Comptroller's Report

For the Year Ended April 30

2018

Alexandra Ferris, CPA, CA
Comptroller

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

UNB
EST. 1785
UNIVERSITY OF NEW BRUNSWICK

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Executive Summary

I am pleased to present the Annual Report of the Comptroller for the fiscal year ended April 30, 2018.

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, 2018, 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 ensure reliable accounting records.

The major highlights of the 2018 financial statements were:

- The University reported an excess of expenses over revenues of just under $3.0 million. After reflecting changes in net assets, this results in a net unrestricted operating deficit of $1.9 million.

- The $1.9 million net operating deficit excludes the results in the Restricted and Endowment Funds, reflecting only the Operating Fund results after accounting for budgeted one-time expenses and a planned use of internally restricted net assets.

- The University has an accumulated unrestricted operating deficit of $6.5 million.

- The University's total assets increased by $22.2 million, primarily due to an increase in capital assets of $16.7 million which is predominately the result of the new Kinesiology building and the Multi-use Greenhouse.

- Net assets increased by $13.7 million, to $307.9 million, primarily due to an increase in Endowed assets and Investment in Capital. These increases are offset by a decrease in Internally Restricted Net Assets and an increase in the accumulated operating deficit.

Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2018 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. 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 their 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's operations. They offer a consolidated view of operations and a basis for global comparisons with other universities. While global comparisons may be useful, it is important to note that 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. The funds format financial statements are used throughout the year by the University's management and the Board of Governors to assess operations. Differences include:

- 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 they are 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.

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 is widely used in the University and not-for-profit sectors and more closely aligns with the approach to manage resources. Other benefits include:

- 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:

- Trust and Endowment - 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 - 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 - 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 the 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 2018 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 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 expenses over revenues before changes in internally restricted net assets, of just under $3.0 million (1.0% of revenues). This reflects all restricted and unrestricted activities of the university. The $3.0 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 $1.9 million. The adjustments to the excess of expenses over revenues in 2018 were as follows:

- The excess of expenses over revenues was increased by $8.9 million in the year due to an increase in investment in capital assets. The increase resulted from $11.7 million in capital asset acquisitions funded from operations, decreases in financing of capital assets of $1.5 million and $9.3 million in amortization of deferred capital contributions. These increases were offset by $13.6 million in amortization of capital assets.

- The excess of expenses over revenues was increased by $0.5 million resulting from differences between the actuarially determined employee future benefit expense, the actual cash contributions made and the return on the internal fund.

- The excess of expenses over revenues was decreased by $10.9 million as a result of adjustments to internally restricted net assets. These adjustments represent a net decrease of carry forwards and reserves as some units have spent prior year carry forward amounts and certain reserve balances have been used for their intended purpose. An example of this is the use of funds previously set aside for the new Kinesiology Building.

- The excess of expenses over revenues was increased by $0.3 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 the transition to a new Vice-President and to increase funds for future deficit support.

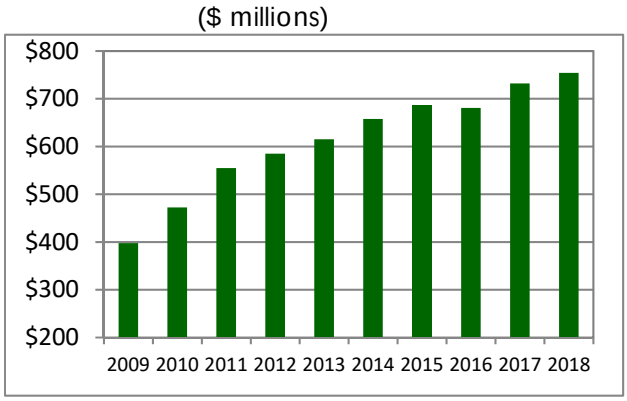
- After the above noted adjustments for changes in net assets, the Statement of Operations and Changes in Net Assets reports a net unrestricted operating deficit for the year of $1.9 million and a corresponding increase in the University's accumulated unrestricted operating deficit from $4.6 million to $6.5 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 the University and the Net Assets of the University as at the end of the fiscal year – April 30, 2018 (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 prior to 2014/15 have been restated to reflect the change in accounting standards relative to hedge accounting (2012/13) and the adoption of section 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

