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

Comptroller's Report

For the Year Ended April 30

2017

Don Harrington, CPA, CA
University Comptroller

UNB
EST. 1785
UNIVERSITY OF NEW BRUNSWICK

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Executive Summary

I am pleased to present the Report of the Comptroller for the fiscal year ended April 30, 2017.

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, 2017, 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 2017 financial statements were:

- The University reported an excess of revenues over expenses of $4.3 million. After reflecting changes in net assets, this results in a net unrestricted operating deficit of $1.5 million.

- The net unrestricted operating deficit of $1.5 million is a result of the University having a structural deficit and after accounting for changes in the Internally Restricted Net Assets.

- The University has an accumulated unrestricted operating deficit of $4.6 million.

- The University's total assets increased by $51.5 million, primarily due to an increase in short-term and long-term investments of $51.2 million.

- Net assets increased by $13.8 million, up to $294.2 million, primarily due to an increase in Endowed assets, Investment in Capital and a decrease in Unfunded employee benefits offset by decreases in Restricted for specific purpose and the accumulated operating deficit.

Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2017 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 2017 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 $4.3 million (1.4% of revenues). This reflects all restricted and unrestricted activities of the university. The $4.3 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 unrestricted operating deficit of $1.5 million.

- The excess of revenues over expenses was decreased by $3.4 million in the year due to an increase in investment in capital assets. The increase resulted from $5.7 million in capital asset acquisitions funded from operations, decreases in financing of capital assets of $1.8 million, $9.2 million amortization of deferred capital contributions, all offset by $13.3 million in amortization of capital assets.

- The excess of revenues over expenses was decreased by $5.1 million related to the difference between the actuarially determined employee future benefit expense that is reported as an expense, the actual cash contributions and the return on the internal fund.

- The excess of revenues over expenses was increased by $3.0 million relating to adjustments to internally restricted net assets. These adjustments represent a net decrease of carry forwards and reserves as some units have spent some of prior year carry forward amounts. Two examples of this are the funding for recruitment and marketing campaign and the budgeted reduction of the deficit, both of which were planned reductions of the internally restricted net assets.

- The excess of revenues over expenses was decreased by $0.29 million relating to a transfer to internally restricted net assets. This transfer was the net operating surplus for the Saint John campus and is to be used for Academic Development on the Saint John campus.

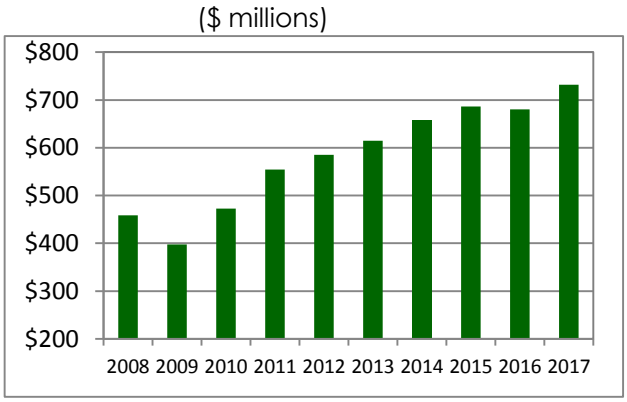
- After the above-noted adjustments for changes in net assets, the Statement of Revenues, Expenses and Changes in Net Assets reports a net unrestricted operating deficit for the year of $1.5 million and a corresponding decrease in the University's accumulated unrestricted operating deficit from $3.1 million to $4.6 million.

Analysis of Major items on the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position reports the assets owned and controlled by the University; the Liabilities owed by UNB and the Net Assets of the University as at the end of the fiscal year – April 30, 2017 (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 nine years. The balances of years previous to 2014/15 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

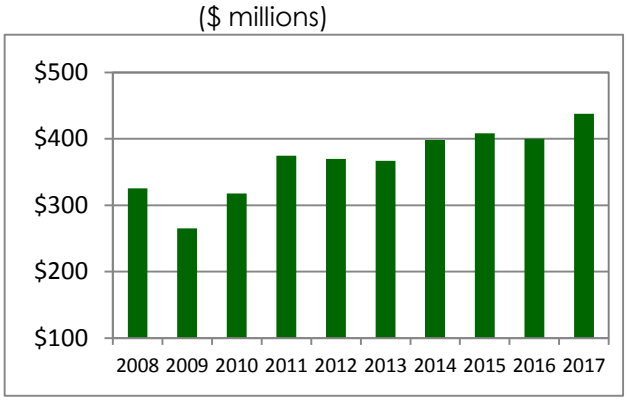


Description: Total assets represent the lower of cost and fair market value of all assets (excluding approximately 8,600 acres of land holdings acquired by a land grant from the crown) owned by the University.

2017 Comments: Total assets increased by $51.5M (7%) mainly attributable to in short-term and long-term investments.

Trends: Total assets have increased since 2008 by $273M 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

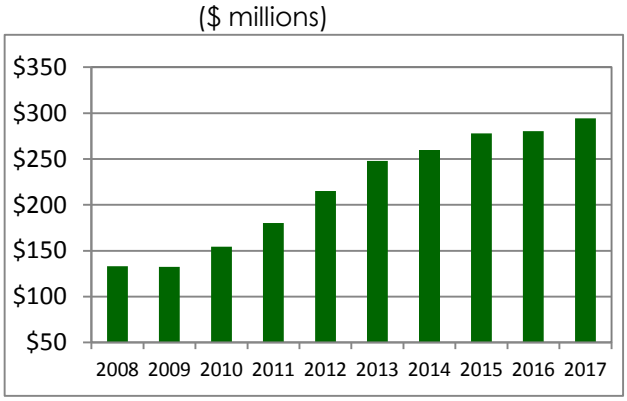


Description: Total liabilities represent the sum of amounts owed to external parties under various contracts and arrangements.

