



Comptroller's Report

For the Year Ended April 30

2015

Don Harrington, CPA, 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, 2015.

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, 2015, 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 (Administration & Finance), 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 2015 financial statements were:

- The University reported an excess of revenues over expenses of \$5.9 million. After reflecting changes in net assets, this results in a net unrestricted operating deficit of \$1.4 million.
- The University continues to have a positive amount in accumulated unrestricted operating surplus of \$42 thousand.
- The University's current assets increased by \$48.8 million, up to \$157 million, primarily due to a reclassification of midterm investments to current assets. This classification change is a result of investments previously classified as midterm aging to within 12 months of maturity.
- Net assets increased by \$18.4 million, up to \$277.8 million, primarily due to an increase in Endowed assets of \$13 million and an increase in the amount of capital assets funded from operations of \$8.6 million.

Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2015 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 for 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 2015 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 unrestricted operating surplus or deficit for the year.
- Consolidated Statement of Changes in Net Assets which shows the changes in each category of net assets.

- Consolidated Statement of Cash Flows which shows the primary sources and uses of cash during the fiscal year.
- Notes to the financial statements 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 \$5.9 million (1.9% of revenues). This reflects all restricted and unrestricted activities of the university. The \$5.9 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 net deficit unrestricted operating result of \$1.4 million.

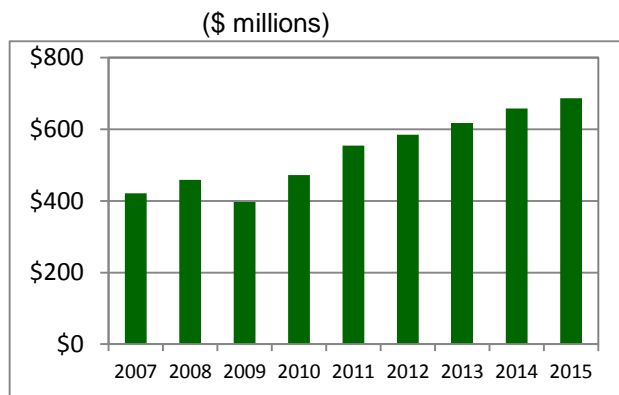
- The excess of revenues over expenses was reduced by \$8.6 million in the year due to an increase in investment in capital assets. The increase resulted from \$10.3 million in capital asset acquisitions funded from operations, decreases in financing of capital assets of \$1.7 million, \$9.3 million amortization of deferred capital contributions, all offset by \$12.7 million in amortization of capital assets.
- The excess of revenues over expenses was reduced by \$3.2 million related to the difference between the actuarially determined employee future benefit expense that is reported as an expense and the actual cash contributions.
- The excess of revenues over expenses was increased by \$4.5 million relating to adjustments to net assets restricted for specific purposes. These adjustments represent a net decrease of carry forwards and reserves as some units have spent some of prior year carry forward amounts.
- After the above-noted adjustments for changes in net assets, the Statement of Revenues, Expenses and Changes in Net Assets reports a net unrestricted operating deficit for the year of \$1.4 million and a corresponding decrease in the University's accumulated unrestricted operating surplus from \$1.46 million to \$42 thousand.

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, 2015 (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 eight years. The balances of previous years have been restated to reflect the change in accounting standards relative to hedge accounting (2012/13) and the adoption of 3462 "Employee Future Benefits" (2013/14) as well as the correction of prior period reporting of internally restricted research related funds (2012/13).

Total Assets

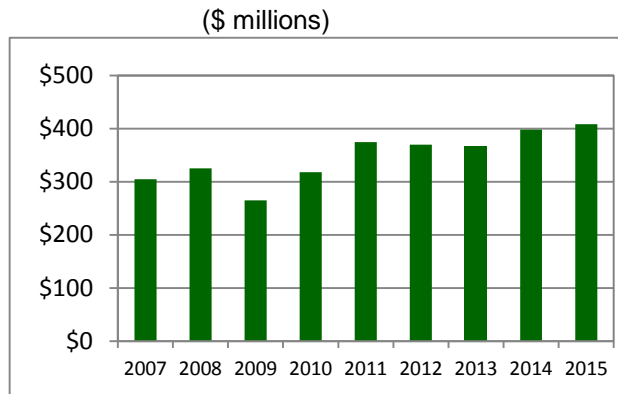


Description: Total assets represent the lower of cost and fair market value of all assets (excluding approximately 8,300 acres of land holdings acquired by a land grant from the crown) owned by the University.

2015 Comments: The major driver of the increase in assets is as a result of continued increase in the net Trust and Endowment funds. This \$30M net increase includes approximately \$43M new investments and investment gains offset by \$13M in spending.

Trends: Total assets have increased since 2007 by \$265M 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

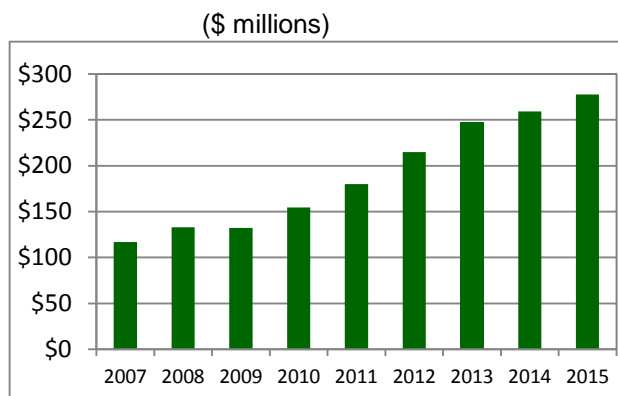


Description: Total liabilities represent the sum of amounts owed to external parties under various contracts and arrangements.

