Comptroller's Report

For the Year Ended April 30

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

2014

Karen Cunningham, CA
University Comptroller

UNB

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Executive Summary

I am pleased to present the Report of the Comptroller for the fiscal year ended April 30, 2014.

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 Accounting Standards for Non-Profit organizations (ASNPO) as issued by the Chartered Professional Accountants of Canada (CPA).

The financial statements have been audited by Deloitte, LLP and their Auditor's Report is part of the audited financial statement package. For the year ended April 30, 2014, Deloitte has issued an unqualified audit opinion, meaning that according to their independent audit, the financial statements express fairly the University's financial position and results of operations in accordance with ASNPO.

In addition, a Statement of Management Responsibility, signed by the President and Vice President (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 2014 financial statements were:

- The University reported an operating surplus for the year ended April 30, 2013 of $4.2 million (2.3% of the $180 million operating budget) before year allocations by the Board of Governors to various initiatives. This includes the impact of the faculty arbitration award related to the 2013-14 fiscal year.
- The full operating surplus was allocated to reserves and specific initiatives resulting in the accumulated operating surplus remaining unchanged at $1.5 million.
- UNB acquired capital assets during the year totaling $13.9 million which included $2.4 million related to an upgrade at the Central Heating Plant and various upgrades to classrooms and other facilities on both campuses. These are funded additions with the exception of some energy projects which will be funded from cost savings over time.
- The Academic Employees' Pension Plan was converted to a Shared Risk Plan as defined in the New Brunswick Pension Benefits Act. The accounting standards do not contemplate such a plan so UNB and our auditors had to interpret the standards to determine the appropriate accounting treatment. The result is that 50% of the plan liability is currently reflected in the financial statements.
- The University filed and was approved for an additional rebate of HST paid on capital construction projects. The amount claimed net of commission to the firm that assisted in the claim is $1.5 million. This amount has been internally restricted for future use.

Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2014 have been prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) issued by the Chartered Professional Accountants of Canada (CPA). Canadian Universities generally apply either these standards or Public Sector Accounting Standards depending on the level of control executed by the government in the province where they reside.

Within the ASNPO standards, non-profit organizations have the option to adopt either the deferral method of revenue recognition or the restricted method. UNB 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 are deferred and recognized as revenue only in the period the funds are actually used for the intended purposes. This includes such items 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 and a basis for global comparisons with other universities. However, other universities may use different accounting standards based on the degree of control by their provincial government or may use different revenue recognition standards. In the case of UNB the deferral accounting method results in some significant differences from the funds format financial statements 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 audited financial statements, are only recognized to the extent the revenue is spent in the year. Unspent amounts are deferred and reported on the statement of financial position as unexpended deferred contributions until spent for the restricted purpose.

- Endowment contributions received are not recognized in the audited financial statements as revenue but rather as a direct increase to endowed net assets.

- Capital assets are expensed as acquired in the funds format financial statements but are capitalized and amortized over their useful lives in the audited financial statements.

Therefore, the two accounting methods result in significant differences in amounts reported in the audited financial statements and the funds format financial statements. The fund accounting approach used by management to monitor operations more closely aligns with the approach to manage resources and is widely used in the University and not-for-profit sectors:

- It provides a central mechanism to ensure external and internal restrictions of funds such as research grants, endowment contributions and restricted capital grants are respected;

- It provides an additional measure of expenditure control in that expenditures can only be made when/if there are budgeted funds available in the account

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

- 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 as well as the University's capital assets;

- Operating Fund - where the financial operations of the University are reported.

The audited financial statements include:

- Statement of Management Responsibility where senior management acknowledge their responsibility for preparing the financial statements and maintaining adequate internal controls. In addition, it acknowledges the Board of Governors' responsibility of review of the audited financial statements primarily through its Audit Committee.

- Auditor's Report which outlines the responsibilities of management and the auditor. The auditor's report for 2014 is unqualified.

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

- Consolidated Statement of Operations and Changes in Net Assets which shows the gross revenues and expenses of all University Funds, excluding deferred amounts, resulting in the difference of revenues and expenses. This amount is then adjusted for the amounts applicable to the various components of net assets, ending in the change in the net operating surplus or deficit for the year.

- Consolidated Statement of Changes in Net Assets which shows the changes in each category of net assets.

- Consolidated Statement of Cash Flows which shows the primary sources and uses of cash during the fiscal year.

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

The Consolidated Statement of Operations and Changes in Net Assets reports an excess of revenues over expenses *before* changes in internally restricted net assets, of $19.7 million. This reflects all restricted and unrestricted activities of the university. The $19.7 million is adjusted for the changes in net assets as outlined below, illustrating the impact of various internal and external restrictions on net assets and culminating in a balanced net operating result.

- Net assets invested in capital assets increased by $5.5 million in the year resulting from $8.5 million in capital asset acquisitions funded from operations, decreases in financing of capital assets of $1.1 million, $8.8 million amortization of deferred capital contributions, all offset by $12.9 million in amortization of capital assets.

- The excess of revenues over expenses was adjusted by $11.1 million relating to adjustments to net assets restricted for specific purposes. These changes consist of $4.2 million of operating surplus restricted for one-time projects and priorities, $4.1 million of donations and investment income on internally restricted donations that were internally restricted, less spending from the internally restricted amounts of $2.3 million as well as net changes to operating carry-forwards and specific reserves of $5.1 million.

- The excess of revenues over expenses was reduced by $3.1 million related to the difference between the actuarially determined employee future benefit expense that is reported as an expense and the actual cash contributions,

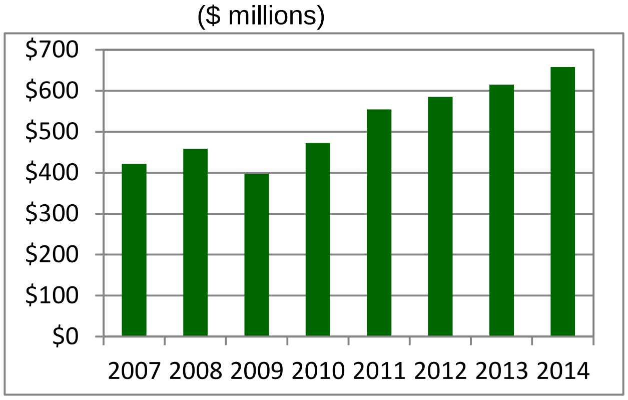
- After the above-noted adjustments for changes in net assets, the Statement of Revenues, Expenses and Changes in Net Assets reports a balanced net operating result and no change in the University's accumulated operating surplus.

Analysis of Major items on the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position reports the assets owned and controlled by the University; the Liabilities owed by UNB and the Net Assets of the University as at the end of the fiscal year – April 30, 2014 (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 Statement of Financial Position for the past 7 years. The balances of previous years have been restated to reflect the change in accounting standards relative to hedge accounting as well as the correction of prior period reporting of internally restricted research related funds.