2017 Comments: Total liabilities increased by $37.7M in 2017. The most notable change is an increase of $37.4M in unexpended deferred contributions.

Trends: Total liabilities had generally shown an increase from 2008 ($325.5M) to 2014 ($398M), although have remained at a stable level over the three years prior to this year.

Total Net Assets

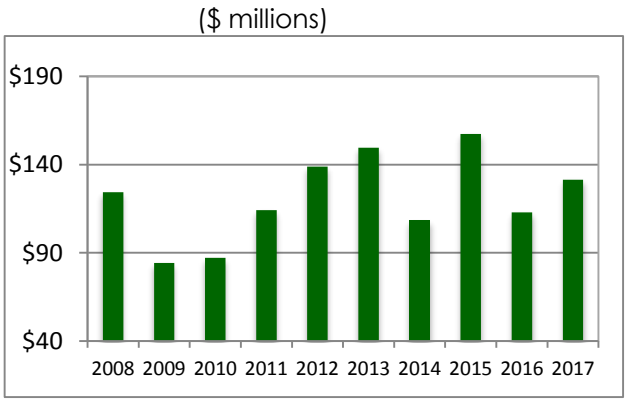


Description: The value of net assets is the result of deducting total liabilities from total assets. This amount is categorized as restricted, invested in capital assets, endowed, related to unfunded non-pension employee benefits or operating.

2017 Comments: Net assets increased by $13.8M in 2017. This change is as a result of increases in the categories of; Endowed ($10.8M), Invested in capital assets ($3.4M), decrease in unfunded employee benefits ($3.9M), offset by the unrestricted operating deficit ($1.5M) and decreases in internally restricted ($2.9M).

Trend: Net assets have shown a steady increase over the past ten years from $133.1M to $294.2M. Most of the growth is attributable to ($65M) in Endowed net assets, ($59.1M) in investment in capital assets, and ($51.1M) in internally restricted net assets. This is offset by an increase of ($12.6M) in unfunded employee benefits and a decrease ($1.5M) in the accumulated unrestricted operating deficit.

Current Assets

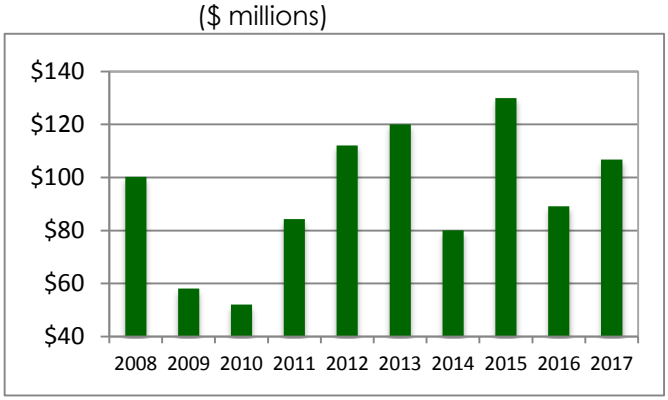


Description: Current assets represent assets that are cash or near cash or are expected to be converted to cash within the next 12 months.

2017 Highlights: Current assets increased by $18.6M. Primarily due to $20M previously classified as long-term and now has a maturity term less than one year of maturity and hence are now reported as short- term investments. There has also been a decrease of $2.3M in cash and an increase of $1.4M in accounts receivable.

Trend: Total current assets have fluctuated over the recent past years, as the short-term investment strategy has been implemented. The fluctuations should smooth out as this strategy matures.

Cash and Short Term Investments

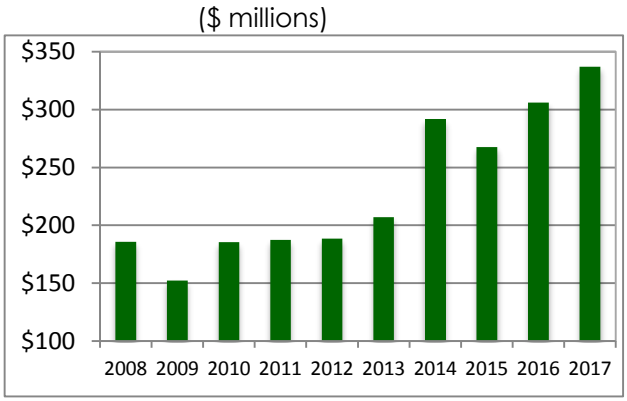


Description: Includes cash and short term investments with maturity dates of less than 12 months. Cash is invested in short term, fixed income vehicles with an emphasis on preserving liquidity and capital.

2017 Comments: Cash and short term investments increased by $17.6M during 2017. This increase is due primarily to the classification change of medium term investments to short-term as the maturity of the investments are less than one year. The cash balance also decreased by $2.3M.

Trend: Yearend cash component balance has remained stable but is traditionally quite high. A key factor in the large balance is the fact that the research year ends in March and a significant portion of the funding is received in April. The main reason for the fluctuation in cash and short term investments is due to reclassifications and should smooth out over time as the Short Term Investment Policy matures.

Long Term Investments

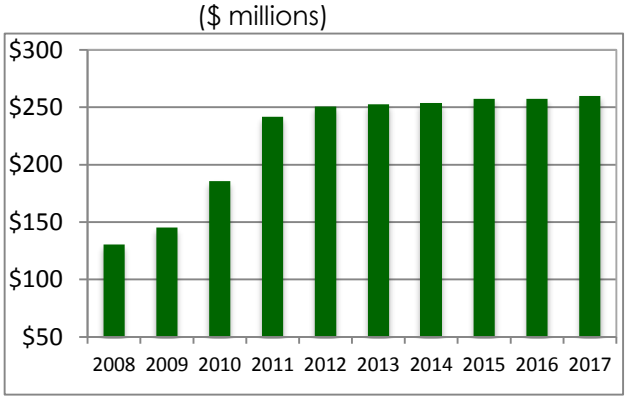


Description: Long term investments primarily represent the assets of the Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investment Committee.