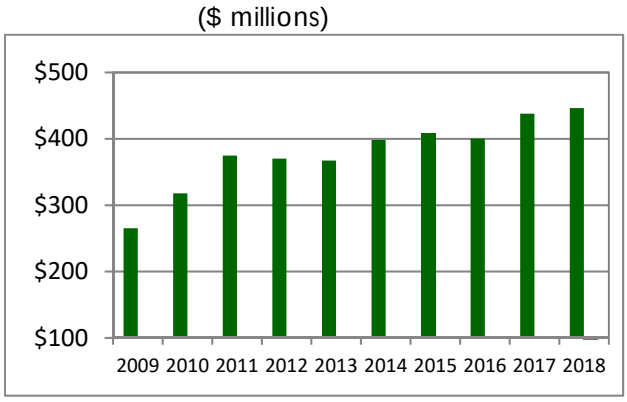


Description: Total assets represent the lower of cost and fair market value of all assets (excluding approximately 8,600 acres of land holdings acquired by a land grant from the crown) owned by the University.

2018 Comments: Total assets increased by $22.2M (3.0%) mainly due to an increase in capital assets of $16.7M, which is primarily related to the new Kinesiology Building and the Multi-use Greenhouse constructed under the SIF program.

Trends: Total assets have increased since 2009 by $357M. This is primarily due to increased capital activity, and increased investments and investment gains. The changes in the major asset components are discussed in the subsequent tables.

Total Liabilities

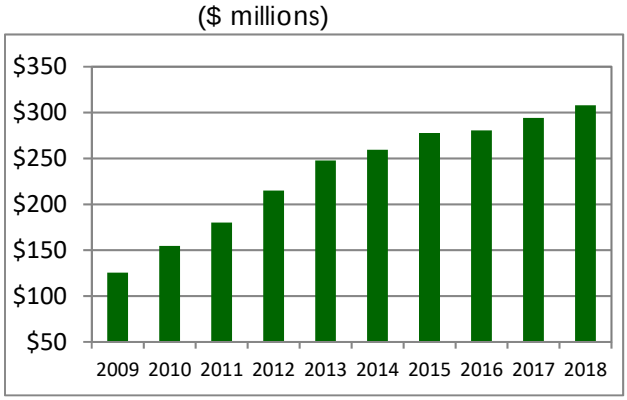


Description: Total liabilities represent the sum of amounts owed to external parties under various contracts and arrangements.

2018 Comments: Total liabilities increased by $8.4M. The most notable changes are an increase of $8.4M in accounts payable and accrued liabilities as well as an increase in deferred capital contributions of $9.2M offset by a decrease in unexpended deferred contributions of $8.5M.

Trends: Total liabilities have increased since 2009 by $181M. The majority of this increase occurred between 2009 ($265.1M) and 2014 ($398M), primarily because of deferred contributions. The changes in the major liability components are discussed in the subsequent tables.

Total Net Assets

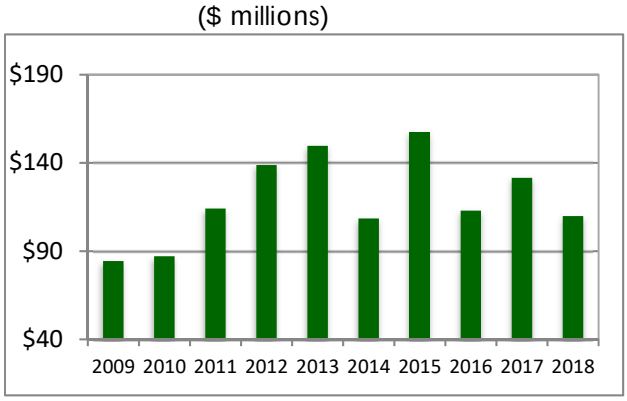


Description: Net assets represent the University's residual interest in its assets after deducting its liabilities. This amount is categorized as restricted, invested in capital assets, endowed, related to unfunded non-pension employee benefits or operating.

2018 Comments: Net assets increased by $13.7M in 2018. This change is a result of increases in the categories of; Endowed ($18.6M), Invested in capital assets ($8.9M), unfunded employee benefits ($1.1M), offset by the unrestricted operating deficit ($1.9M) and decreases in internally restricted ($10.9M).

Trend: Net assets have shown a steady increase over the past ten years from $125.5M to $308.0M. Most of the growth is attributable to Endowed net assets ($82M), investment in capital assets ($70M), and internally restricted net assets ($47M). This is offset by an increase in unfunded employee benefits ($13M) and a decrease ($3.5M) in the accumulated unrestricted operating deficit.