Total Assets

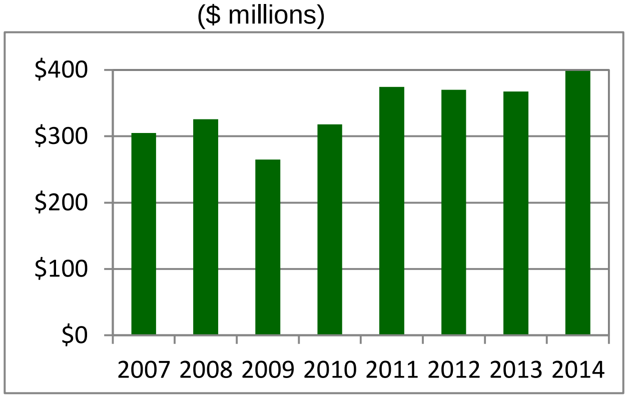


Description: Total assets represent the lower of cost and fair market value of all assets (excluding approximately 8,300 acres of land holdings) owned by the University.

2014 Comments: The major driver of the increase in assets is an increase in long term investments of $84.1M. This includes approximately $67.5M new investments (approximately $40M from cash balances) and $16.5M in investment gains.

Trends: Total assets have increased since 2007 by $147.5M primarily due to increased capital activity, and in recent years increased investments and investment gains. The changes in the major asset components are discussed in the subsequent tables.

Total Liabilities

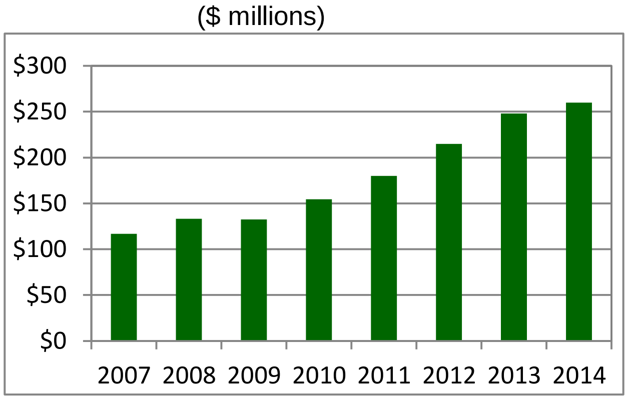


Description: Total liabilities represent the sum of amounts owed to external parties under various contracts and arrangements.

2014 Comments: Total liabilities increased by $31.1M in 2014. The most notable increases were in $17.0M in unexpended deferred contributions (related to increases in the trust and endowment funds from contributions and investment gains) and recognition of the AESRP of $13.8M.

Trends: Total liabilities have generally shown an increase over the past 7 years from $307.8M. The main growth in 2014 is related to recognition of the AESRP liability, deferred revenue and unspent deferred contributions.

Total Net Assets

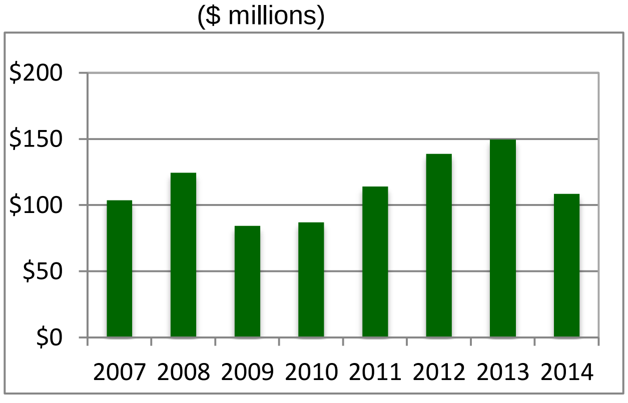


Description: The value of net assets is the result of deducting total liabilities from total assets. This amount is categorized as restricted, invested in capital assets, endowed, related to unfunded non-pension employee benefits or operating.

2014 Comments: Net assets increased by $12.2M in 2014 in the categories of unfunded employee benefits ($12.9M) restricted ($11.1M), Invested in capital assets ($5.5M) and Endowed ($8.5M).

Trend: Net assets have shown a steady increase over the past 7 years from $116.8M to $260.0M. During that time the Accumulated operating deficit was eliminated resulting in an Accumulated operating surplus of $1.5M. Growth in internally restricted was $54.5M, Invested in capital assets $44.6M, and Endowed $31.2M.

Current Assets



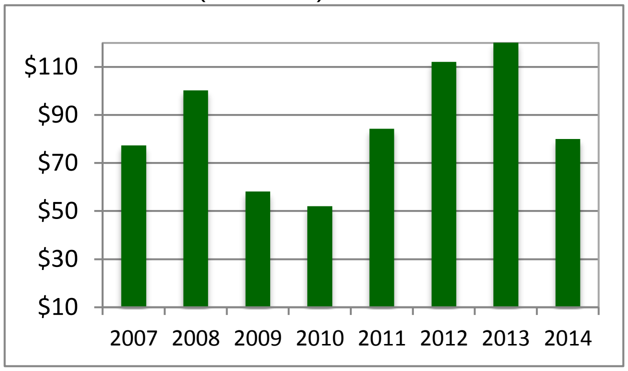
Description: Current assets represent assets that are cash or near cash or are expected to be converted to cash within the next 12 months.

2014 Highlights: Current assets decreased by $41.1M as approximately $40M was transferred from the cash and short term investments to longer term investments in connection with the revised investment strategy to realize additional returns.

Trend: Total current assets have increased by $4.8M since 2007. This increase is equally distributed between cash and prepaid expenses.

Cash and Equivalents

($ millions)



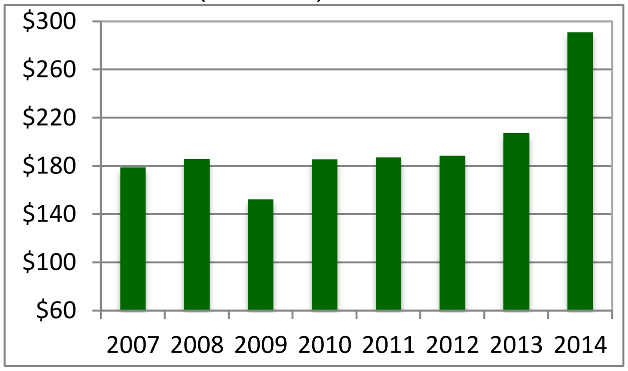
Description: Includes cash and short term investments with maturity dates of less than 12 months. Cash is invested in short term, fixed income vehicles with an emphasis on preserving liquidity and capital.

2014 Comments: Cash and equivalents decreased by $40.0M during 2014. The new investment strategy saw increased investment in medium term investments rather than cash.