2017 Comments: Long term Investment increased by $31.2M this is due primarily to significant investment returns offset by the classification of mid-term investments as short-term, supplemented by donations. The Endowment Fund had investment returns for the year of 16.04 % which exceeds the investment policy benchmark of (14.02%).

Trend: UNB's investments have performed well since 2007 with new contributions and good returns, with last year being an exceptional favourable market.

Capital Assets

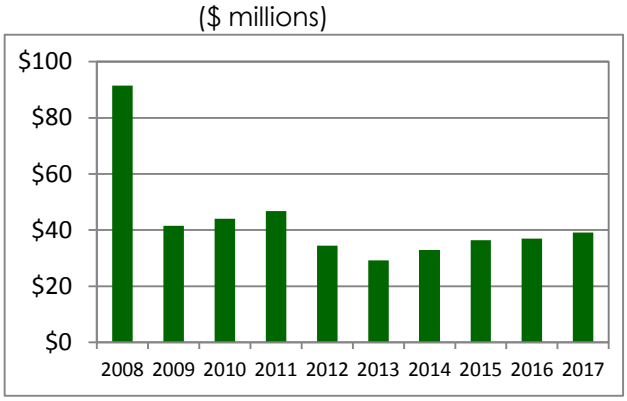


Description: Capital assets represent the un-depreciated cost of University owned buildings, infrastructure, equipment and other tangible assets used in University operations.

2017 Comments: UNB acquired capital assets totaling $15.8M in 2017, primarily for the work in progress on the new Kinesiology building and Greenhouse and the completion of the Central Heating Plant upgrade. Amortization charged in the year was $13.4M.

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. The trend should increase in the coming year with the work continuing on the Kinesiology building and the Greenhouse, both of which are partially funded through the Federal Strategic Investment Fund.

Current Liabilities

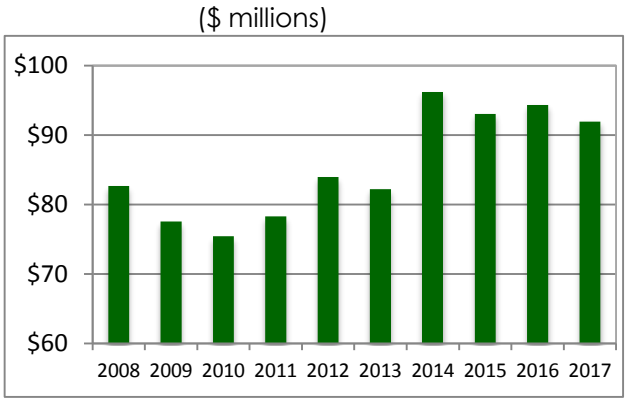


Description: Current liabilities are made up of regular accounts payable and unearned revenue.

2017 Comments: Current liabilities increased by $2.1M from 2016, mostly due to an increase in an increase in amounts payable to Employee Benefit trusts as part of the year end reconciliation.

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

Long Term Liabilities

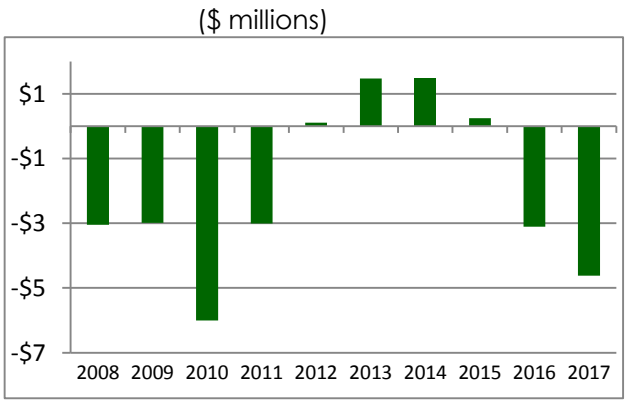


Description: Long term liabilities consist of long term debt and employee future benefits.

2017 Comments: There was no new long term debt issued in the year, resulting in a decrease in long term debt of $1.5M as principle payments were made. The employee future benefits liability decreased by $0.9M primarily due to the Academic Pension Plan.

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)

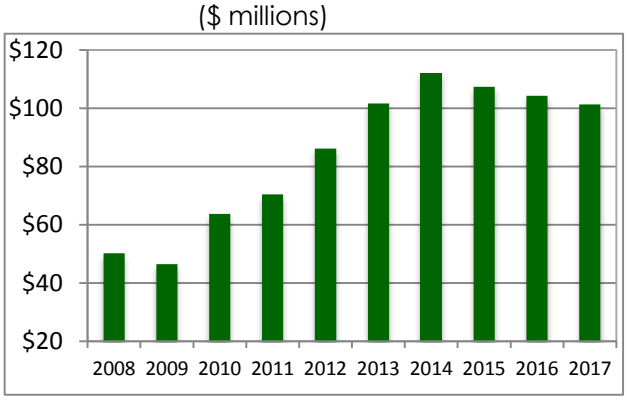


Description: This represents the accumulation of unrestricted operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual net unrestricted operating surplus or deficit.

2017 Comments: The University reported a net unrestricted operating deficit $1.5M in the year.

Trend: The University has had three years of net unrestricted operating deficits and this trend is expected to continue for 2018 with the cap on our base Provincial Operating Grant combined with enrollment declines. The University is working towards a balanced budget for 2020.