Current Assets

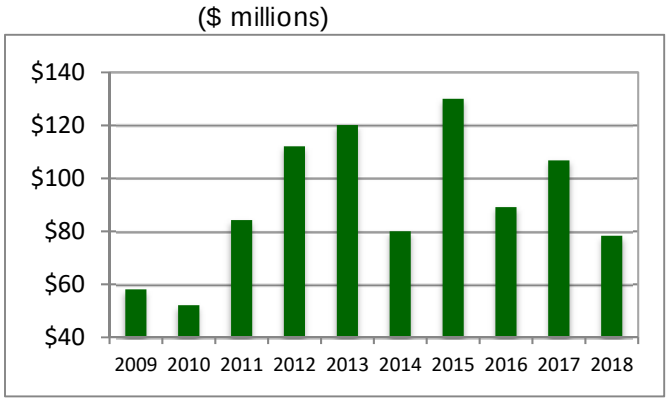


Description: Current assets represent assets that are cash or near cash or are expected to be converted to cash within the next 12 months.

2018 Highlights: Current assets decreased by $21.6M primarily due to a decrease in short term investments of $28.8M offset by an increase in accounts receivable of $6.8M.

Trend: Total current assets have fluctuated in recent years, as the short-term investment strategy continues to evolve. These fluctuations should smooth out as this strategy matures.

Cash and Short Term Investments

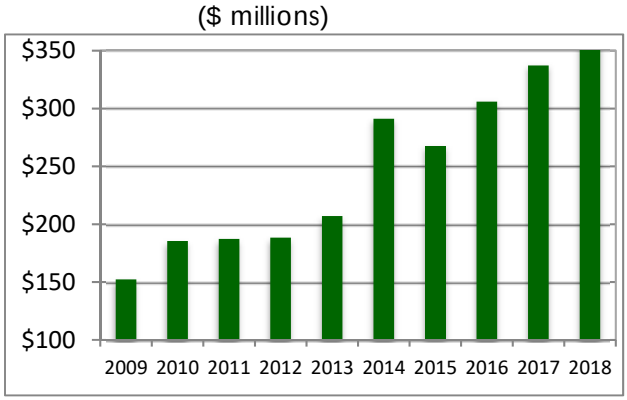


Description: Includes cash and short-term investments with maturity dates of less than 12 months. Cash is invested in short term, fixed income vehicles with an emphasis on preserving liquidity and capital.

2018 Comments: Cash and short-term investments decreased by $28.4M during 2018. This decrease is due primarily to the reinvestment of this year's Guaranteed Investment Certificate maturities into a laddered portfolio of 1-4 years.

Trend: The year-end 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 typically due to the movement of short-term investments between the long-term classification and short-term classification as their maturities move to within 12 months. A new investment policy for Cash and Short Term Investments was approved in fiscal 2018, which will see a move in a portion of the Cash and Short Term Investments to slightly longer-term investments.

Long Term Investments

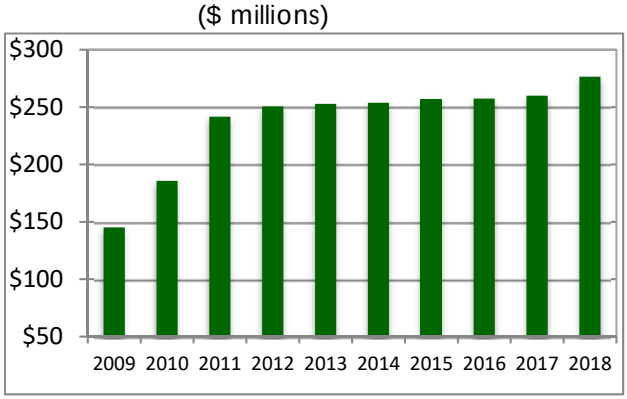


Description: Long-term investments primarily represent the assets of the Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investment Committee.

2018 Comments: Long term Investment increased by $27.4M due to investment returns on the Long-term Investment Fund and a reinvestment of short-term maturities into a longer-term laddered portfolio of 1-4 years. The Long-term Investment Fund had investment returns for the year of 2.97 %, which was below the investment policy benchmark of 4.49%.

Trend: UNB's investments have performed well since 2007 with new contributions and good returns. Although positive, last year's returns were both below benchmark and the assumed spending rate resulting in a decrease in spending reserves.