2015 Comments: Total liabilities increased by \$10.1M in 2015. The most notable increases were in \$13.3M in unexpended deferred contributions (related to increases in the trust and endowment funds from contributions and investment gains).

Trends: Total liabilities have generally shown an increase over the past eight years from \$304.7M to \$408.4M. The main growth in 2015 is related to deferred revenue and unspent deferred contributions.

Total Net Assets

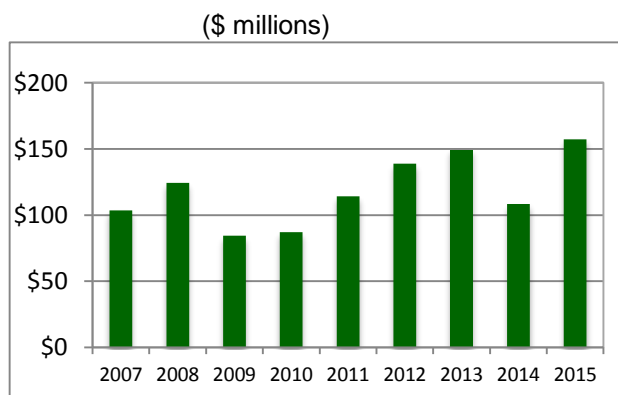


Description: The value of net assets is the result of deducting total liabilities from total assets. This amount is categorized as restricted, invested in capital assets, endowed, related to unfunded non-pension employee benefits or operating.

2015 Comments: Net assets increased by \$18.4M in 2015 as a result of increases in the categories of; Endowed (\$12.9M), Invested in capital assets (\$8.6M) and unfunded employee benefits (\$3.1M) offset by decreases in internally restricted (\$4.7M) and decrease in accumulated unrestricted operating surplus (\$1.4M).

Trend: Net assets have shown a steady increase over the past eight years from \$116.8M to \$277.8M. During that time the Accumulated unrestricted operating deficit was eliminated resulting in an Accumulated unrestricted operating surplus of \$42K. Most of the growth (\$60.3M) was in internally restricted net assets.

Current Assets

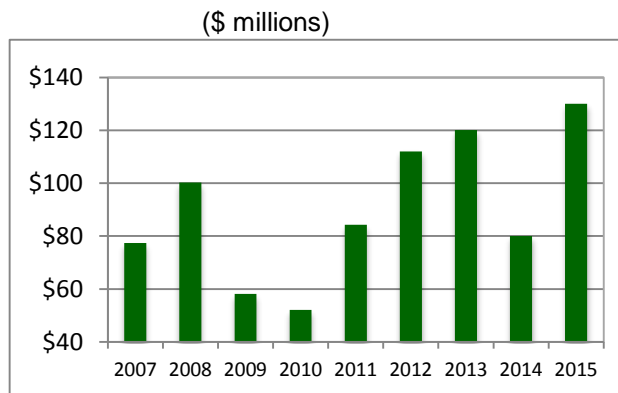


Description: Current assets represent assets that are cash or near cash or are expected to be converted to cash within the next 12 months.

2015 Highlights: Current assets increased by \$48.8M as investments previously classified as long term are now within one year of maturity and hence are reported as short term investments.

Trend: Total current assets have increased by \$53.6M since 2007. This increase is mainly in cash and short term investments.

Cash and Short Term Investments

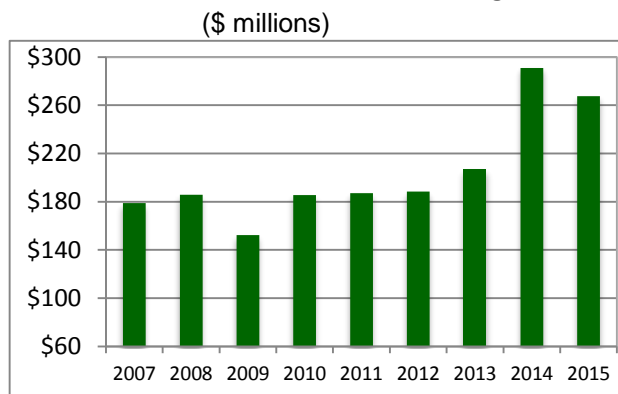


Description: Includes cash and short term investments with maturity dates of less than 12 months. Cash is invested in short term, fixed income vehicles with an emphasis on preserving liquidity and capital.

2015 Comments: Cash and equivalents increased by \$50.0M during 2015. This increase is due primarily to the classification change of medium term investments to short term as the maturity of the investments are now within one year.