Net Assets Restricted for Specific Purposes

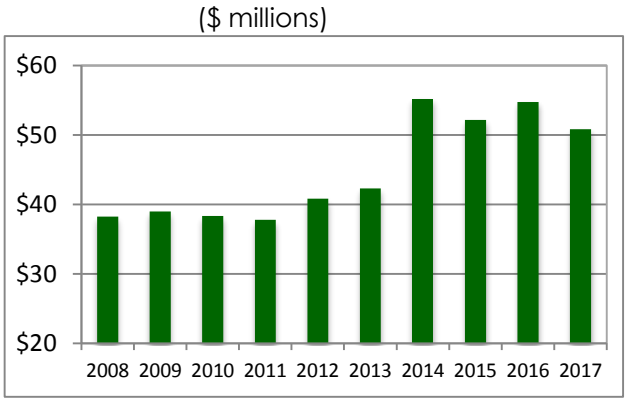


Description: This represents net assets that have been restricted either through restrictions by Board policy or specific decisions of the Board.

2017 Comments: The restricted net assets have decreased in the year by $2.9M. There have also been some transfers between categories to create a Deficit Support fund which is to be used over the next few years to mitigate net unrestricted operating losses as the University transitions to a balanced budget.

Trend: Internally restricted net assets have doubled since 2008 from $50.2M to $101.3M. 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.

2017 Comments: The main decrease of $3.9M in the unfunded amount relates to the investment returns on the internal fund created to fund the early retirement plans. This fund is $3.1M greater than the early retirement plans liability.

Trend: Apart from the pension liability, recognized in 2014, this amount has stayed relatively stable as the investments which are held to fund the early retirement plan have performed very well and now are sufficient to more than cover the liability related to that plan.

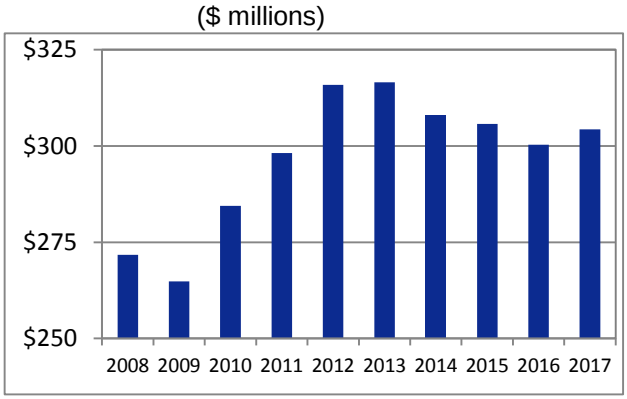
Analysis of Major items on Consolidated Statement of Operations and Change in Net Assets

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 ten years.

Total Revenue

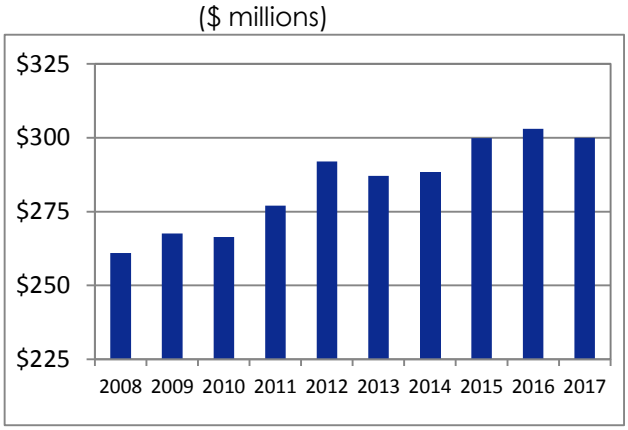


Description: Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when received.

2017 Comments: Total revenue increased from 2016 by 1.3% or $4M. This is primarily due to higher investment returns (7.5M) offset by lower research grants and contracts ($3.2M). There were fluctuations in virtually all categories of revenues.

Trend: Revenues have grown by $32.6M over the past ten years representing a 12% increase.

Total Expenses

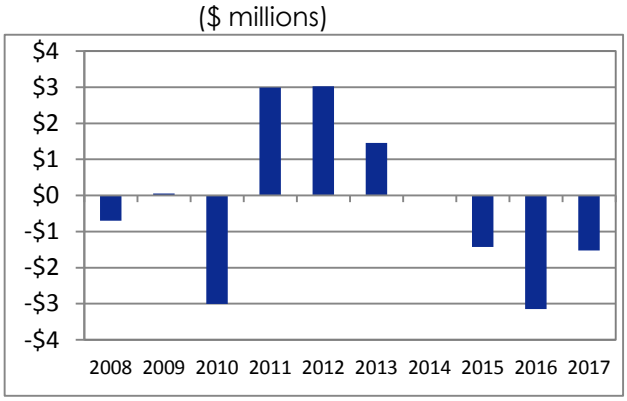


Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their estimated useful lives and amortization expense is included in annual expenses.

2017 Comments: Total expenses decreased by $3M (1%) from 2016. The largest decreases were in employee future benefit expense, down due to significant gain on the internal fund, and research grant and contracts expense.

Trend: Expenses have grown over the past ten years by $39M (15%).

Net Operating Results

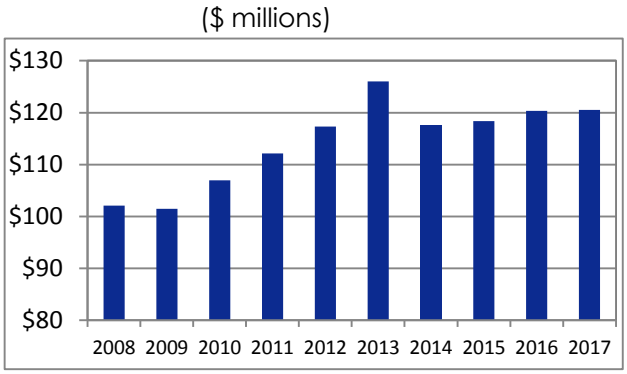


Description: The net operating result is the unrestricted operating surplus (deficit) for the year net of the use of, and allocations to, internally restricted net assets. This surplus (deficit) does not reflect transactions for externally restricted activities.