Trend: Year end cash balances have traditionally been quite high. A key factor in the large balances is the fact that the research year ends in March and a significant portion of the funding is received in April.

Long Term Investments

($ millions)



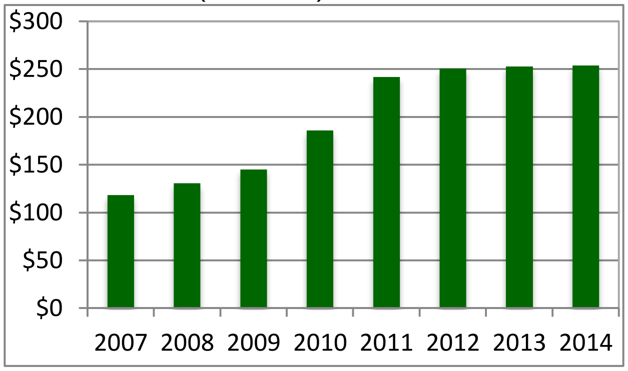
Description: Long term investments primarily represent the assets of the Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investment Committee.

2014 Comments: Investment returns on the Endowment Fund in the year were significantly improved this year at 16.12%. Strong returns as well as Donations and the investment of $40M from cash and equivalents is partially the reason for the increase.

Trend: UNB's investments have performed well since 2008 and with new contributions and strong returns the portfolio is approaching the $300M mark at $291M.

Capital Assets

($ millions)

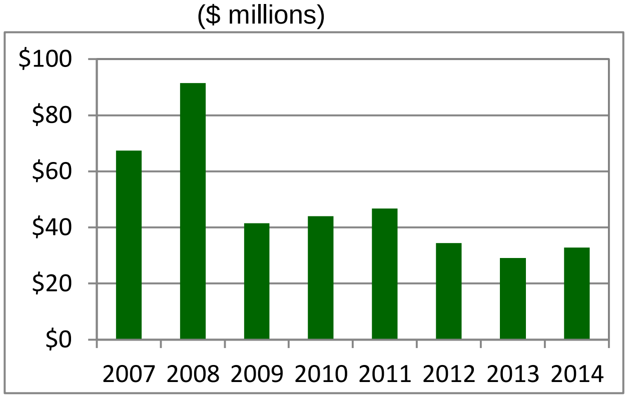


Description: Capital assets represent the un-depreciated cost of University owned buildings, infrastructure, equipment and other tangible assets used in University operations.

2014 Comments: UNB acquired capital assets totaling $13.9M in 2014, primarily in the form of classroom and facilities upgrades on both campuses. Depreciation charged in the year was $12.9M.

Trend: After several years of large capital asset growth due to funding from government infrastructure programs and the Forging our Futures campaign, capital asset acquisition levels have been more typical since 2012.

Current Liabilities

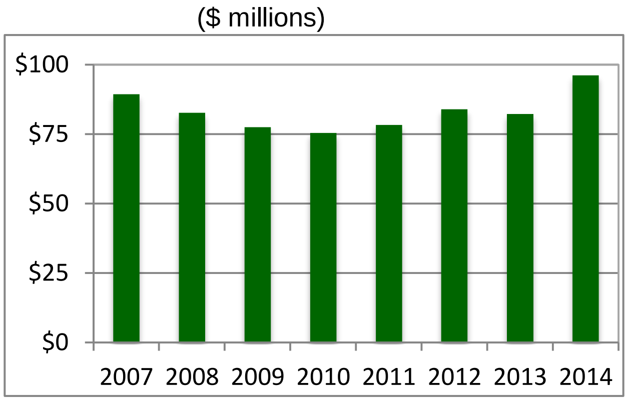


Description: Current liabilities are made up of regular accounts payable and unearned revenue.

2014 Comments: Current liabilities increased by $3.7M from 2013, mostly due to an increase in deferred student fee revenue.

Trend: Current liabilities have been relatively stable for the past 3 years.

Long Term Liabilities

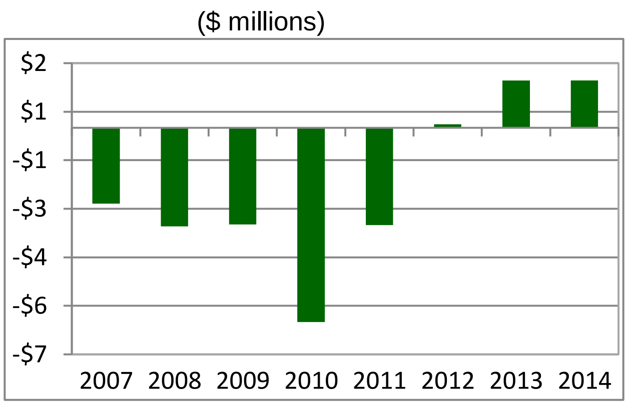


Description: Long term liabilities consist of long term debt and employee future benefits.

2014 Comments: There was no new long term debt issued in the year, resulting in a decrease in long term debt of $1.4 million as principle payments were made. The employee future benefits liability increased by $15.4M primarily to reflect the academic pension plan accounting liability of $13.8M.

Trend: Except for the pension liability, these amounts are relatively stable. There are slight fluctuations annually but generally have remained at a consistent level.

Accumulated Operating Surplus (Deficit)

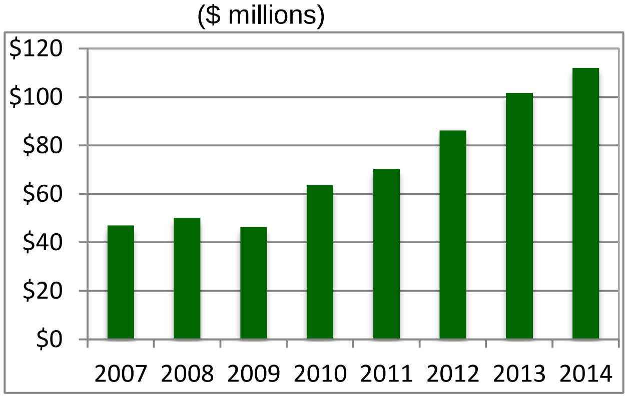


Description: This represents the accumulation of operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual surplus or deficit.

2014 Comments: The University reported an operating surplus of $4.2M in the year. The Board of Governors approved internal restriction of that amount to be applied to strategic initiatives including some funding for accumulated deferred maintenance.

Trend: 2014 was the fourth successive year the University reported an operating surplus. This positive trend has enabled the University to set aside some funds for strategic initiatives and to address other risks such as funding and enrolment uncertainty.