Trend: Yearend cash balances have remained stable but are traditionally 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

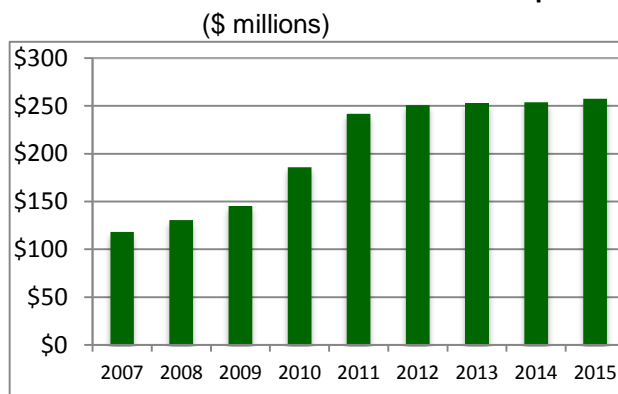


Description: Long term investments primarily represent the assets of the Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investment Committee.

2015 Comments: Long term Investment decreased by \$23.5M this is due primarily to the classification of investments as short term, offset by donations and investment returns. The Endowment Fund had investment returns for the year of 11.1%.

Trend: UNB's investments have performed well since 2007 with new contributions and strong returns.

Capital Assets

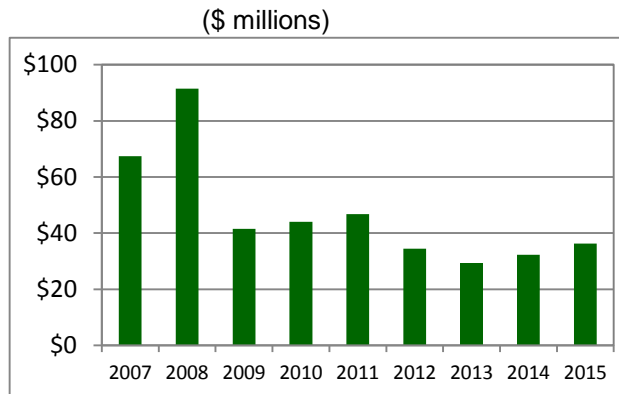


Description: Capital assets represent the un-depreciated cost of University owned buildings, infrastructure, equipment and other tangible assets used in University operations.

2015 Comments: UNB acquired capital assets totaling \$16.3M in 2015, primarily for the Central Heating Plant upgrade and in the form of classroom and facilities upgrades on both campuses. Amortization charged in the year was \$12.7M.

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

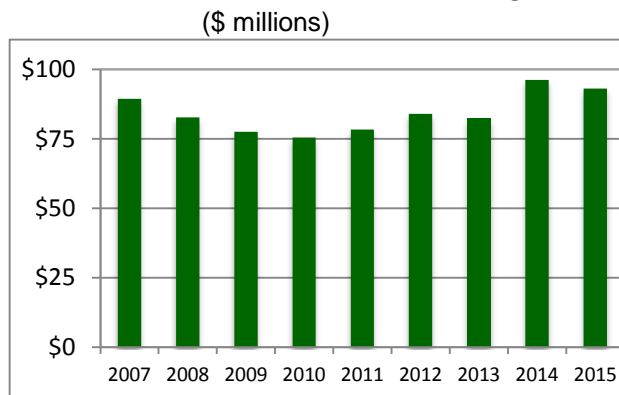


Description: Current liabilities are made up of regular accounts payable and unearned revenue.

2015 Comments: Current liabilities increased by \$3.4M from 2014, mostly due to an increase in payroll amount payable as a result of the year end date relative to the payroll cycle and an increase in deferred revenue.

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

Long Term Liabilities

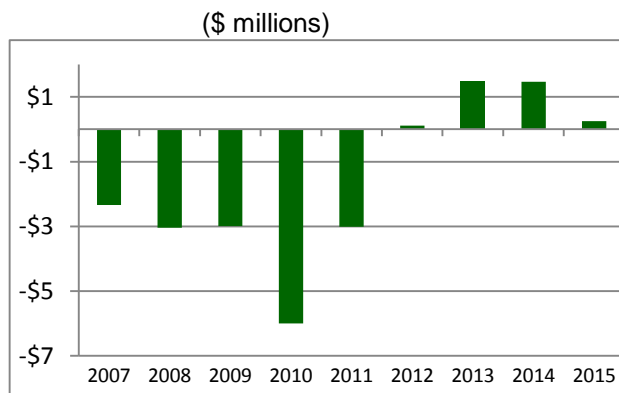


Description: Long term liabilities consist of long term debt and employee future benefits.

2015 Comments: There was no new long term debt issued in the year, resulting in a decrease in long term debt of \$1.4M as principle payments were made. The employee future benefits liability decreased by \$1.8M primarily due to an experience gain in the post-employment benefit programs.

Trend: Except for the pension liability recognized in 2013-14, these amounts are relatively stable. There are slight fluctuations annually but generally have remained at a consistent level.

Accumulated Unrestricted Operating Surplus (Deficit)

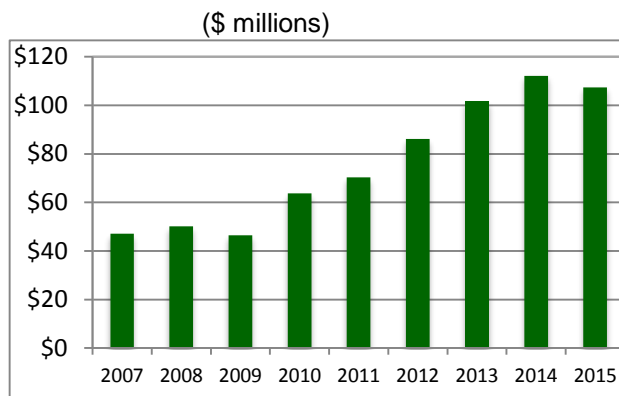


Description: This represents the accumulation of unrestricted operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual net unrestricted operating surplus or deficit.