2017 Comments: The University reported a net unrestricted operating deficit of $1.5M.

Trend: Since 2012 the unrestricted operating surplus has continued to decrease and the last three years have seen increasing deficits. With this deficit there is now an accumulated unrestricted operating deficit of $4.6M.

Government Grants

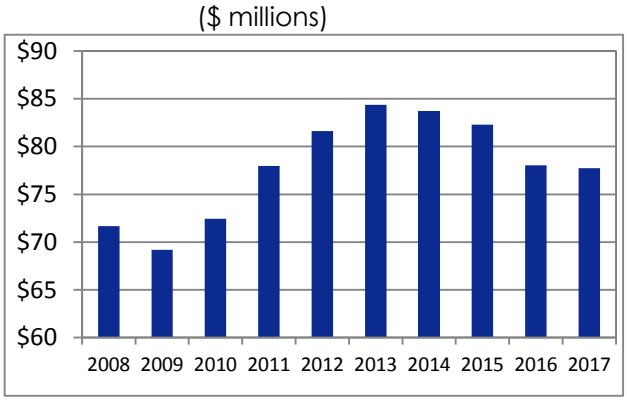


Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2017 Comments: There was a slight increase in the government grant revenue of $.2M (0.2%). The increase is attributable to the restricted funding received and spent during the year.

Trend: The Province and UNB are close to signing a four year memorandum of understanding that will provide predictability on both the grant and tuition rates.

Student Fees

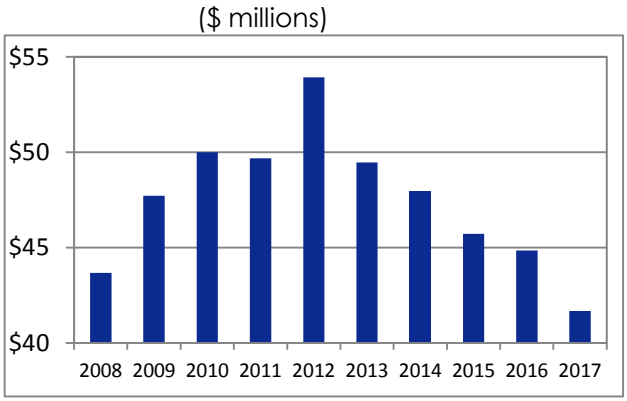


Description: Student fee revenues include tuition and other fees paid by students for specific purposes.

2017 Comments: Fee revenue from students decreased by $0.3M (0.4%). This is primarily due to decrease in non-credit course fees.

Trend: 2014 marked the first year since 2009 that student fee income declined, a trend that continued in 2017. Enrollment has continued to decrease since 2011 although fee increases have somewhat offset this decrease until the last three years.

Research Grants and Contracts

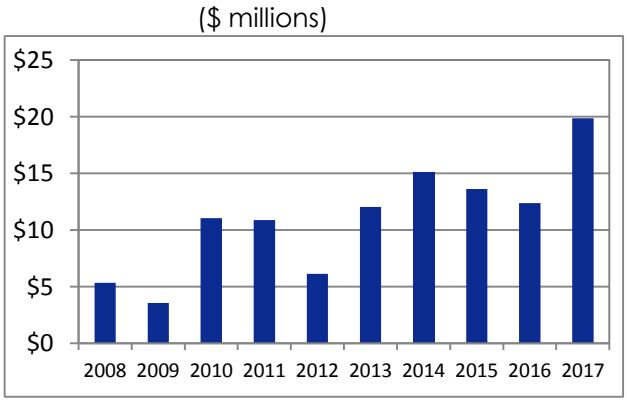


Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

2017 Comments: Research revenue recognized in the financial statements decreased by $3.2M (7.1%) from 2016.

Trend: Over the last ten 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 four years to $41.7M in 2017. During the year unexpended deferred contributions for sponsored research increased by $8.7M which will impact future revenue as expenses for this research are recognized.

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.

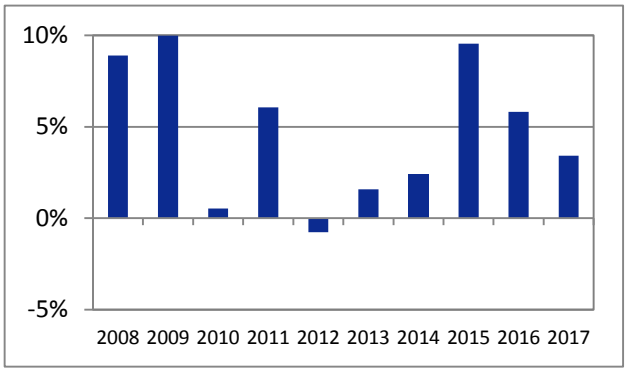
2017 Comments: The 2016-17 year saw an exceptionally strong Capital Market with the University's Trust & Endowment Fund earning 16% for the year (1.9% for 2016), compared to the investment policy benchmark of 14%. This is above the amount required to support annual endowment spending, resulting in increased deferred unexpended investment income.

Trend: Investment income earned is dependent on market returns and the amount recognized is dependent on spending. As such it is subject to volatility. The investment income is smoothed due to the recognition of investment income on restricted donations only being recognized as it is spent. Currently there is $52.8M in unexpended endowment income.