Capital Assets

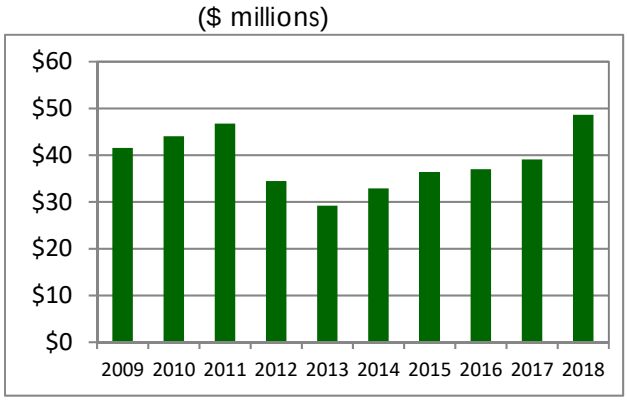


Description: Capital assets represent the un-depreciated cost of University owned buildings, infrastructure, equipment and other tangible assets used in University operations.

2018 Comments: UNB acquired capital assets totaling $30.3M in 2018, primarily for the continued work in progress on the new Kinesiology building and the Multi-use Greenhouse. Amortization charged in the year was $13.6M.

Trend: Capital asset acquisition levels have been stable over the last number of years. The current year's increase is reflective of the continued work on the Kinesiology building and the Multi-use Greenhouse. Both projects were partially funded through the Strategic Investment Fund.

Current Liabilities

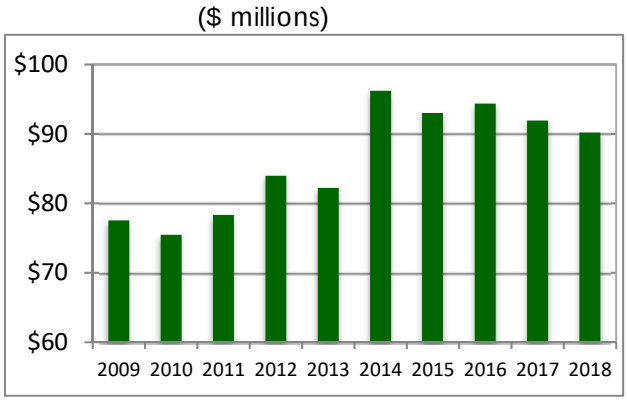


Description: Current liabilities are made up of accounts payable, accrued liabilities and unearned revenue.

2018 Comments: Current liabilities increased by $10.0M from 2017. This is mostly due to an increase in trade payables, accrued liabilities, amounts payable to employee benefit reserves and contractor holdbacks related to the SIF projects.

Trend: Current liabilities have been relatively stable, the current year's increase is largely due to the new Kinesiology building ($3.6M – timing of holdback payouts and final invoices) and another year of surplus transfers to the employee benefit reserves ($1.6M).

Long Term Liabilities

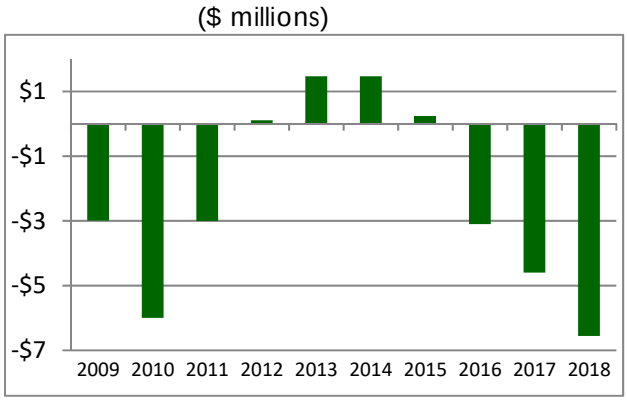


Description: Long-term liabilities consist of long-term debt and employee future benefits.

2018 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 $0.2M primarily due to the valuation results for the Early Retirement Plans.