2015 Comments: The University reported a net unrestricted operating deficit \$1.4M in the year.

Trend: 2015 saw the first net unrestricted operating deficit since 2011.

Net Assets Restricted for Specific Purposes

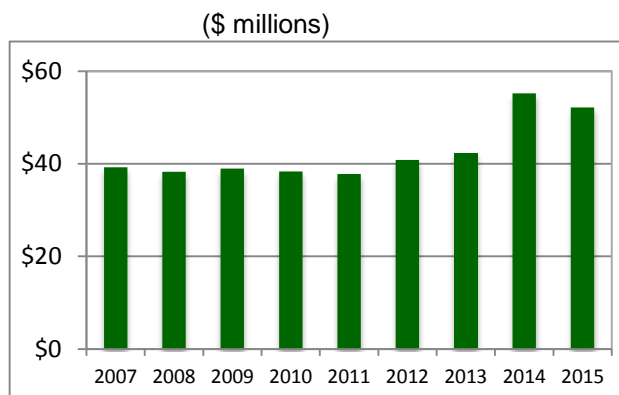


Description: This represents net assets that have been restricted either through restrictions by Board policy or specific decisions of the Board.

2015 Comments: The main restricted net asset categories that decreased in the year were Capital (\$5.9M) – representing projects in progress or to commence in a subsequent year, Entrepreneurial (\$2.4M) and Strategic Priorities (\$1.3M). The other categories showed increases with Operating Budget Carry Forwards being an increase of (\$1.3M).

Trend: Internally restricted net assets have more than doubled since 2007 from \$47 million to \$107.4 million. A more detailed discussion related to internally restricted net assets is found in the supplementary information section of this report.

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.

2015 Comments: The main decrease of \$3.1M in the unfunded amount relates to the strong return on investments held to partially fund the early retirement plan and the recognition of an experience gain in the post-retirement benefits plan.

Trend: Apart from the pension liability recognized last 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.

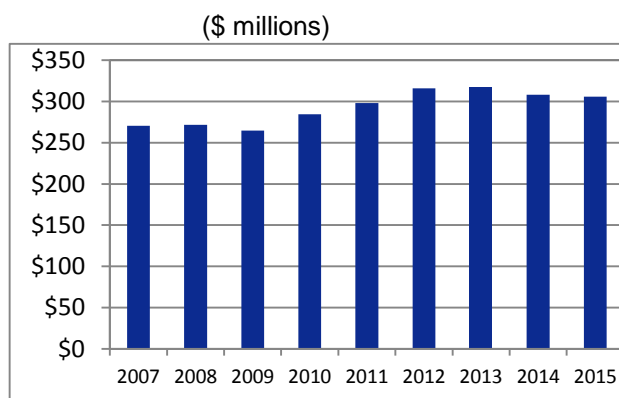
Analysis of Major items on Consolidated Statement of Operations and Change in Net Assets

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 (including Physical Plant), Endowment Fund and Operating Fund accounted for according to Accounting Standards for Non-Profit organizations (ANSPO). As previously discussed, these results are not merely a summation of the three funds because the accounting policies require that some items, such as unspent restricted funds, be deferred and brought into income when the funds are actually spent. In addition, endowment contributions which are required to be held in perpetuity are reported as direct increases in Endowed Net Assets in accordance with the accounting standards and are never recognized as revenue.

Revenues are categorized on the 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 9 years.

Total Revenue

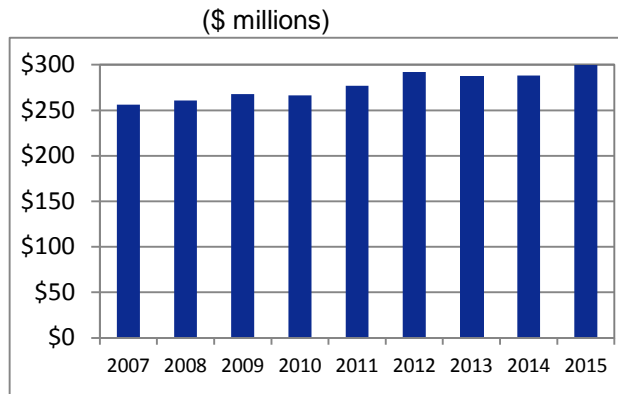


Description: Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when received.

2015 Comments: Total revenue decreased from 2014 by 0.7% or \$2.2M. There were fluctuations in virtually all categories of revenues up to \$2M. However, total revenue decreased from \$307.9M.