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

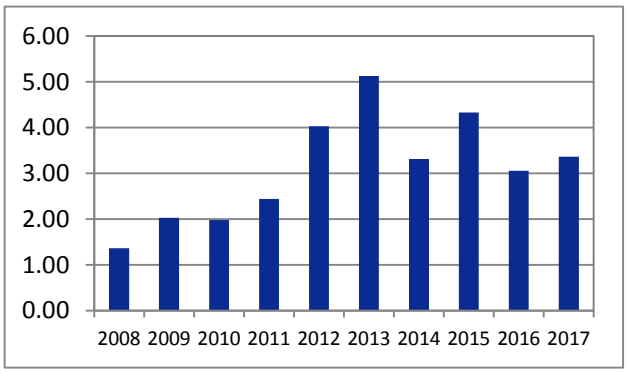


Description: This shows the growth in actual operating expenses per student. A stable or declining percentage is preferred.

2017 Comments: The operating expense growth was controlled and this resulted in curtailed growth in operating expense per FTE student of 3.4% despite reduced enrollment.

Trend: Growth in operating expenses per student has fluctuated over the last ten years. With decreasing enrollment and increasing costs the percentage growth fluctuates.

Working Capital Ratio

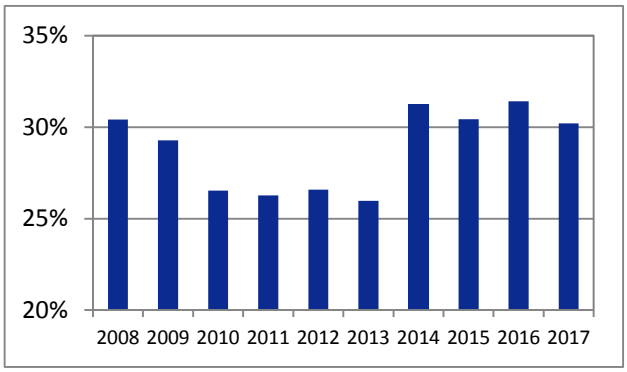


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity. A ratio of 3 or more is very strong.

2017 Comments: The ratio increased from 3.1 to 3.4 in 2017 to be more in line with 2014. This is as a result of mid-term investments maturing within next year requiring a classification change from long term investments to short term investments.

Trend: This ratio saw a continuous trend upward from 2008 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. The fluctuation due to reclassifications should smooth out as the Short Term Investment Policy matures.

Long-term Liabilities as a percentage of Total Revenue

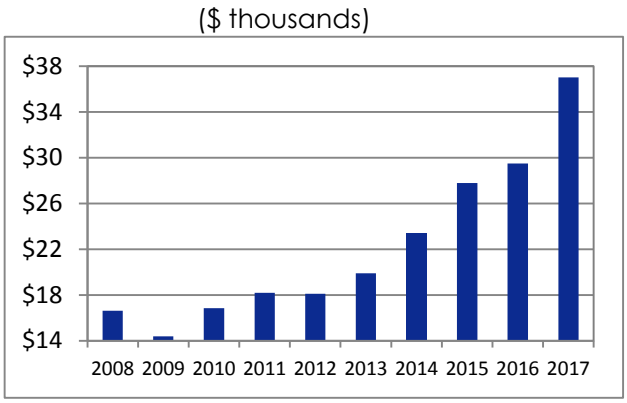


Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2017 Comments: There was a slight decrease in this percentage in the year from 31.5% to 30.2%. This is result of a decrease in long-term debt as it is paid down.

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

Endowment and Long-term Trust Funds per FTE Student

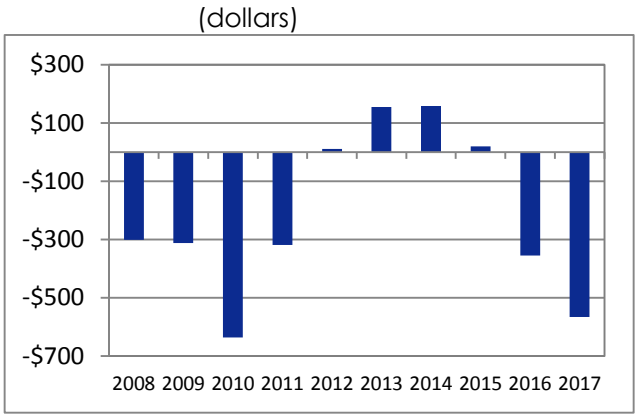


Description: This indicator shows the value of endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2017 Comments: The funds per student increased in 2017 by $7.3 thousand. 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 has also contributed to the increase.

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.

2017 Comments: The accumulated unrestricted operating deficit is in line with the planned deficit for the year.

Trend: The accumulated unrestricted operating deficit is budgeted to increase in 2018.

Deferred Maintenance

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

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.

Deferred maintenance continues to increase as annual capital spending is not sufficient to maintain current infrastructure. Estimated at $275 million (Fredericton Campus $244M, Saint John Campus $31M), the accumulated deferred maintenance balance at UNB remains a major concern. Annual spending is not sufficient to keep up with required maintenance. Management continues to look at and evaluate various options to help address the accumulated deferred maintenance amount.

There is currently an annual shortfall in funding for deferred maintenance between $4.3M and $10.3M depending on the recommended annual spending percentage used. The following tables provide additional information.

Campus	Total Area (Sq. Ft)	Avg. Age of Buildings (Years)	Replacement Value ($millions)	Deferred Maintenance ($millions)	Facilities Condition Index*
Fredericton	2.6M	54.7	787.9	244.1	31.00%
Saint John	0.6M	36.2	178.9	31.3	17.50%
Total	3.2M		966.8	275.4	28.49%

* deferred maintenance divided by current replacement value, with a value over 10% considered poor.

Calculations of Annual Shortfall in spending to address Deferred Maintenance using Sightlines Study based on functional obsolescence target and "APPA: Leadership in Educational Facilities" (previously known as Association of Physical Plant Administrators) recommendations.