Net Assets Restricted for Specific Purposes

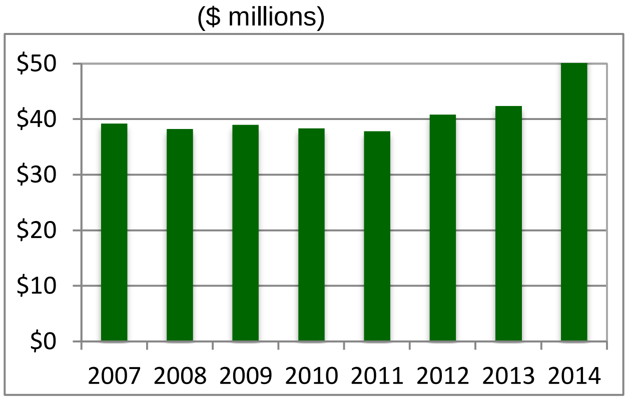


Description: This represents net assets that have been restricted either through restrictions by Board policy or specific decisions of the Board.

2014 Comments: The main restricted net asset categories that increased in the year were Capital ($7.5M) – representing projects in progress or to commence in a subsequent year; and Strategic priorities ($9.7M). $6.2M was transferred from the Risk category to Strategic as a result of a review of the amounts set aside for risks. $3.8 from the Fredericton and University Wide surplus was also added to the Strategic category. These amounts will be allocated to projects as determined by committees.

Trend: Internally restricted net assets have more than doubled since 2007 from $47.0 million to $112.1 million.

Unfunded Employee Benefits



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

2014 Comments: The main increase in the unfunded amount relates to the recognition of the academic pension plan as required under the accounting standards.

Trend: Apart from the pension liability recognized this year, this amount has stayed relatively stable as the investments which are held to partially fund the early retirement plan have helped to stabilize the expense related to that plan.

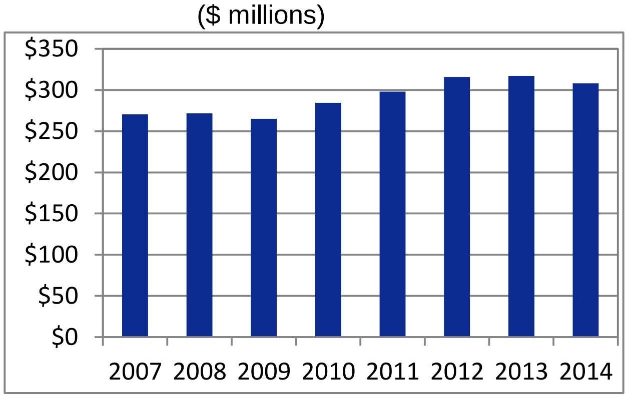
Analysis of Major items on Consolidated Statement of Operations and Change in Net Assets

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

Revenues are categorized on the 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 7 years.

Total Revenue



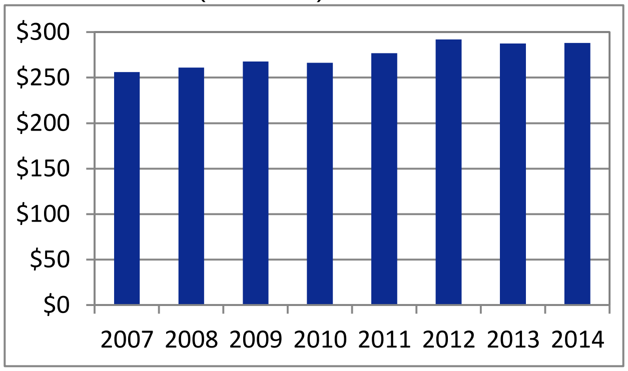
<u>Description</u>: Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when received.

<u>2014 Comments</u>: Total revenue decreased from 2013 by $8.7M. $6.9M less in grant revenue for capital projects was recognized in the financial statements in 2014.

<u>Trend</u>: Revenues have grown by $37.3M over the past 7 years or an average of 2.0% per year. This is mostly attributable to increases in the combined operating and capital government grants ($24.2M) and student fee income ($12.0M)

Total Expenses

($ millions)



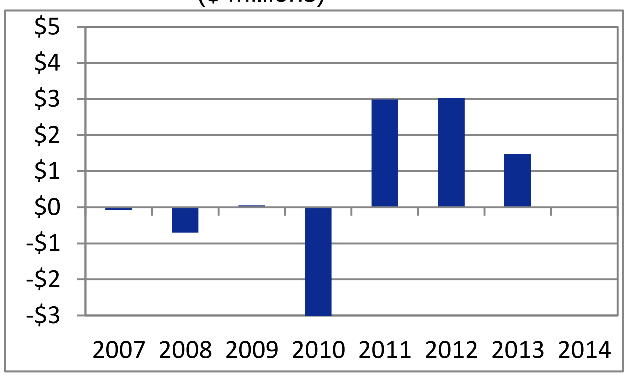
Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their estimated useful lives and amortization expense is included in annual expenses.

2014 Comments: Total expenses increased slightly from 2013. The largest increases were in Administration and general ($2.4M-staff pension plan contribution increase and professional fees for a recruiting publication). Scholarships and bursaries also increased ($2.5M) due to the decision to pay out any net strike savings to the students as bursaries. These increases were offset by reductions in plant expenses, employee non-pension benefits and computing.

Trend: Expenses have grown over the past 7 years by $32.2M or an average of 1.8% per year. $15.2 million of this has been in instruction and non-sponsored research with virtually all areas showing growth.

Net Operating Results

($ millions)



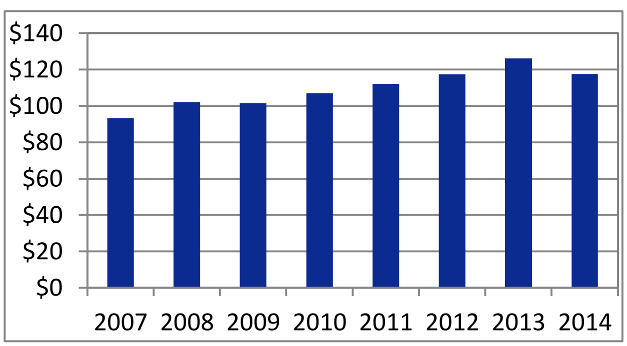
Description: Net operating results are equivalent to the annual surplus or deficit for the year net of internally and externally restricted amounts.

2014 Comments: The University reported an operating surplus of $4.2M. A consultative process will provide recommendations for the use of these funds. As a result, there was a balanced net operating result for the year.

Trend: The University realized net operating surpluses for each of the past three years following a shortfall in 2010 of $3.0 million and operated at break even in 2014.