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)

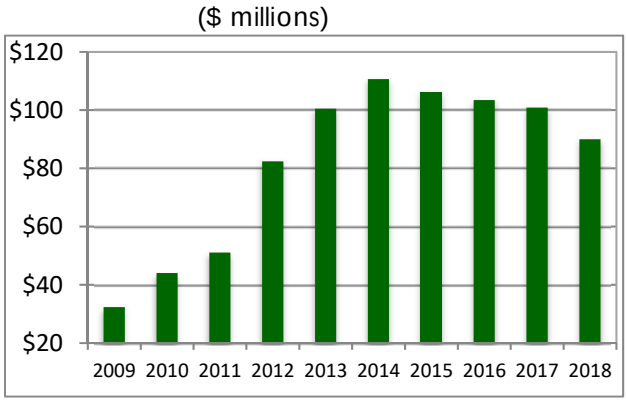


Description: This represents the accumulation of unrestricted operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual net unrestricted operating surplus or deficit.

2018 Comments: The University reported a net unrestricted operating deficit of $1.9M in the year.

Trend: The University has had four years of net unrestricted operating deficits and this trend is expected to continue in 2019. However, the University has a plan to achieve a balanced budget for the 2020-2021 fiscal year.

Internally Restricted Net Assets (Restated*)



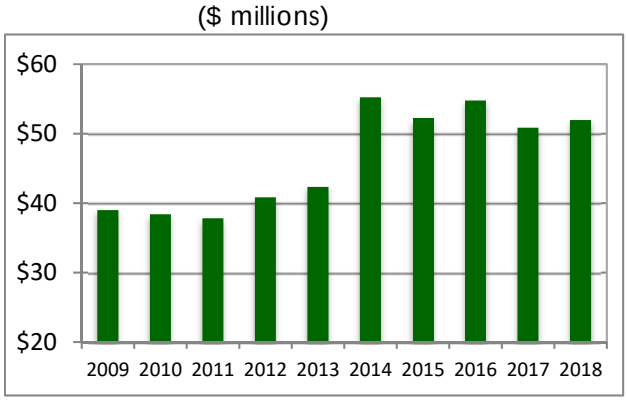
Description: This represents net assets that have been restricted either through Board policy or specific decisions of the Board.

2018 Comments: The restricted net assets have decreased in the year by $10.8M. This is predominately the result of spending the $3.2M previously set aside for the Kinesiology building project and the remaining, project funding gap, of $3.1M which has been temporarily financed from working capital. In addition, $6.6M was used for deficit support.

Trend: Internally restricted net assets have increased significantly since 2009 from $32.3M to $90.0M but have seen a steady decline since 2014. A more detailed discussion related to internally restricted net assets is found in the supplementary information section of this report.

*Balances have been restated to reflect the reclassification of internal loans that had previously been reported as reductions in Net Assets Invested in Capital Assets and are now presented as reductions in Internally Restricted Net Assets.

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.

2018 Comments: The increase of $1.1M in the unfunded amount relates primarily to the in-year adjustments resulting from the updated actuarial valuations.

Trend: Apart from the pension liability, recognized in 2014 pursuant to accounting standards, this amount has stayed relatively stable. The investments 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.

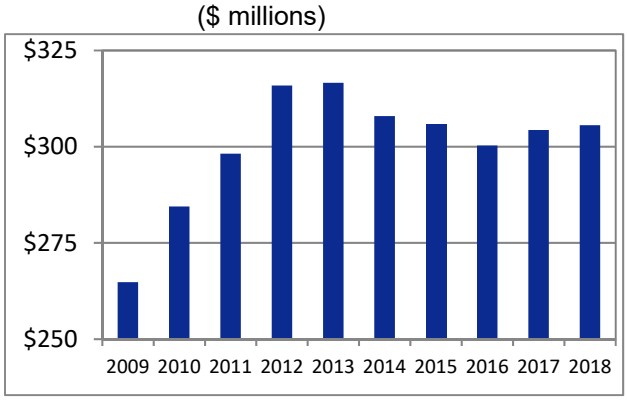
Analysis of Major items on Consolidated Statement of Operations and Change in Net Assets

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 Operations 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

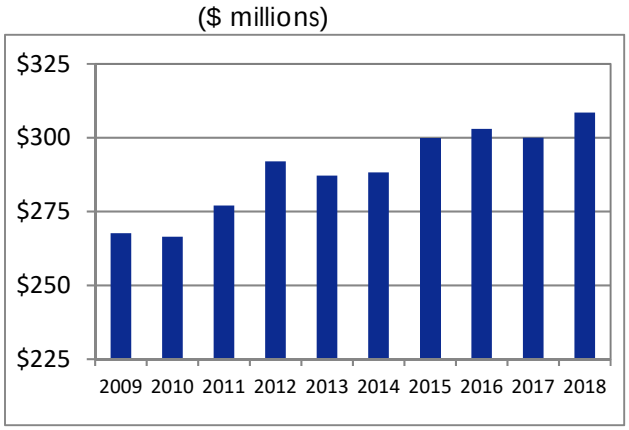


Description: Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when they are received.