Building and Space Budget for 2017-18*	($millions)
Fredericton Campus	7.3
Saint John Campus	1.0
Total	8.3
Sightlines Study recommends 1.3% of replacement value	12.6
Shortfall	(4.3)
APPA: Leadership in Educational Facilities recommends 2.0% of replacement value	19.3
Shortfall	(10.3)

*Budget intended to support DM as well as program, regulatory compliance and accessibility projects. Therefore any DM shortfall will be greater depending on the allocation of the budget to program, regulatory compliance and accessibility projects.

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 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 2017 is $19.5M which is a decrease of $1.1 million from the 2016 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 contributions and not recognized as revenue until the funds are spent for the purpose specified by the external party. Funds with no external restrictions are recognized as revenue immediately.

UNB, like 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 2017, UNB reported $164.7M in unspent deferred contributions (externally restricted amounts received for specific purposes), $140.7M 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), $101.3M in internally restricted net assets (restricted by Board of Governors policy or decision for specific purposes), and $150.3M in endowed net assets ($138.8M externally endowed and $11.5M 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 internally restricted net assets. The presentation this is year is the same as was developed in 2012, with the internally restricted net assets classified into eight categories. Total internally restricted net assets at April 30, 2017 were $101.3M and at the end of the 2016 fiscal year totaled $104.2M.

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. Certain amounts in prior periods have been reclassified to conform to the current year's presentation. Where this reclassification results in a change between categories, it has been noted in the write up for each category impacted.

<u>Capital</u> (2017- $25.3M / 2016 - $23.6M) –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 in recent years. This decision to restrict portions of past years' operating surpluses for capital purposes was made in an attempt to address the very serious issue of accumulated deferred maintenance (ADM) at UNB which is currently estimated to be $275 million. The ADM is essentially the value of repairs, maintenance and replacement work required to maintain the buildings and equipment on both campuses but was not done. Internally restricted funds for capital purposes come from multiple sources.

One large change is the Residence major capital renewal fund which was created to help support residence renewal. This fund had been previously classified as deferred contributions and during the year the fund was properly classified as internally restricted. The balance of this

fund was $3M as at April 30, 206 and has increased by $1.4M during the year bring the balance to $4.4M as at April 30, 2017.

Some larger amounts include:

		$ millions	
CAPITAL	**2016**	**2017**	**Change**
Ward Chipman Library refurbishment	7.0	6.8	(0.2)
Fredericton Residences renewal fund	0.0	4.4	4.4
Fredericton Kinesiology Building	3.6	3.3	(0.3)
Funds from land and lease transactions	2.6	3.1	0.5
Currie Center future maintenance fund	1.8	2.2	0.4
DAL Med lease refurbishment	1.4	1.7	0.3
Klohn Commons future maintenance fund	1.2	1.2	0.0
Saint John Residences renewal fund	1.1	0.8	(0.3)
Boiler Project	2.2	0.5	(1.7)
SJ Reserve for Strategic Priorities	0.0	0.3	0.3
Data Centre	0.3	0.0	(0.3)
Various Other	2.4	1.0	(1.4)
TOTAL CAPITAL	**23.6**	**25.3**	**1.7**

Contract overhead (2017 - $5.2M / 2016 - *$4.8M) – 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.

* adjusted to correct misclassification of $223K in Contract overhead that should have been categorized as Entrepreneurial last year.

Entrepreneurial (2017 – $20.1M / 2016 - *$19.1) – 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. According to UNB Policy, the funds may not be accessed for general operations.

* adjusted to correct misclassification of $223K in Contract overhead that should have been categorized as Entrepreneurial last year.

		$ millions	
ENTREPRENEURIAL	**2016**	**2017**	**Change**
SJ - Faculty of Nursing Provincial Agreement	2.8	3.0	0.2
FR - Faculty of Nursing Provincial Agreement	1.0	2.8	1.8
UNBSJ MBA program	2.0	1.7	(0.3)
Engineering program differential	1.4	1.5	0.1
College of Extended Learning - Business Dev. Funds	0.9	0.8	(0.1)
Biomedical Institute	0.8	0.8	0.0
Canadian Rivers Institute	0.7	0.7	0.0
Andrews Initiative	0.4	0.3	(0.1)
Faculty of Education - Trinidad & Tobago	0.6	0.3	(0.3)
License Practical Nurse Pilot Reserve	0.2	0.3	0.1
Funding from Trust for Nursing faculty position	0.4	0.3	(0.1)
Research Royalties	0.3	0.3	0.0
Q1 labs - researcher portion	0.3	0.3	0.0
VP Research risk contingency	0.3	0.3	0.0
FBA International programs contingency fund	0.4	0.1	(0.3)
Faculty of Law program fees	0.6	0.0	(0.6)
Other general research account	0.2	0.0	(0.2)
Various Other	5.8	6.6	0.8
TOTAL ENTREPRENEURIAL	**19.1**	**20.1**	**1.0**