Trend: Revenues have grown by \$35.2M over the past 8 years representing a 13% increase. This is mostly attributable to increases in the combined operating and capital government grants (\$25M) and student fee income (\$10.5M)

Total Expenses

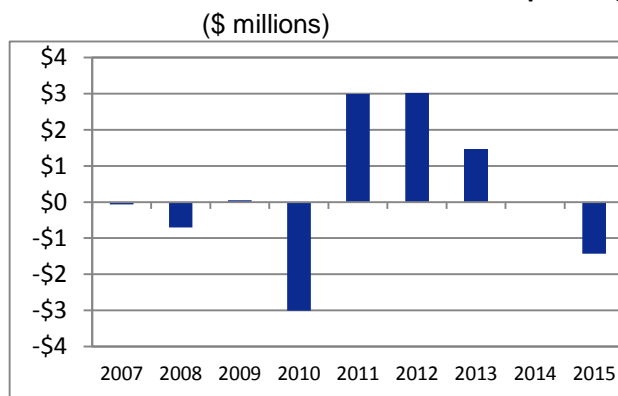


Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their estimated useful lives and amortization expense is included in annual expenses.

2015 Comments: Total expenses increased from 2014. The largest increases were in Instruction salaries and support staff pension costs.

Trend: Expenses have grown over the past 8 years by \$43.8M or an average of 2.1% per year. \$21.4 million of this has been in instruction and non-sponsored research with virtually all areas showing growth.

Net Operating Results

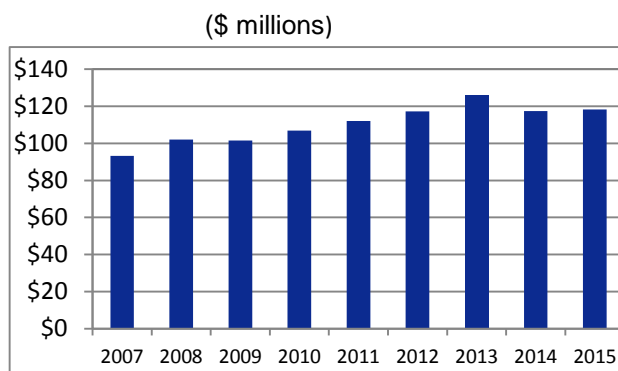


Description: Net operating results are equivalent to the annual unrestricted surplus or unrestricted deficit for the year net of internally and externally restricted amounts.

2015 Comments: The University reported a net unrestricted operating deficit of \$1.4M. This deficit includes a budgeted transfer to internally restricted net assets of \$2.6 million to support several multi-year and future-year expenditures.

Trend: The University realized net unrestricted operating surpluses for each of the past four years following a shortfall in 2010 of \$3.0 million. With the current deficit a small accumulated unrestricted operating surplus of \$42 thousand remains.

Government Grants

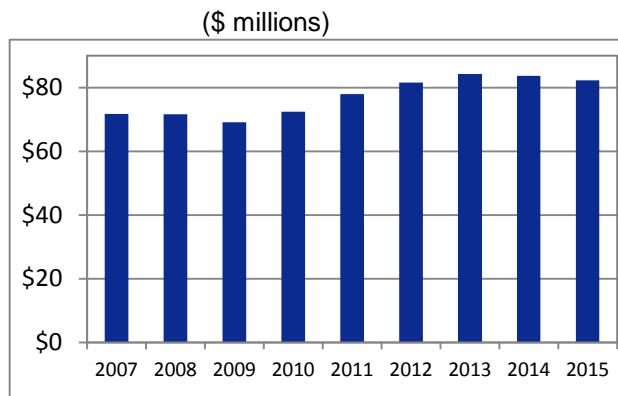


Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2015 Comments: The regular operating grant saw a 2% increase from 2014 that was offset by a deferral of contributions regarding capital. This deferral will be recognized as revenue in future years as the capital items are amortized.

Trend: The Province had confirmed operating grant increases of 2% in each of the 2015 and 2016 years but due to their own financial situation, froze the 2016 operating grant at the 2015 level. Further, they have indicated a reduction of 5% to 10% or more is likely for 2017.

Student Fees

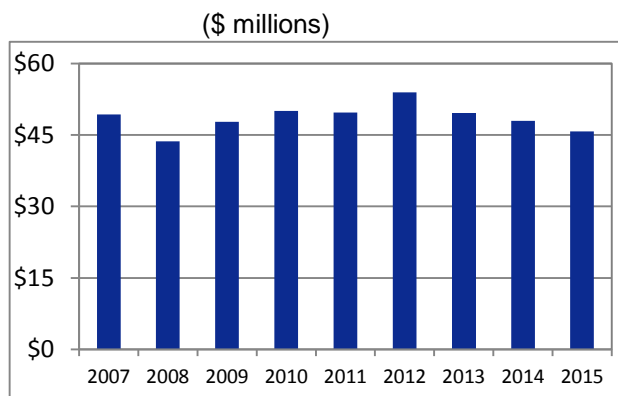


Description: Student fee revenues include tuition and other fees paid by students for specific purposes.

2015 Comments: Fee revenue from students decreased by \$1.4M. This relates to declines in both undergraduate and graduate enrolments with increases in non-credit course fees.

Trend: 2014 marked the first year since 2009 that student fee income declined, a trend that continued in 2015. Enrollment has continued to decrease since 2011 although fee increases have offset this decrease until the last two years.

