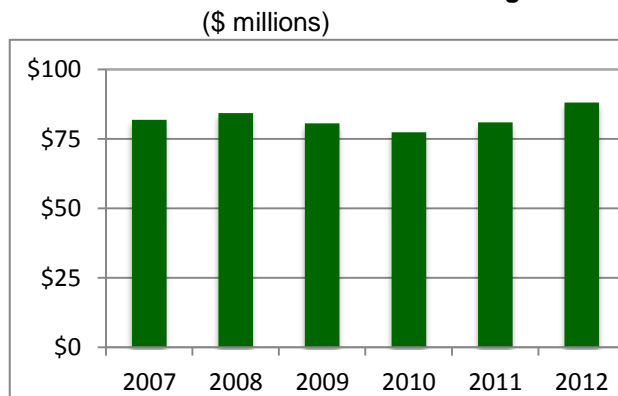


Description: Current liabilities are made up of regular accounts payable and unearned revenue.

2011-12 Comments: Unearned revenue decreased by \$9.1 million due to the timing of receipt of the Provincial operating grant payment for May.

Trend: Accounts payable has remained fairly constant at between \$25 and \$28 million. Unearned revenue has decreased as the timing of receipt of the May operating grant payment has changed.

Long Term Liabilities

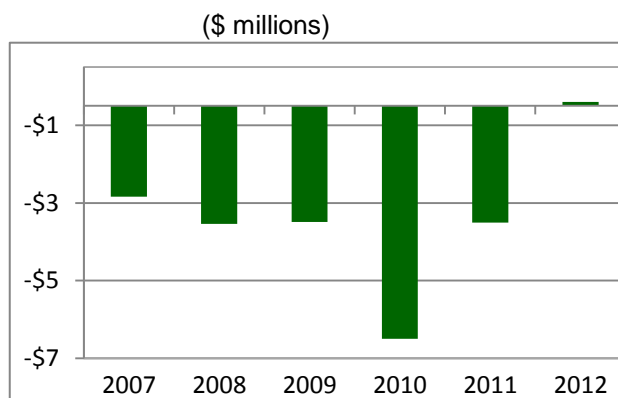


Description: Long term liabilities consist of long term debt and employee future benefits.

2011-12 Comments: The net increase in long term debt in the year related to borrowing required to finance the Richard J. Currie Center of \$7.5 million.

Trend: Long term debt has increased over the past 5 years related to financing for capital projects. This has included residences on both campuses as well as the Richard J. Currie Center. The long term debt increase has been offset by the reduction in the liability to improve the Academic Pension Plan as the University has made the amortization payments over the past 5 years.

Accumulated Operating Surplus (Deficit)

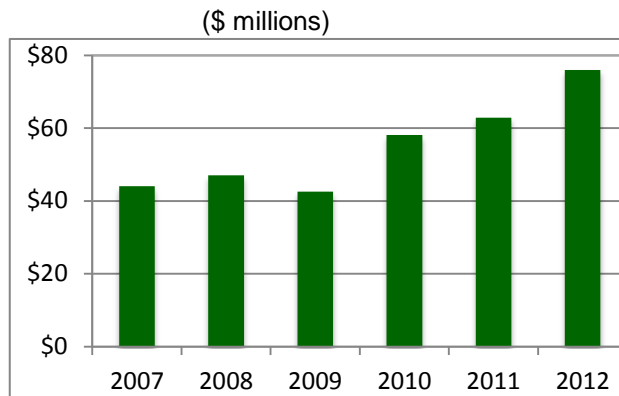


Description: This represents the accumulation of operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual surplus or deficit.

2011-12 Comments: The University reported an operating surplus of \$3.0 million in the year.

Trend: 2012 was the second successive year the University reported an operating surplus of \$3.0 million following a year with a \$3.0 million loss. This positive trend has enabled the University to eliminate its accumulated deficit as of April 30, 2012 resulting in an accumulated surplus of \$11 thousand.