Operating Budget Carry-forwards (2017 – $13.3M / 2016 - $12.5M) – 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 from their regular annual operating budget. While the Dean or 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	**2016**	**2017**	**Change**
FR-College of Extended Learning	0.4	0.3	(0.1)
FR-Facilities Management	0.4	0.7	0.3
FR-Faculty of Arts	0.3	0.4	0.1
FR-Faculty of Business Administration	0.4	0.5	0.1
FR-Faculty of Computer Science	0.6	0.6	-
FR-Faculty of Education	1.0	0.9	(0.1)
FR-Faculty of Engineering	0.6	0.6	0.0
FR-Faculty of Kinesiology	0.4	0.3	(0.1)
FR-Faculty of Nursing	0.8	0.1	(0.7)
FR-Faculty of Science	1.1	0.7	(0.4)
FR-Harriet Irving Library and Branches	0.3	0.4	0.1
FR-Renaissance College	0.3	0.3	0.0
FR-Student Services	0.8	0.6	(0.2)
FR-Vice-President Academic (Fredericton)	0.6	1.8	1.2
SJ-Faculty of Business	0.3	0.3	0.0
SJ-Faculty of Science, Applied Science & Engineering	0.2	0.3	0.1
SJ-Vice President (Saint John)	0.1	0.3	0.2
UW-President	0.0	0.0	0.0
- Integrated Recruitment & Retention	0.2	0.3	0.1
- Special Projects	0.7	0.7	0.0
UW-Information Technology Services	0.9	0.8	(0.1)
UW-School of Graduate Studies	0.4	0.4	0.0
UW-University Comptroller	0.7	0.5	(0.2)
Various Other	1.0	1.5	0.5
TOTAL OPERATING BUDGET CARRY FORWARDS	12.5	13.3	0.8

Risk (2017 - $8.1M / 2016 - *$8.5M) – 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.

* adjusted to correct misclassification of $75K in Risk that should have been categorized as Scholarships, Bursaries and Awards last year.

Some examples of amounts included in this category are:

	$ millions		
RISK	**2016**	**2017**	**Change**
Employee Benefit reserve	3.9	4.8	0.9
Insurance reserves	1.6	1.8	0.2
Disabled life premium	0.5	0.5	0.0
VP contingency	0.6	0.3	(0.3)
Endowment backstop	0.7	0.0	(0.7)
Various Other	1.2	0.6	(0.6)
TOTAL RISK	**8.5**	**8.1**	**(0.5)**

Scholarships, Bursaries and Awards (2017 – $5.8M / 2016 – *$4.3M) – 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.

* adjusted to correct misclassification of $75K in Risk that should have been categorized as Scholarships, Bursaries and Awards last year.

Strategic Priorities (2017 - $13.9M / 2016 - $10.5M) - the funds in this category have come from one-time operating items including special HST rebates claimed and operating surpluses. The University has a goal of having a balanced budget for 2019-2020 and in the interim years the University is expecting to have deficits. $11.3M was reallocated from various other categories to create an Operating Deficit Support fund which is meant to cover possible deficits over the next two years thereby avoiding growth of the accumulated unrestricted operating deficit. The sources and categories of the reallocated amounts are reflected in a table on page 25.

Some significant amounts in this category are listed below:

	$ millions		
STRATEGIC PRIORITIES	**2016**	**2017**	**Change**
Operating Deficit Support	0.0	11.3	11.3
Funds for Academic Planning Implementation	1.0	1.0	0.0
Strategic initiatives	0.4	0.7	0.3
SJ Reserve for Academic Development	0.0	0.3	0.3
HST Rebates	3.0	0.1	(2.9)
Release from provision for future pension increases	2.7	0.0	(2.7)
Released from Endowment backstop	0.2	0.0	(0.2)
Research costs (matching)	0.3	0.0	(0.3)
VPA (F) University Priorities	1.8	0.0	(1.8)
SJ Reserve for Strategic Priorities	0.3	0.0	(0.3)
Various Other	0.8	0.5	(0.3)
TOTAL STRATEGIC PRIORITIES	**10.5**	**13.9**	**3.4**

Specific Projects (2017 - $9.6M / 2016 - $21.0M) – 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. 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). The large decrease in the amount is due to the use of funds and the reallocation of funds to Deficit Support.

Some projects in this category include:

	$ millions		
SPECIFIC PROJECTS	**2016**	**2017**	**Change**
VPA (F) College of Extended Learning	1.3	1.4	0.1
Fundraising Campaign	2.6	1.3	(1.3)
Administrative leaves/searches	1.4	1.2	(0.2)
Library Acquisitions	3.1	0.9	(2.2)
Project Focus	0.0	0.5	0.5
Retirement allowance reserve	0.4	0.4	0.0
Deficit Reduction	5.0	0.0	(5.0)
Enterprise Software License	0.3	0.0	(0.3)
Nursing teach out in Bathurst (3 years)	0.4	0.0	(0.4)
One Time Strategic Initiative	0.3	0.0	(0.3)
Recruitment	1.2	0.0	(1.2)
Why UNB Campaign	2.2	0.0	(2.2)
Various Other	2.8	3.9	1.1
TOTAL SPECIFIC PROJECTS	**21.0**	**9.6**	**(11.4)**

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 internally restricted in the past so that they can be accessed in the future for the benefit of a specific program, activity or project. These funds are not available to be used on operating expenses without a specific change approved by the Board of Governors as they have been restricted by the governing body of UNB. Furthermore, since the amounts described above are "one-time" they do 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.

As part of the planning to achieve a balanced budget for 2019 – 2020 certain amounts that are centrally controlled have been reallocated to create a Deficit Support fund that is to be used to cover certain operating deficits that may arise over the next couple of years. The following table notes the categories and accounts where the funding was transferred.

Category & Description	$ Millions
Capital	
Various others	0.3
Operating carry forwards	
Various others	0.1
Risk	
Various others	0.7
Specific Projects	
Administrative leaves/searches	0.2
Deficit Reduction	1.5
Advancement Backstop	0.5
VPA (F) University Priorities	1.8
Various Others	0.1
Strategic Priorities	
HST Rebates	2.8
Release from provision for future pension increases	2.7
VP (SJ) Research costs (matching)	0.3
Various Others	0.3
Total amounts reserved for Deficit Support (Strategic Priorities)	**11.3**

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 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 these benefits decreased by $0.9 million (1.2%) during 2017 (increase by $2.8 million during 2016).