Research Grants and Contracts

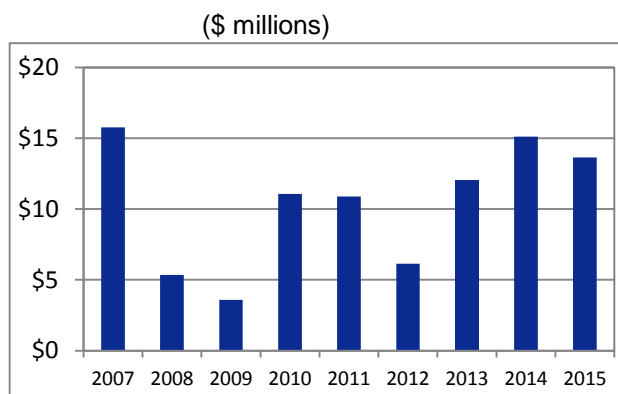


Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

2015 Comments: Research revenue recognized in the financial statements decreased by \$2.2M from 2014.

Trend: Over the last eight years research revenue went from a low of \$43.7M in 2008 to high of \$53.9M in 2012 and has declined over the past three years to \$45.7M in 2015.

Investment Income



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

2015 Comments: Capital Markets continued to be strong in 2014-15. The University's Trust & Endowment Fund earned 11.1% for the year. This exceeded the amount required to support annual endowment spending, with the result that a

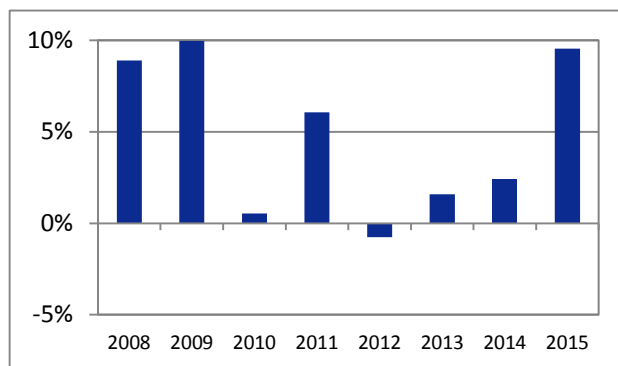
significant portion of the earnings were not recognized as revenue in 2015 but were deferred and remain available for future spending requirements.

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 were restated in years prior to 2014 to reflect the impact of an accounting standards change (2014) and the correction of the prior period misstatement with respect to the classification of certain amounts as internally restricted (2013).

Growth in Operating Expenses per FTE Student

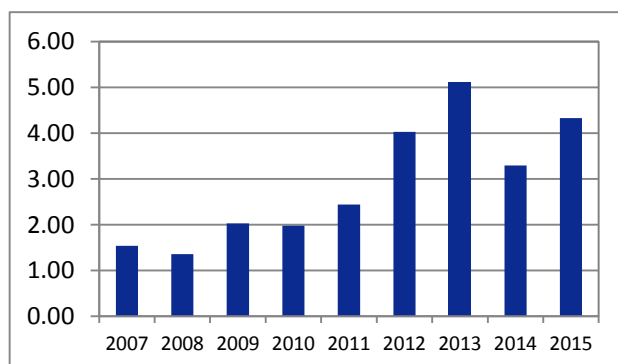


Description: This shows the growth in actual operating expenses per student. A stable or declining percentage is preferred.

2015 Comments: Due to an enrolment decrease of 4.2% and increased spending of 4%, this resulted in an increase in expenses per student.

Trend: Growth in operating expenses per student has fluctuated over the last seven years and has steadily risen over the past three years.

Working Capital Ratio

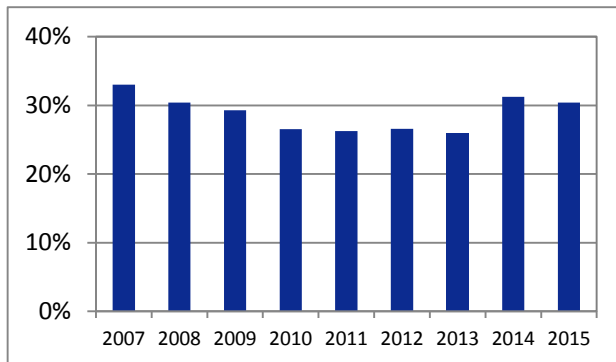


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity.

2015 Comments: The ratio increased from 3.4 to 4.3 in 2015 as a result of mid-term investments maturing within the next year requiring a classification change from long term to short term investments.

Trend: This ratio saw a continuous trend upward from 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

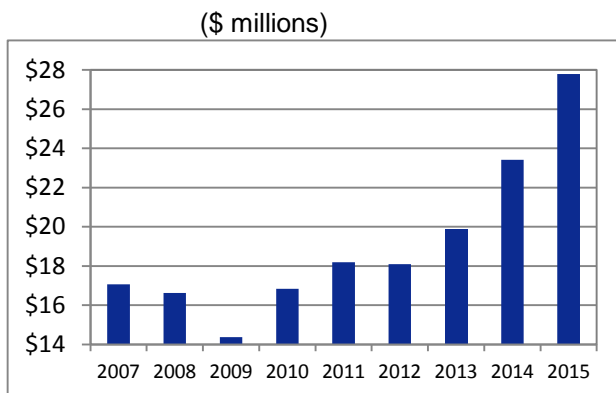


Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2015 Comments: There was a slight decrease in this percentage in the year from 31.2% to 30.4%. This is result of a decrease in revenues and long term debt.