Net Assets Restricted for Specific Purposes

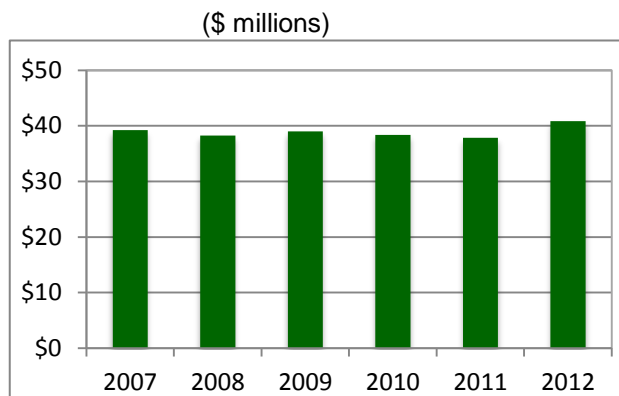


Description: This represents net assets that have been restricted either through restrictions by Board policy or specific decisions of the Board.

2011-12 Comments: The main restricted areas that increased in the year were funds for Capital projects (\$6.8 million) and Specific projects (\$4.8 million).

Trend: Internally restricted net assets have increased over the past 5 years from \$47.0 million to \$75.9 million.

Unfunded Non-Pension Employee Benefits



Description: These benefits include retiring allowances, post-retirement benefits, early retirement plans and unused vacation. This amount represents the extent to which these liabilities have not been funded by the University.

2011-12 Comments: The unfunded amounts of retiring allowances, post-retirement benefits and early retirement plans all increased in the year, largely due to decreases in the discount rates used to value the liabilities.

Trend: The balances have remained fairly constant over the past 5 years with only slight growth as the University has partially funded the early retirement plans. The other plans are budgeted for annually and funded out of on-going operations on a pay-as-you-go basis.

Analysis of Major Items

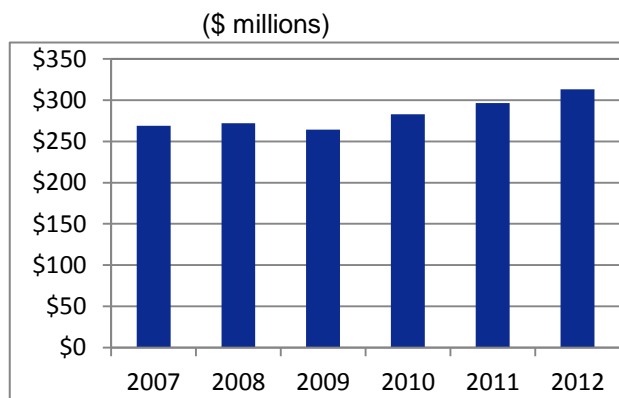
Consolidated Revenues and Expenses

The Consolidated Statement of Revenues, Expenses 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, Endowment Fund, Plant Fund and Operating Fund accounted for according to generally accepted accounting principles (GAAP). As previously discussed, these results are not merely a summation of the four funds because the accounting policies require that some items, such as unspent restricted funds, are deferred and only 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 GAAP.

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

The following charts offer additional information with respect to revenues, expenses and the net operating results for the past 6 years.

Total Revenue

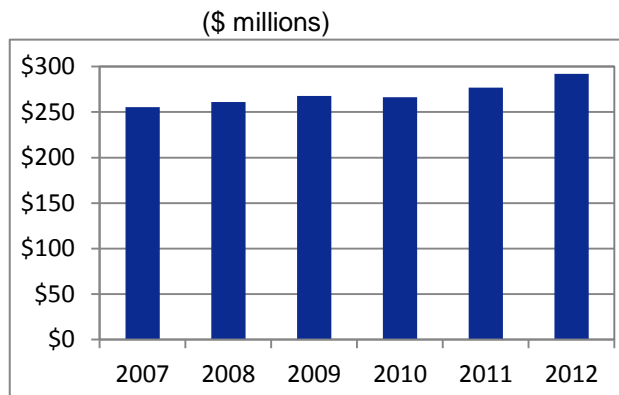


Description: Reported revenues include funding from all sources (restricted and unrestricted). Revenues are reported according to GAAP which requires restricted revenue to be reported in the year it is spent regardless of when received.