Government Grants

($ millions)

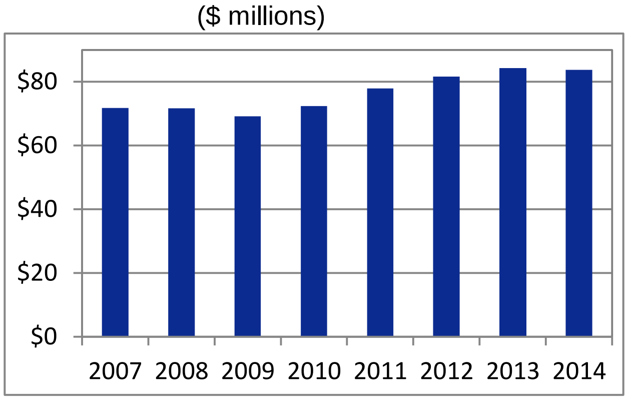


Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2014 Comments: The regular operating grant saw no increase from 2013. However, what had been described as a one-time in 2012 and 2013 was confirmed as an ongoing amount.

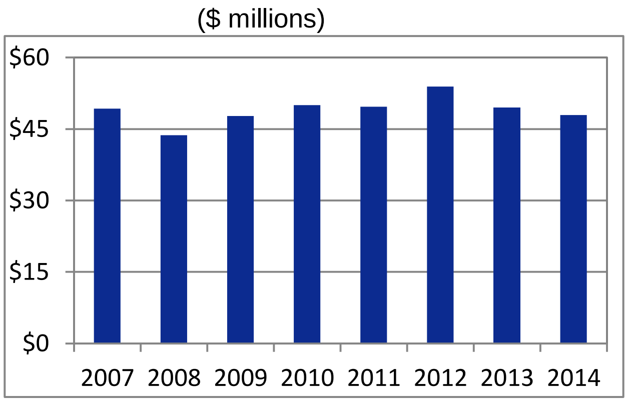
Trend: The Province has confirmed operating grant increases on 2% in each of the 2014 and 2015 years but nothing beyond that.

Student Fees



Description: Student fee revenues include tuition and other fees paid by students for specific purposes.
2014 Comments: Fee revenue from students decreased by $0.6M. This relates to declines in both undergraduate and graduate enrolments with increases in non-credit course fees.
Trend: 2014 marked the first year in 5 years that student fee income declined although revenue has still grown by 16.69% ($12.0M) since 2007.

Research Grants and Contracts

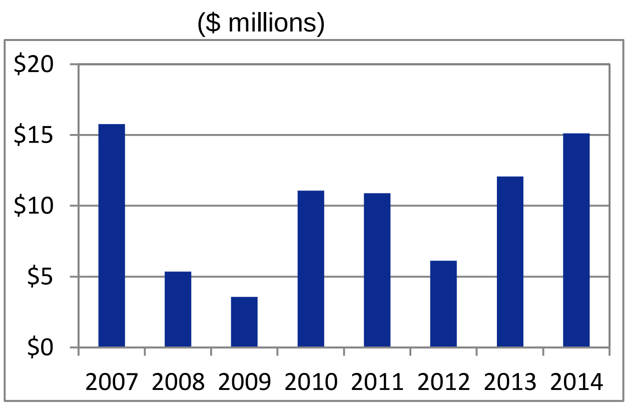


Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

2014 Comments: Research revenue recognized in the financial statements decreased by $1.5M from 2013.

Trend: Research revenue has remained relatively constant at between $48 and $53 million dollars over the past 7 years except for a low in 2008 at $43.7 million.

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 spending requirements in accordance with the ASNPO standards.

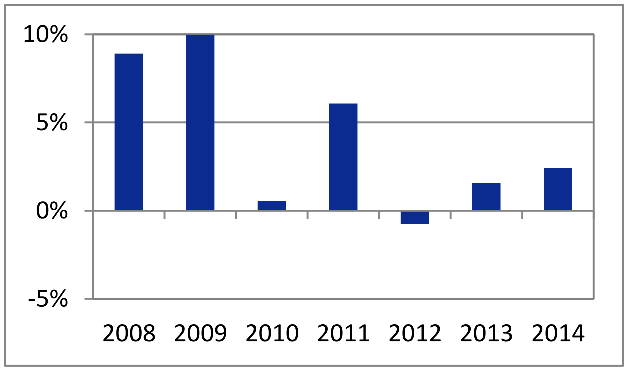
2014 Comments: Market returns continued to be strong at 16.12% in the year resulting in sufficient earnings to support spending in the year. As a result, a significant portion of the earnings were not recognized as revenue in 2014 but remain available for future requirements.

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

Key Financial Indicators

Financial indicators have been developed as a quick assessment tool for use by management and the Board to assess the financial position and condition of the University. The following indicators have been selected by management as useful to assess a variety of areas. Each indicator is briefly described below and analyzed in the context of the University. Underlying financial statement amounts have been restated in each of the prior years to reflect the impact of both the accounting standards change and the correction of the prior period misstatement with respect to the classification of certain amounts as internally restricted.

Growth in Operating Expenses per FTE Student

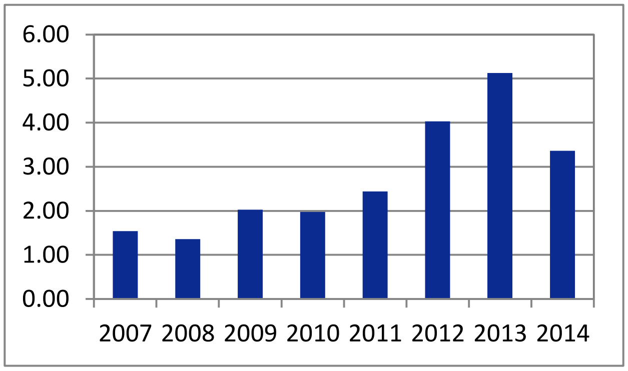


Description: This shows the growth in actual operating expenses per student. A stable or declining percentage is preferred.

2014 Comments: Due to an enrolment decrease and slightly increased spending, there was a small increase in expenses per student.

Trend: Growth in operating expenses per student has declined since a high in 2008 and 2009 with a moderate increase in 2014.

Working Capital Ratio

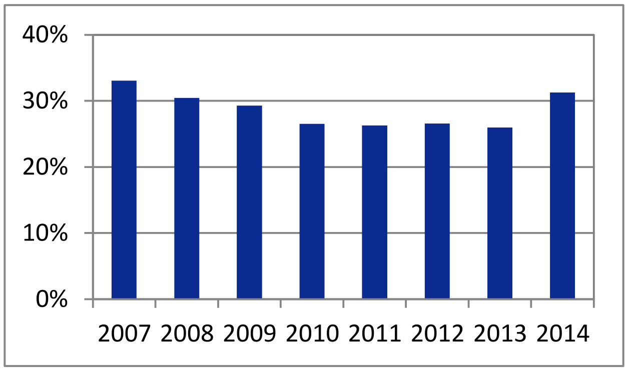


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity,

2014 Comments: The ratio declined from 5.1 to 3.4 in 2014 as a result of transferring short term investments to the long term portfolio. A ratio of 3.4 remains positive.