2018 Comments: Total revenue increased by $1.2M from 2017. This is due primarily to increased revenue related to research grants and contracts ($4.1M) as well as increased donations ($5.0M). These increases are offset by a reduction in investment income ($10.9).

Trend: Revenues have grown by $40.8M over the past ten years representing a 15% increase.

Total Expenses

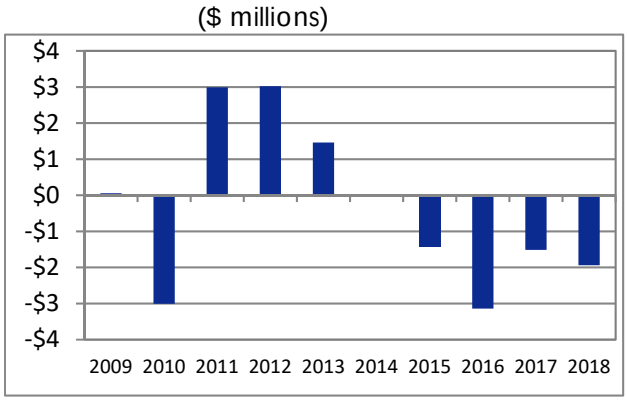


Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their estimated useful lives and amortization expense is included in annual expenses.

2018 Comments: Total expenses increased by $8.5M (2.8%) from 2017. The largest increases were in instruction and non-sponsored research and employee future benefit expenses.

Trend: Expenses have grown over the past ten years by $41M (15.3%).

Net Operating Results

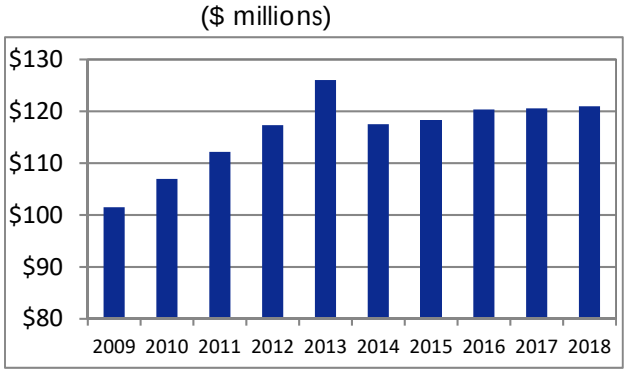


Description: The net operating result is the unrestricted operating surplus (deficit) for the year net of internally and externally restricted amounts.

2018 Comments: The University reported a net unrestricted operating deficit of $1.9M. This deficit includes use of internally restricted net assets of $6.6M to lessen the operating deficit.

Trend: Since 2012, the unrestricted operating results have continued to decrease and for the last four years have seen increasing deficits. With the current year deficit, there is now an accumulated unrestricted operating deficit of $6.5M. However, the net asset position remains strong as internally restricted balances held are healthy.

Government Grants

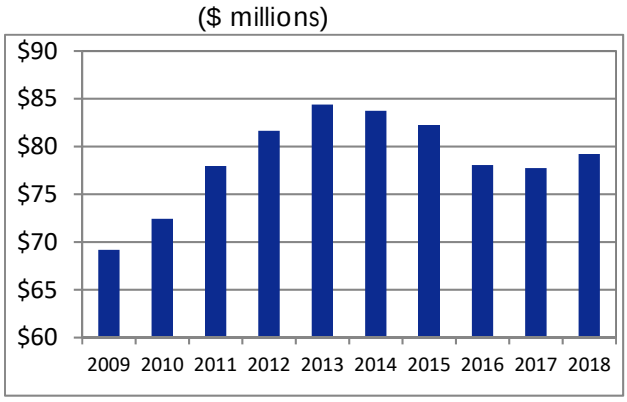


Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2018 Comments: There was a slight increase in government grant revenue of $0.4M (0.3%).

Trend: The Province and UNB signed a four-year agreement in March 2018. This new agreement will see an annual allocation increase of 1.0%.