2011-2 Comments: Revenue increased by \$16.8 million over the prior year, primarily due to the recognition of grant and donation revenue used to fund capital projects.

Trend: Revenues have grown by \$44.4 million over the past 5 years. This is mostly attributable to increases in government grants (\$24.0 million) and student fee income (\$9.8 million) as well as fluctuations in several other revenue items.

Total Expenses

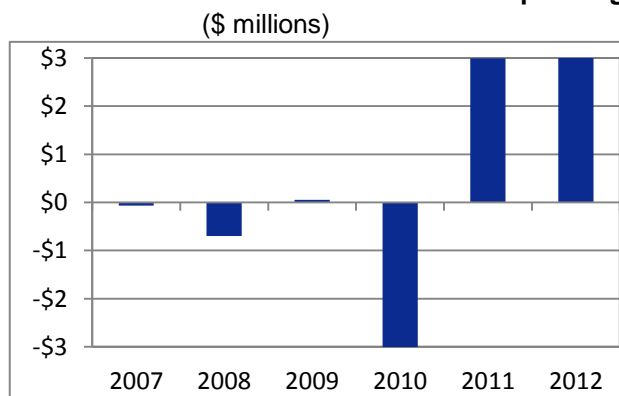


Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their useful lives and amortization expense is included in annual expenses.

2011-12 Comments: Expenses increased by \$14.9 million over the prior year. There is no particular area impacted by the increases.

Trend: Expenses have grown over the past 5 years by \$35.9 million. The bulk of this has been in Instruction and non-sponsored research expense with additional expense growth in research, amortization, student services and employee future benefits.

Net Operating Results

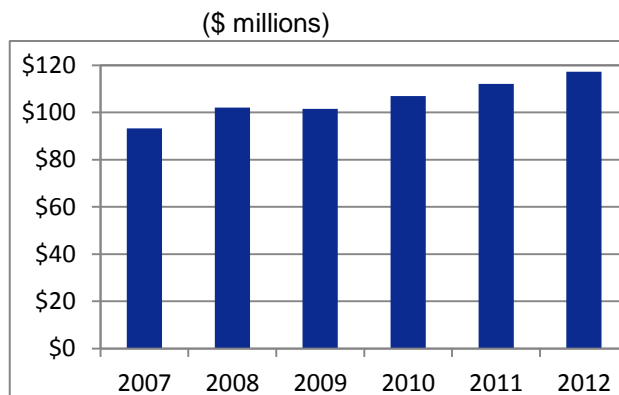


Description: This illustrates the net operating results for the year with positive amounts being surpluses and negative amounts being deficits.

2011-12 Comments: The University has realized net operating surpluses for each of the past two years following a shortfall in 2010 of \$3.0 million.

Trend: Two years of positive results have enabled the University to eliminate its accumulated deficit as of April 30, 2012.

Government Grants



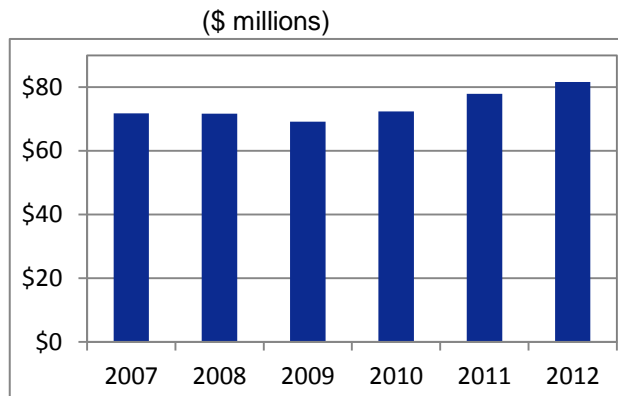
Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2011-12 Comments: The regular operating grant increased by 1.7% in 2011-12 to \$108.0 million. In addition, amounts were received for the Nursing programs and various capital projects.

Trend: The operating grant has grown over the 5 year period but the Province has notified all universities that the 2013 increase was a one-time amount and that increases cannot be relied on in future years.

The University continues to engage in discussions with Provincial representatives with respect to multi-year finding.