Trend: This ratio has seen a continuous trend upward since 2007 until the decision was made to reduce the cash and short term investments in favour of increasing the investment portfolio to generate additional returns relative to the investment risks.

Long-term Liabilities as a percentage of Total Revenue



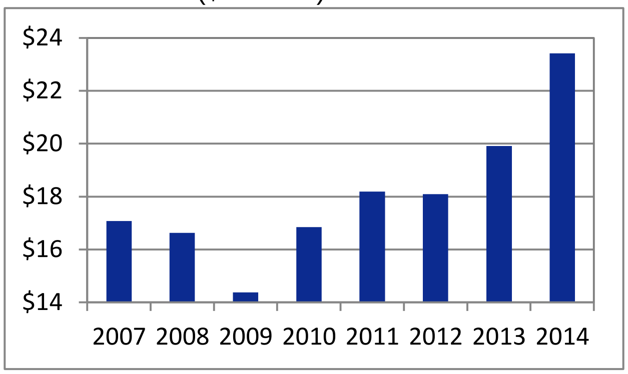
Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2014 Comments: There was an increase in this percentage in the year from 26.0% back to 31.2%. This is primarily a result of having to reflect the academic pension plan liability in the financial statements.

Trend: The percentage has fluctuated between 26% and 33% over the past 7 years.

Endowment and Long-term Trust Funds per FTE Student

($ millions)



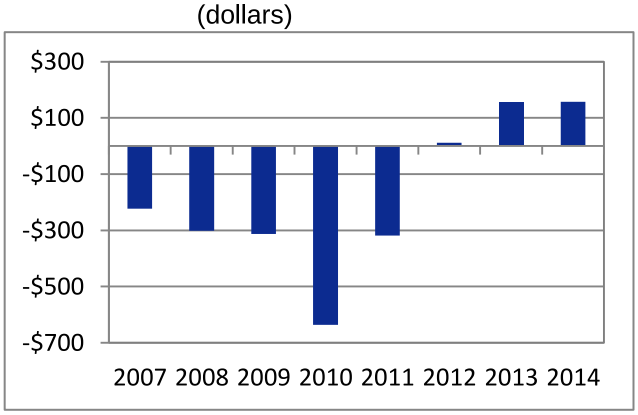
Description: This indicator shows the value of endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2014 Comments: The funds per student increased in 2014 by $3.5 million. An increase in endowments combined with reduced enrolment is responsible for the change.

Trend: The general trend over the past 7 years has been an increase in funds per student.

Accumulated Operating (Deficit) Surplus per FTE Student

(dollars)

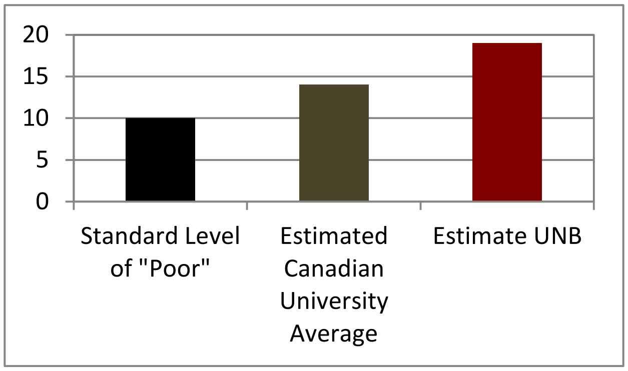


Description: This indicator is intended to give an idea of the deficit burden that must be supported by each student.

2014 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 in 2012 after reaching a high of $6.0M at the end of the 2010 fiscal year. An accumulated surplus of $1.5M exists.

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 Universities 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

Accounting for the Shared Risk Pension Plan

As stated earlier, the former academic pension plan (AEPP) was converted to a shared risk plan (AESRP) effective July 1, 2013 pursuant to an MOU signed March 31, 2014 by the AUNBT and UNB. Under the AEPP both parties were only responsible for making contributions as agreed to through the collective bargaining process with no liability to fund any deficit resting with UNB as per the agreement. However, the plan had a significant unfunded liability and both parties agreed a change was required to make the plan sustainable in the future. The SRP model was chosen because it provides some security over benefit payments to retirees while also providing stability in contribution rates for both the employer and employees.

The current accounting standards categorize pension plans as either Defined Benefit (DB) or Defined Contribution (DC) Plans. Since the province enacted legislation enabling a new type of pension plan – a Shared Risk Plan (SRP), the accounting standards setters have not yet developed standards to deal with these plans. SRP's, and the AESRP in particular, have elements of both a DB and a DC plan but are, in fact, neither.

We have engaged in extensive discussions with our auditors and sought input from our actuaries as well as discussions with other entities who have established SRP plans in New Brunswick in an attempt to interpret the existing standards and determine the proper accounting treatment for this plan. The accounting and auditing community has been struggling with how to account for these new plans to ensure that the impacts are properly reflected in the financial statements of the employers who sponsor the plans jointly with the employees.

Our external auditors and their peers have consulted and come to a common interpretation of how with SRP plans should be accounted for in Canada. The conclusion of the audit community is that, as the pension accounting standard is currently written, the AESRP must be accounted for as a DB plan which means that the actuarial liability must be reported in UNB's financial statements. The basis for their conclusion is that there is variability in the contribution rate which exposes the University to some risk and therefor under the standards as written today, it should be classified as a DB plan. However, should the accounting standard setters issue a new standard that deals with SRP plans, this accounting treatment could change in the future.

UNB does not agree that this interpretation of the accounting standards results in the most accurate depiction of the risk and financial impact of this plan to the University. It is very clear from the MOU and other plan documents filed with the Superintendent of Pensions that the University has no liability other than to make annual employer contributions at the rate determined by the Trustees.

There are mechanisms described in the MOU to address future funding deficits which include the reduction of benefit payments to retirees/beneficiaries and to reduce benefit accruals to active members.

In the end the pension payable to employees is solely dependent on the funds available in the pension fund. The University is in a better position and is exposed to less uncertainty and risk under the AESRP because the contribution rate variability is now restricted to between 9.25% and 13.75% of salary, whereas before the rates could fluctuate depending on what was negotiated. At no time will the University be called on to fund a deficit in the pension plan therefore we do not believe a liability should be reported in the financial statements. The plan text identifies the specific steps to be taken should the plan deficit (or surplus) reach or exceed specified levels. These actions include reducing benefits or increasing contributions (within the established range) they do not include the University covering the deficit. In the interest of conservatism the University has agreed to record the liability on our Statement of Financial Position along with significant disclosure in the notes to the financial statements to assist readers in interpreting the information and understanding the risks.