Trend: The percentage has fluctuated between 26.3% and 33% over the past eight years.

Endowment and Long-term Trust Funds per FTE Student

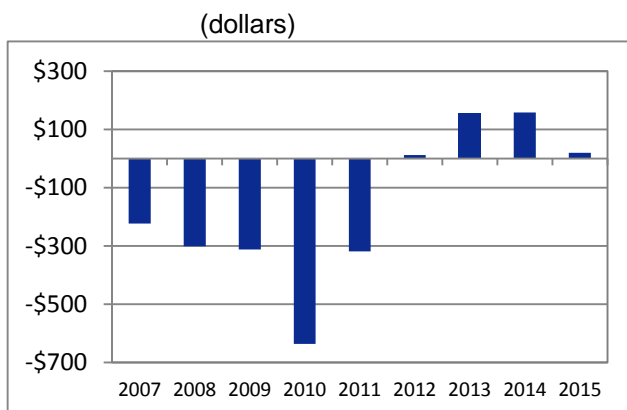


Description: This indicator shows the value of endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2015 Comments: The funds per student increased in 2015 by \$4.4 million. An increase in endowments combined with reduced enrolment is responsible for the change.

Trend: The general trend over the past eight years has been an increase in funds per student. This is due to the continued increase in endowments market value since 2009 and in recent years declining enrolment.

Accumulated Unrestricted Operating (Deficit) Surplus per FTE Student



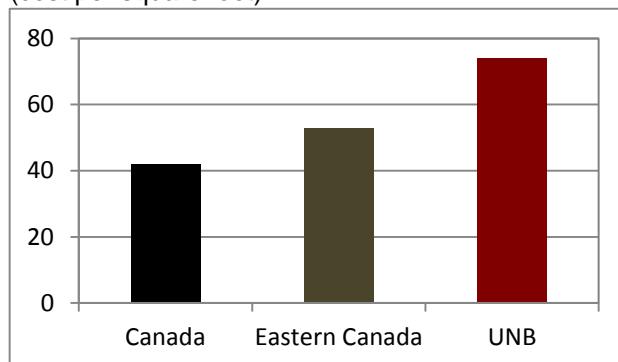
Description: This indicator is intended to give an idea of the deficit burden that must be supported by each student.

2015 Comments: The accumulated unrestricted operating deficit was eliminated in 2012 so there is no longer any deficit per student.

Trend: The accumulated unrestricted deficit has been eliminated in 2012 after reaching a high of \$6.0M at the end of the 2010 fiscal year. The current accumulated unrestricted surplus balance is \$42K.

Deferred Maintenance

(cost per square foot)



Amounts noted above originated from "Deferred Maintenance at Canadian Universities: An Update" May 2014, a report from CAUBO.

Description: Deferred maintenance (DM) is maintenance and repair activities that were not performed when they should have been or were scheduled to be and which, therefore, are put off or deferred to a future period. Maintenance and repairs are activities directed toward keeping capital assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use. This indicator gives a picture of the condition of the capital assets and infrastructure of the University with Canadian comparators. A high DM cost is an indicator of poor condition. This measure is based on a cost per square foot.

Comments: As one of the oldest Universities in Canada, UNB is in a more challenging position than many universities due to the age of many 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

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.

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. The University's 50% share of the liability for 2015 is \$13.8M which is a very small decrease of \$20 thousand from the 2014 liability.

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 charge against net assets on the Statement of Financial Position. Note 23 to the financial statements provides an overall summary of the plan, the expense and the liability.

Net Assets Restricted for Specific Purposes

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 2015, UNB reported \$134.3M in unspent deferred contributions (externally restricted amounts received for specific purposes), \$143.1M 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), \$107.4M in internally restricted net assets (restricted by Board of Governors policy or decision for specific purposes), and \$132.9M in endowed net assets (\$121.8M externally endowed and \$11.1M 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 16 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, 2015 were \$107.4M and at the end of the 2014 fiscal year totaled \$112.1M.

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.

Capital (2015 - \$26.8M / 2014 - \$32.8M) –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:

\$ millions			
CAPITAL	2014	2015	Change
Ward Chipman Library refurbishment	9.6	9.4	(0.2)
VP Fredericton strategic capital (\$3M earmarked for Building)	4.2	3.7	(0.5)
Funds from land transactions	2.2	1.9	(0.2)
Currie Center future maintenance fund	1.5	1.5	-
Alumni Memorial building renovation	1.5	0.5	(1.0)
Data Centre	1.3	0.9	(0.5)
Klohn Commons	1.3	1.2	(0.1)
Residences	1.1	1.1	-
DAL Med lease refurbishment	0.9	1.2	0.3
UNBSJ Capital reserves	0.9	0.3	(0.7)
Retail food establishments	0.8	-	(0.8)
AR 13-14 T&L 146 THEATRE	0.8	-	(0.7)
MacLaggan Hall renovation	0.7	-	(0.7)
BOILER PROJECT PHASE III	1.4	0.8	(0.6)
BOILER PROJECT PHASE IV	3.0	0.4	(2.6)
Ganong Hall Rm 305	-	0.9	0.9
Food Service Capital	-	0.6	0.6

Contract overhead (2015 - \$4.2M / 2014 - \$3.9M) – 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.