Student Fees

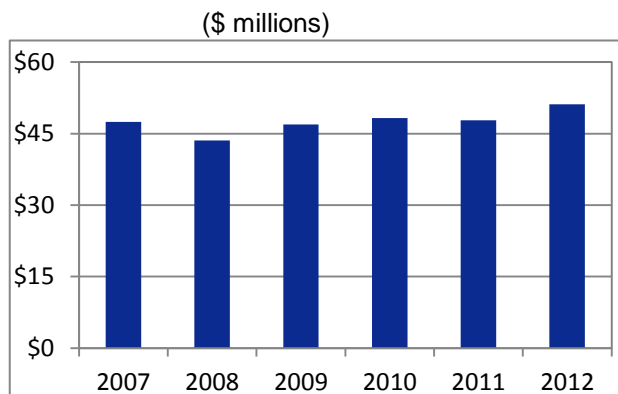


Description: Student fee revenues include tuition and other fees paid by students for specific purposes.

2011-12 Comments: Fee revenue from students increased by \$3.7 million from the prior year.

Trend: Student fee revenue has increased by \$9.9 million over the past 5 years with all the increase coming in the past 3 years. Fees have increased modestly and enrollment has also increased in the last 2 years after several years of decreases.

Research Grants and Contracts

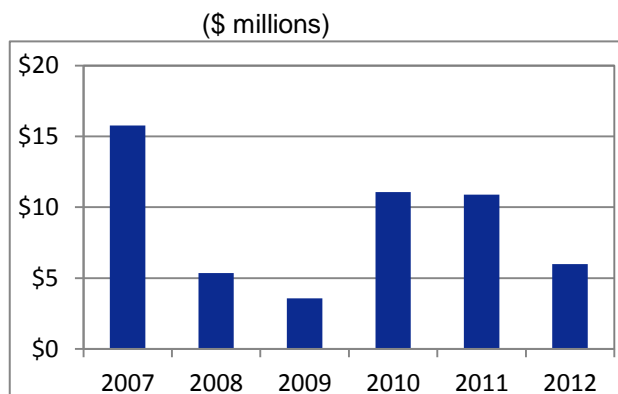


Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project.

2011-12 Comments: Research revenue recognized in the financial statements increased by over the prior year by \$3.4 million.

Trend: Research revenue recognized in 2012 was has increased by \$3.7 since 2007 while research spending increased by a slightly higher amount due to the inherent risk associated with research activities.

Investment Income



Description: Investment income represents earnings on investments to the extent the revenue is required to support spending. Amounts are deferred to future years when earnings exceed requirements in accordance with the revenue recognition standards under GAAP.

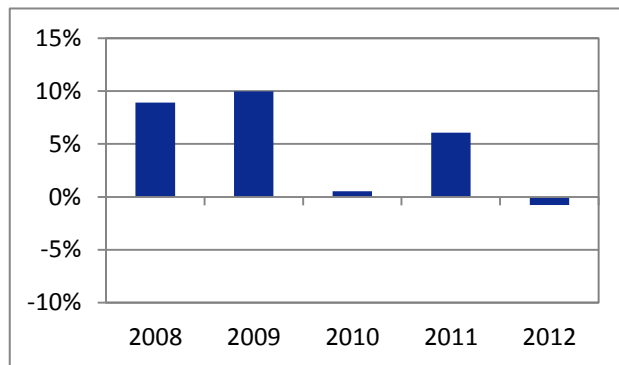
2011-12 Comments: Market returns were low in 2012 at 0.88% resulting in the need to augment earnings from prior years deferred amounts.

Trend: Investment income is dependent on market returns and as such is subject to volatility. The Board Investments Committee has oversight for the investments.

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 as useful 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

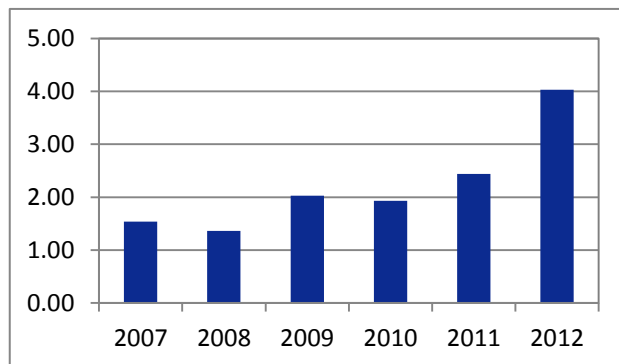


Description: This shows the actual growth in operating expenses per student. A stable or declining percentage is preferred.