Because the plan is jointly governed by the University and the Faculty Association only 50% of the actuarially determined plan deficit is recorded as a liability on the Statement of Financial Position. Although the University does not "owe" this money to anyone, this is the accounting treatment required under the standards as interpreted by the audit community in Canada. Consistent with our accounting for non-pension employee benefit liabilities, this unfunded amount has been disclosed separately in the Net assets section of the Statement of Financial Position to identify that the liability is not funded.

In addition, accounting standards require that the actuarially determined annual expense amount be reported partially on the Statement of Operations and partly as a direct change against net assets on the Statement of Financial Position. Note 24 to the financial statements provides an overall summary of the plan, the expense and liability.

Summary of AESRP Plan Details

The plan is described in the Memorandum of Understanding that was signed by both the University and the union representing the academic employees (the AUNBT) in March 2014. The highlights are as follows:

- 10 Trustees are appointed in equal numbers by UNB and the AUNBT. All decisions related to contribution rates, benefit reductions and reversal of benefit reductions will be made by the Trustees in accordance with the MOU and *Pension Benefits Act (PBA)*
- Benefits earned are not guaranteed by the employer
- Base benefits accrue at different rates depending on the time of service. The benefit accrual rate earned before conversion remains unchanged from the prior plan, however after the

conversion date, benefits accrue at 1.1% of indexed pensionable salary up to YMPE and 1.8% above YMPE.

- Base benefits are reduced if the member retires prior to the normal retirement age (60) with early retirement provisions (age/service index of 85) which reduce the benefit reduction for early retirement
- Contributions are split 50/50 between the employer and employees
- Initial contribution rates are established to provide at least a 97.5% probability that the Base Benefits will not be reduced over a 20 year period and that total expected Cost of Living Adjustments (COLA's) over a 20 year period will not be less than 75% of the CPI increase (active members) or annual indexing that would have been provided under the former plan (those receiving a pension) for each year on or after the conversion
- Initial contribution rates are 11.5% form each of the parties (rates were 12.65% under the former plan)
- COLA's can be granted by the Trustees if the plan is funded in excess of 105% under the method established in the *PBA*
- Should the funding status of the plan fall below 100% for 2 successive years, no COLA can be granted and the Funding Deficit Recovery Plan is triggered which requires the following actions in the order specified until the plan is funded to at least 105%.
  - Increase contributions (up to 2.25% of salary to each party)
  - Reduce Base Benefits for all members
  - No future COLA can be granted until the other two actions have been reversed (in reverse order of application)
- The Funding Excess Recovery Plan is invoked when a future valuation reveals a funding level in excess of 105% which will see the following actions applied in order so long as the funding level remains above 105%:
  - Reverse base benefit reductions made previously re future payments only
  - Eliminate contribution increases made previously
  - Provide Base COLA re future payments only (there are limits re BASE COLA increases permitted depending on funding status
  - Provide PTR recapture re future payments only and decrease contributions by up to 2.25% of salary (contributions cannot decrease unless the funding level is 140% and will be reversed if a subsequent valuation reveals a funding level below 140%)

<u>Net Assets Restricted for Specific Purposes</u>

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

UNB, like almost all Canadian universities, places internal restrictions on some of the funds received, or net operating surpluses earned, based on the priorities established by the Board, management, faculties and departments. These are not external restrictions but they are still binding as they have been approved by the governing body of the University – the Board of Governors. These funds may be restricted according to a Board decision (for example program fees, scholarships and bursaries, capital budget projects, risk mitigation reserves and other University contingencies) or according to University policy or practice (operating budget carry-forwards, contract overhead, surpluses in non-core operations).

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

UNB has made efforts over the years to be transparent in disclosing the amount and nature of both internally and externally restricted accounts. In the audited financial statements as at 30 April 2014, UNB reported $121.0M in unspent deferred contributions (externally restricted amounts received for specific purposes), $146.4M in deferred contribution invested in capital assets (external funding for capital assets that is amortized to revenue over the life of the asset the funds were used to acquire), $112.1M in internally restricted net assets (restricted by Board of Governors policy or decision for specific purposes), and $120.0M in endowed net assets ($109.1M externally endowed and $10.9M internally endowed – these funds must be held in perpetuity with only investment income available for spending according to the established criteria of the endowment).

Note 17 to the Consolidated Financial Statements presents the details of net assets restricted for specific purposes. The presentation this is year is the same as was developed in 2012, with the internally restricted net assets classified into eight categories. Total net assets restricted for specific purposes at April 30, 2014 were $112.1M and at the end of the 2013 fiscal year totaled $101.56M.

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

<u>Capital</u> (2014 - $32.8M / 2013, $25.3M) –these funds come from various sources including the operating account (budgeted), savings from the energy management program, government grants, and Board of Governors decisions to internally restrict some operating surplus monies over the past few years. This decision to restrict portions of the operating surpluses was made in an attempt to address the very serious issue of accumulated deferred maintenance (ADM) at UNB which is

estimated to be in excess of $200 million. The ADM is essentially the value of repairs, maintenance and replacement work that has not been done to the buildings and equipment on both campuses in past years and was required to maintain the building or other capital asset. Internally restricted funds for capital purposes come from multiple sources.

Some larger amounts include:

Ward Chipman Library refurbishment	$9.6M
VP Fredericton strategic Capital	3.1
Funds from land transactions	2.2
Currie Center future maintenance fund	1.5
Alumni Memorial Building	1.5
Data Centre	1.3
Klohn Commons	1.3
Residences	1.2
DAL Med lease refurbishment	0.9
UNBSJ Capital reserves	0.9
MacLaggan Hall	0.7
Retail food establishments	0.7
Wellfield protection	0.6
Integrated University Complex	0.4
Woodlot development	0.3
Capital master plan development	0.3

<u>Contract overhead</u> (2014 - $3.9M / 2013 - $4.0M) – this total is the remaining unspent value of departmental share of funds received on research and other contracts to assist the University in covering indirect costs associated with fulfilling the research or contract commitments that are not specifically identified in the project budget. University policy provides that at least 50% of overhead payments are to be retained by the department undertaking the project in order to provide an incentive to departments to undertake research contracts. These funds are controlled by the department and are recorded as internally restricted net assets as they are not available for use in general operations according to the approved University policy. The other portion of contract overhead funds are controlled by central administration and can be used for University or Campus priorities or applied to an operating deficit. These amounts are reflected in the categories that best fit the intended use of the funds.

<u>Entrepreneurial</u> (2014 – $22.8M / 2013 - $24.4M) – these funds come from a wide variety of sources but are primarily cost recovery and net revenue oriented initiatives taken on by various departments or individuals within the University. The costs associated with these initiatives must be covered from revenues generated from the initiatives and neither the revenues nor the costs are budgeted for in the operating budget. Any surpluses generated from these activities are internally

restricted according to University policy and are available only to the originating unit as an incentive to develop and grow the business in the future according to the University's strategic plan. The funds may not be accessed for general operations.