Entrepreneurial (2015 – \$20.5M / 2014 - \$22.8M) – 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 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 have decreased as certain large projects are nearing completion. The funds may not be accessed for general operations.

ENTREPRENEURIAL	\$ millions		
	2014	2015	Change
SJ- Faculty of Nursing extra seats	1.8	2.5	0.6
UNBSJ MBA program	2.7	2.2	(0.5)
Engineering program differential	1.1	1.3	0.1
CEL business development funds	1.1	1.2	0.1
Biomedical Institute	0.8	0.8	-
Faculty of Arts - Trinidad & Tobago	1.0	0.8	(0.2)
Faculty of Law program fees	0.7	0.7	-
Research Royalties	0.6	0.6	(0.1)
Humber College program fees	0.4	0.6	0.1
Andrews Initiative	0.6	0.5	(0.1)
FR - Faculty of Nursing reduction seats	2.4	0.5	(1.9)
Funding from Trust for Nursing faculty position	0.6	0.5	(0.1)
FBA International programs contingency fund	0.4	0.4	-
Q1 labs - researcher portion	0.4	0.3	-
Other general research account	-	0.3	0.3
Soil & Plant Testing lab	-	0.3	0.3
Canadian Rivers Institute	0.3	0.3	-
VP Research risk contingency	0.3	0.2	(0.1)
Saint John College deficit reserve	0.6	0.1	(0.4)

Operating Budget Carry-forwards (2015 – \$10.7M / 2014 - \$9.4M) – 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. Below is a list of the Fredericton and University Wide portfolios with balances greater than \$300K and Saint John portfolios with balances greater than \$200K.

\$ millions			
OPERATING BUDGET CARRY FORWARDS	2014	2015	Change
FR-Faculty of Science	1.1	1.1	-
FR-Faculty of Education	0.8	0.9	0.2
FR-Facilities Management	0.8	0.9	0.1
FR-Faculty of Engineering	0.4	0.6	0.2
FR-Student Services	0.4	0.5	0.1
FR-Vice-President Academic (Fredericton)	0.3	0.5	0.2
FR-Faculty of Computer Science	0.4	0.5	0.1
FR-Faculty of Arts	0.5	0.5	-
FR-College of Extended Learning	0.7	0.4	(0.3)
FR-Faculty of Business Administration	0.4	0.4	-
FR-Renaissance College	0.3	0.3	0.1
SJ-Registrar	0.3	0.3	-
SJ-Faculty of Science, Applied Science & Engineering	0.3	0.2	-
SJ-Faculty of Business	0.3	0.2	-
SJ-Assistant Vice President Finance	0.2	0.2	-
UW-University Comptroller	0.5	0.6	0.1
UW-President			
Integrated Recruitment & Retention	0.6	0.5	(0.1)
Special Projects	0.5	0.5	-
UW-Information Technology Services	0.3	0.6	0.3
UW-Vice-President (Administration and Finance)	0.3	0.5	0.1
UW-School of Graduate Studies	0.3	0.4	0.1

Risk (2015 - \$12.4M / 2014 - \$11.1M) – 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.

Some examples of amounts included in this category are:

\$ millions			
RISK	2014	2015	Change
Employee Benefit reserve	2.3	3.3	1.1
Endowment backstop	0.6	0.8	0.1
Reserve for future revenue declines	5.1	5.8	0.2
Insurance reserves	1.0	1.3	0.2

Scholarships, Bursaries and Awards (2015 – \$4.8M / 2014 - \$3.6M) – 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 (2015 - \$16.5M / 2014 - \$18.2M) - 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.

Some significant amounts in this category are listed below:

STRATEGIC PRIORITIES	\$ millions		
	2014	2015	Change
Operating surplus not yet allocated	3.8	3.8	-
Provision for future pension increases	3.2	2.7	(0.5)
Special HST Rebates	2.5	2.7	0.2
Transfer from Risk Backstop	2.6	2.5	(0.2)
Funds for Prioritization Implementation	1.0	0.9	(0.1)
Reserve for strategic priorities	0.2	0.8	0.6
SJ Priority funding 2013-14	-	0.7	0.7
HST rebate on real property	0.9	0.4	(0.4)
Research costs (matching)	0.3	0.3	-
Priority Fund reserve all years	1.1	0.3	(0.8)
Strategic initiatives	0.8	0.3	(0.5)

Specific Projects (2015 - \$11.4M / 2014 - \$10.4M) – 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:

SPECIFIC PROJECTS	\$ millions		
	2014	2015	Change
Fundraising Campaign *	3.5	2.6	(1.0)
Library Acquisitions	1.6	2.0	0.4
Nursing teach out in Bathurst (3 years)	-	1.2	1.2
Administrative leaves/searches	0.4	1.2	0.8
Retirement allowance reserve	0.4	0.4	-
PhD Scholarship (3 years)	-	0.4	0.4
Harriet Irving Library	-	0.3	0.3
Recruitment	0.5	0.2	(0.3)

* reclassified from Operating Budget Carryforward category

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 eventually result in deficits unless new funding sources were found each year.

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 paid 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 11 to the financial statements. The liabilities related to all three of these benefits decreased by \$1.8 million during 2015 – primarily due to a remeasurement gain for the post-retirement benefits. This gain was as a result of the actual plan experience being better than assumed for valuation purposes.