2011-12 Comments: Due to an enrolment increase and reduced spending, there was a decline in expenses per student.

Trend: The overall trend has been a decrease in operating expenses per student.

Working Capital Ratio

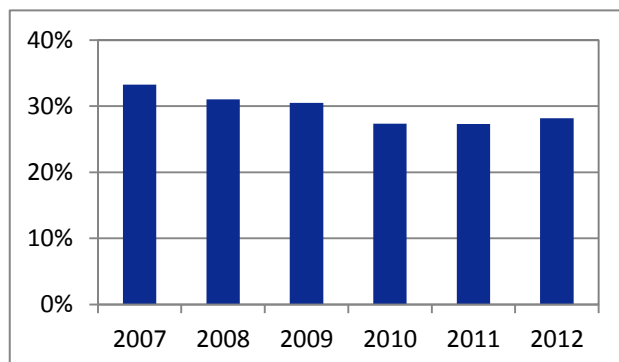


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity.

2011-12 Comments: A ratio of 4.0 is very strong.

Trend: This ratio has remained strong throughout the period which is a reflection of large cash balances and decreases in accounts payable over the period.

Long-term Liabilities as a percentage of Total Revenue

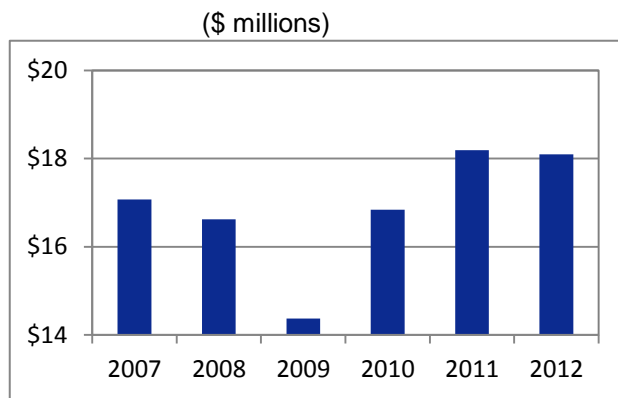


Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2011-12 Comments: There was a slight increase in this percentage in the year from 27.3% to 28.2% as a result of borrowing to finance the Richard J. Currie Center.

Trend: The general trend over the past 5 years has been a decline in the percentage of long-term debt to revenue.

Endowment and Long-term Trust Funds per FTE Student

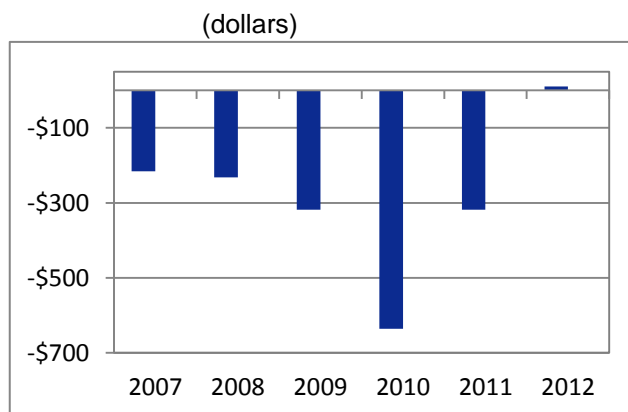


Description: This indicator shows the value of endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2011-12 Comments: The funds per student increased in 2012 by \$100. An increase in endowments is the major contributor to this.

Trend: The general trend over the past 5 years has been an increase in funds per student.