Some units with larger balances include:	
Faculty of Nursing extra seats	$4.2M
UNBSJ MBA program	2.7
Engineering program differential	1.1
CEL business development funds	1.1
Faculty of Arts – Trinidad & Tobago	1.0
Biomedical Institute	0.8
Faculty of Law program fees	0.7
Funding form Trust for Nursing faculty position	0.6
Research royalties	0.6
Andrews Initiative	0.6
Saint John College deficit reserve	0.6
Faculty of Business Administration international programs contingency fund	0.4
Humber College program fees	0.4
Q1 Labs – researcher portion	0.4
Canadian Rivers Institute	0.3
VP Research risk contingency	0.3

<u>Operating Budget Carry-forwards</u> (2014 – $12.3M / 2013 - $10.6M) – as is the case with most Canadian Universities, a long standing, Board approved policy allows academic and operational units to "carry forward" any non-salary budget savings – that is the amount of any non-salary amounts that were budgeted but not spent during the year. The intent of this policy is to encourage faculty and staff to engage in long term planning and gives them the ability to save and manage their budgets effectively in order to execute those plans. It allows them to save and accumulate funds over a number of years to fund a larger project that would not otherwise be possible to fund for their regular annual operating budget. While the department head may decide to use all or a portion of these funds to augment operating spending, the funds are not available for the University to use for general operating costs.

<u>Risk</u> (2014 - $10.9M / 2013 - $18.1M) – many of these funds have arisen from operating account surpluses which management, upon approval of the Board of Governors, has internally restricted to mitigate specific and general risks. Some amounts have arisen from specific sources (insurance premium refunds, surpluses in the employee benefits stabilization accounts, and savings versus budgeted amounts in fuel costs, for example) which have also been internally restricted to guard

against risk. During 2014, management reviewed the amount sand recommended, and the Board approved, that $6.2M be "released" for other priorities. This amount has been transferred to the Strategic Priorities category. The funds that have not yet been earmarked for specific projects are included in the category titles "Strategic priorities" in the audited financial statements.

Some examples of amounts included in this category are:

Reserve for future revenue declines	$5.2M
Employee benefit reserves	2.2
Insurance reserves	1.0
Endowment backstop	0.6

Scholarships, Bursaries and Awards (2014 – 3.6M / 2013 - $2.6M) – these amounts arose partially from annual transfers from the operating account and partially from the proceeds of property sales in past years. In both cases the funds represent decisions of management and the Board to allocate funds for a specific purpose – in this case to augment scholarships and bursaries funded from external restrictions and endowment accounts. Increasing funds available for students is an objective in the strategic plan. These funds are not available for general operating expenses.

Strategic Priorities (2014 - $18.2M / 2013 - $8.6M) - the funds in this category have come from one-time operating items including special HST rebates claimed and operating surpluses. $5.9M was transferred from the Risk category in 2014 pursuant to Board of Governors approval as risks were analyzed and some funds held were "released" for other priorities. Consultative processes, involving faculty and staff from both campuses will be developed to assist in determining the specific projects to be funded from the surplus and the "de-risked" amounts. This has already occurred on the Saint John campus and plans are underway for the Fredericton campus.

Some significant amounts in this category are listed below:

Amounts transferred from risk category for allocation	$5.9M
2013-14 operating surplus not yet allocated	3.8
HST rebate on real property	1.5
Funds for prioritization implementation	1.0
Strategic plan implementation	0.9

Specific Projects (2014 - $7.5M / 2013 - $8.1M) – the funds in these accounts have largely come from the operating account and represent both unspent amounts at the fiscal year end related to specific projects which are already in progress, and unplanned savings in the implementation of other projects that have been internally restricted for future projects. An example of these accounts include the annual budget for library acquisitions, where the spending pattern does not match the fiscal year so that unspent funds at year end being are internally restricted to ensure they are eventually spent for the intended purpose. Other amounts are budgeted annually in the operating account but are not spent each year and are allowed to accumulate to eventually be used for the intended purpose (administrative searches, for example). This is a planning technique used in order to smooth expenses and avoid large expenditures in any given year and is a common practice in not-for-profit organizations.

Some projects in this category include:

Library acquisitions	$1.6M
Fundraising campaign	0.6
Recruitment	0.5
Administrative leaves/searches	0.5
Retirement allowance reserve	0.4
Urban Institute	0.2
Strike savings	0.2

As these examples portray, there are a wide variety of funds that are reported as internally restricted. In some cases, the funds have been paid to the University by students and other stakeholders with the expectation that they will only be spent on specific things (e.g. the technology fee will be spent on technology). In other cases, the funds have been generated by faculty and staff through effective management of their budgets, with the intent to spend the funds in the future on enhancements and large scale projects (Operating budget carry-forwards and Entrepreneurial categories). The commonality is that in all cases, the funds have been restricted in the past so that they can be accessed in the future for the benefit of a specific program, activity or project. These funds are not available to be used on operating expenses as they have been restricted by the governing body of UNB. Furthermore, since the amounts described above are "one-time" they not represent an ongoing source of funding so to use these funds to fund ongoing expenses such as salaries, would not be sustainable and would result in deficits eventually unless new funding sources were found each year.

<u>Allocation of Year End Operating Surplus</u>

Senior management made the decision to recommend that the Board of Governors approve the allocation of the year end operating account surplus of $4.2 million to put these funds to the highest and best use rather than accumulate them in the unrestricted accumulated operating surplus which already sits at $1.5 million. It has been the practice of the University to use operating account savings to fund one-time initiatives such as a particular short term project or a building upgrade based on where the savings arose from.

The year end operating surplus before these allocations was $4.2 million. UNB senior management recommended and the Board of Governors approved the allocation of these funds to future priorities. 15% of the amount is to be directed to addressing accumulated deferred maintenance issues. The surplus from the Saint John campus has been allocated to specific items as decided by a campus wide committee. The funds have been allocated to categories according to those priorities. As a similar process is currently being developed for the Fredericton campus, those funds are currently included under the Strategic priorities category.

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 coverage 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 stabilize premiums. In the event of a plan surplus, 50% of the plan surplus is added to the employer rate stabilization account and 50% of the surplus is added to the employee rate stabilization account In the event of a plan deficit, 50% of the deficit is funded from each of the employer and employee rate stabilization accounts. As noted, the benefit reserves and the employer and employee rate stabilization accounts are funded reserves that are invested as part of the University's trust and endowment investment pool.

The University also offers other employee benefits including a retirement allowance program, past early retirement offerings, post-retirement group life insurance and supplementary health and dental benefits are offered in certain specific circumstances. The liabilities relative to these programs are detailed in note 12 to the financial statements. The unfunded liabilities related to all three of these benefits increased by $1.5 million during 2014 – primarily due to changes in mortality assumptions which were offset by increases in the discount rates used in calculating the liability.