Student Fees

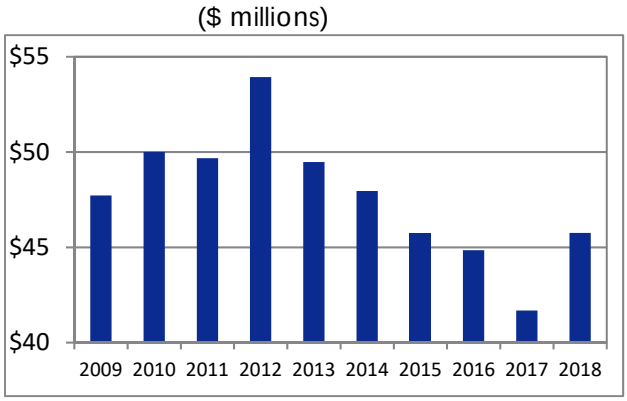


Description: Student fee revenues include tuition and other fees paid by students for specific purposes.

2018 Comments: Fee revenue from students increased by $1.5M (1.9%). This is primarily due to an increase in tuition revenue.

Trend: 2014 marked the first year since 2009 that student fee income declined, a trend that continued until 2017. 2018 saw a reversal of this trend due to improved enrolments and a tuition rate increase.

Research Grants and Contracts

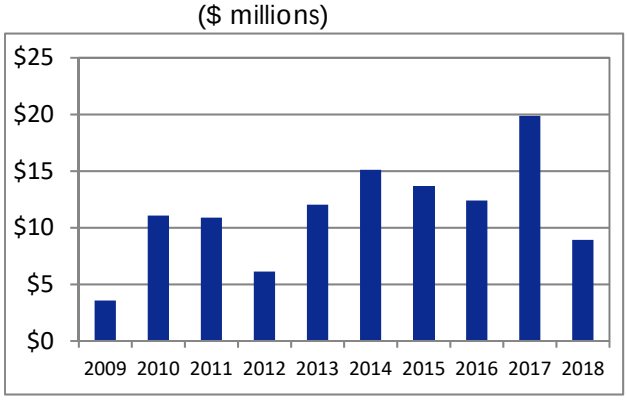


Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

2018 Comments: Research revenue recognized in the financial statements increased by $4.1M (10%) from 2017.

Trend: Since 2012, research grants and contract revenues have declined to a low of $41.7M in 2017. For the fiscal year ending April 30, 2018, this revenue stream saw an increase of approximately $4M, which is primarily because we recognized amounts previously recorded as unexpended deferred contributions.

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.

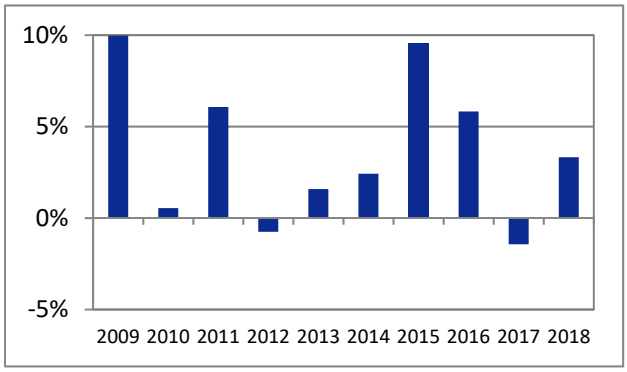
2018 Comments: The 2017-18 year saw a modest Capital Market with the University's Long-term Investment Fund earning 2.97% for the year (16% for 2017), compared to the investment policy benchmark of 4.49%. This is below the amount required to support annual endowment spending, resulting in a decrease in the 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 $48.0 M 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

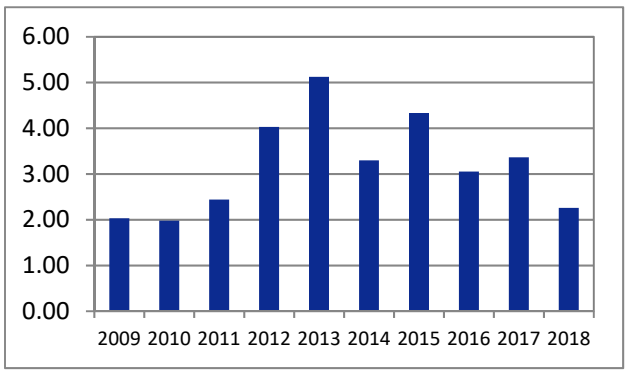


Description: This shows the growth in actual operating expenses per student. A stable or declining percentage is preferred.