Accumulated Operating (Deficit) Surplus per FTE Student

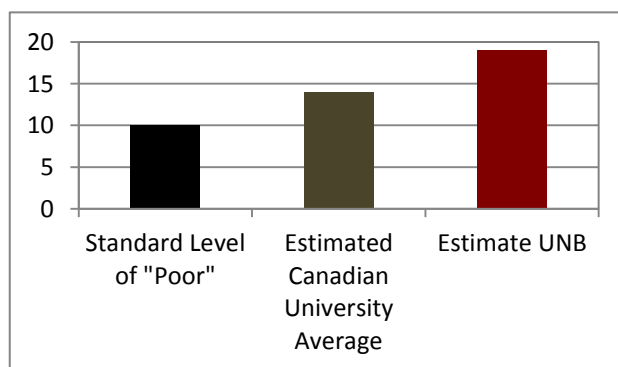


Description: This indicator gives an idea of the deficit burden that must be supported by each student.

2011-12 Comments: The accumulated Operating Deficit was eliminated in 2012 so there is no longer any deficit to per student.

Trend: The accumulated deficit has been eliminated over the past two years after reaching a high of \$6.0 million at the end of the 2010 fiscal year.

Facilities Condition Indicator



Description: This indicator gives a picture of the condition of the capital assets and infrastructure of the University with Canadian comparators. A high FCI indicates a poor condition.

Comments: As one of the oldest campuses in Canada, UNB is in a more challenging position than many universities due to the age of the campus buildings. The University strategic plan recognizes the importance of improving the condition of its capital assets and is developing a long term capital plan to address the infrastructure issues in a sustainable manner.

Supplementary Information to the Notes to the Financial Statements

Net Assets Restricted for Specific Purposes

Note 16 to the Consolidated Financial Statements presents the details of net assets restricted for specific purposes. Total net assets restricted for specific purposes at April 30, 2011 were \$65.8 million and at the end of the 2012 fiscal year totaled \$75.9 million. As net assets restricted for specific purposes represent almost 40% of total net assets, the University has been attempting to improve the reporting of these amounts over the past several years. In 2011-12, a detailed analysis of net assets for restricted purposes was undertaken in order to develop and define categories to meet this objective.

As a result of the analysis, the general categories detailed below were established and the restricted net asset balance has been reclassified according to those categories to provide users of the financial statements, including senior management and the Board, with a better understanding of the nature and purposes of the restricted net asset amounts.

Capital

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

Risk

These amounts have been generated from operations 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 revenue above that in the operating budget. These amounts represent excesses of revenues over expenses from these activities that 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 items have been restricted for use in a number of specific projects or for specific purposes over varying time horizons.

Strategic priorities

Sourced from operating funds, 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 restricted donations and internally restricted income and can only be spent according to the originally designated purpose.

Contract overhead

These funds were received for research or contract overhead in accordance with the terms of the

granting agency or contractor and been restricted for use by the Office of Research Services and originating units in accordance with University policy.

The restricted amounts in the various categories are outlined in the table below:

	2012	2011
Capital	\$ 20,039	\$ 13,190
Risk	14,421	12,220
Entrepreneurial activities	13,322	12,176
Specific projects	9,920	5,083
Strategic priorities	6,880	6,159
Operating budget carry forwards	6,567	7,759
Scholarships, bursaries and awards	2,697	3,835
Contract overhead	2,087	2,460
	<u>\$ 75,933</u>	<u>\$ 62,882</u>

Pension costs

As disclosed in Note 23 of the University's financial statements, the University participates in two separate employee pension plans, the Public Service Superannuation plan and the Academic Pension Plan. The University's only obligation under these plans is to make contributions at specified rates as set out in applicable legislation or plan documents. These specified rates are based on contribution rates determined by each Plan's actuary.

In 2007, the University and the AUNBT entered into a six-year Program to Improve the Financial Status and Outlook of the Academic Pension Plan. Under the Improvement Program, the University made specified funding commitments over the six-year life of the Agreement. This included special lump sum payments on July 1, 2007 to establish a Rate Stabilization Account (RSA) within the Fund, additional contributions to the RSA in the amount of 0.5% of bi-weekly payroll over the six-year period, and a continuation of deficit amortization payments over the six-year period.

To reflect these commitments, the University's 2007 financial statements included deferred pension charges and a pension liability of \$19,490 thousand. The liability has been reduced in the 2012 financial statements by the amounts funded by the University from 2008 to 2012 inclusive for both the RSA and deficit amortization payments. Deferred pension charges have been reduced by the deficit amortization payments funded in those years.

Academic Pension Plan

An updated valuation of the Academic Pension Plan was completed as at July 1, 2011 and was recently filed with the Office of the Superintendent of Pensions. The previous valuation was completed as at July 1, 2010. Like many pension plans in New Brunswick, the Academic Pension Plan is required to prepare annual valuations as the funded status of the Plan is below the threshold set out in the pension legislation (solvency funding ration of less than 0.9).

The following table provides a summary of the results of the 2011 and 2010 valuations of the Academic Pension Plan:

	July 1 <u>2011</u>	July 1 <u>2010</u>
Actuarial value of assets	\$ 188,312	\$ 175,728
Actuarial liability	<u>262,811</u>	<u>245,646</u>
Unfunded actuarial liability	<u>\$ (74,499)</u>	<u>\$ (69,918)</u>
Percent funded	71.65%	71.54%
Required Member and University contribution rate *	12.39%	11.63%

* Current actual Member and University contribution rate is 10.05% The difference between the actual rate and the required rate is funded by a transfer from the Rate Stabilization Account

The year-over-year increase in the unfunded liability is primarily due to the recognition of previously deferred investment losses in the actuarial value of Plan assets. The actual rate of return on fund assets for the one year period ending June 30, 2011 was 11.9% which exceeded the short term actuarially assumed rate of 6.25%. However changes in assumptions related to the liability discount rate, inflation rate and mortality resulted in an increase to the unfunded liability of \$6,578 thousand.

As noted in the table above, under the terms of the Improvement Plan which was signed by the University and the AUNBT in 2007, the contribution rate increase required under the 2011 valuation is funded from the Rate Stabilization Account (RSA) established under the Improvement Plan. Therefore, the July 1, 2011 valuation had no impact on 2011-12 results. It should be noted however, that in order to assess whether the assets held by the RSA will be sufficient until July 2013 as planned in the initial Improvement Program, the actuary performed projections of the RSA based on the results of the July 1, 2011 valuation. These projections indicate the RSA will be depleted sometime in the Fall of 2012. The University and the AUNBT have undertaken a review process to consider options to fund the pension plan but to date no decisions have been made.

Non-Pension Employee Benefit Costs

The University operates a number of cost shared employee benefit plans including health & dental, group life family protection, and LTD benefits. The overall cost of these benefit plans is covered 50% by the University and 50% by covered employees. These plans are largely self-insured, but with risk management tools in place to limit the University's (and employees') exposure to adverse claims experience. These tools include the purchase of stop-loss insurance coverage on the health & dental plan whereby the Plan's exposure is capped at \$10,000 per individual claim, and similar insurance on the LTD Plan to limit the Plan's exposure to 5 years of cover age per individual claim.

All plans are operated in accordance with prudent actuarial principles with respect to setting of

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 serve as a rate stabilization account. 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.

In 2011-12, overall results for these non-pension employee benefits reflected a deficit of \$771 thousand. The Group Life Family Protection Benefit plan had a deficit of \$687 thousand, and the combined result for the Extended Health, Drug and Dental Plan was a \$123 thousand deficit while the LTD plan showed a surplus of \$39 thousand. In accordance with the funding policy for these plans, 50% of the net deficit, was transferred from the employer rate stabilization account, and 50% was transferred from the employee rate stabilization account. All benefit reserves have been adjusted to the levels recommended by the University's benefits consultant.

The University also offers other employee benefits including a retirement allowance program, past early retirement offerings, post-retirement group life insurance and supplementary health and dental benefits are offered in certain specific circumstances. The liabilities relative to these programs are detailed in note 11 to the financial statements. The unfunded liabilities related to all three of these benefits increased during 2011-12 – primarily due to changes in actuarial assumptions that are required under the accounting and actuarial standards. Specifically, the discount rates used to value the liabilities were decreased as per recommendations of the actuaries which resulted in increases to the liabilities.