2018 Comments: The operating expense growth was controlled which resulted in curtailed growth in operating expense per FTE student of 3.3%.

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

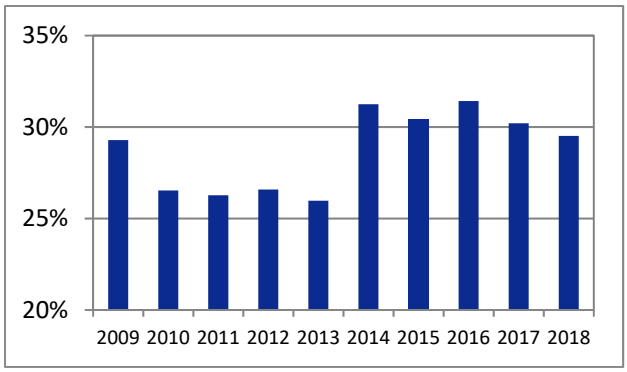


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity. A ratio of 3 or more is very strong.

2018 Comments: The ratio decreased from 3.4 to 2.3 in 2018. This decrease is due primarily to the reinvestment of this year's Guaranteed Investment Certificate maturities into a laddered portfolio of 1-4 years (so a move from Short-term Investments to Long-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 a slightly longer investment horizon i.e. greater than 1 year, to generate additional returns.

Long-term Liabilities as a percentage of Total Revenue

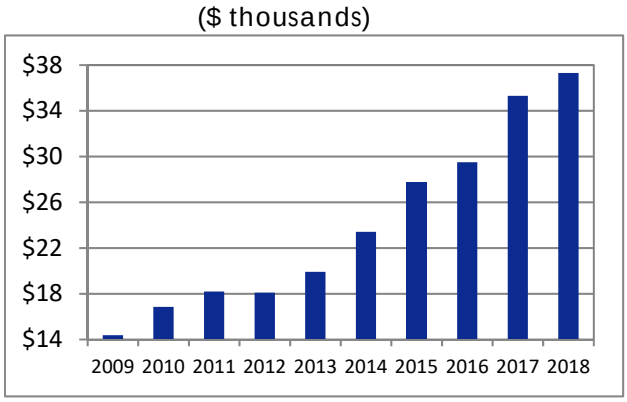


Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2018 Comments: There was a slight decrease in this percentage in the year from 30.2% to 29.51%. This is result of a decrease in long-term debt as it is paid down.

Trend: The percentage has fluctuated between 26.0% and 31.4% over the past ten years. The percentage increased in 2014 when additional debt was taken on to partially finance a new building.

Endowment and Long-term Trust Funds per FTE Student

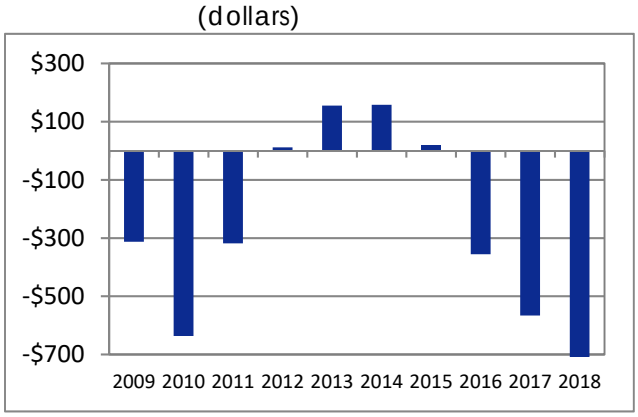


Description: This indicator shows the value of endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2018 Comments: The funds per student increased in 2018 by $2.0 thousand. An increase in endowments 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 (2018 saw a slight increase in enrolment, which mitigated the increase in funds per student).

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.

2018 Comments: The accumulated unrestricted operating deficit is in line with the budgeted deficit for the year.

Trend: The accumulated unrestricted operating deficit is budgeted to increase again in 2019.

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 be a challenge, as annual capital spending is not sufficient to maintain current infrastructure. Estimated at $266 million (Fredericton Campus $234M, Saint John Campus $32M), 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 $3.6M and $10.6M 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	2.7M	56.8	815	234	28.71%
Saint John	0.6M	38.9	179	32	17.88%
Total	3.3M		994	266	26.76%

* 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 2018-19*	($millions)
Fredericton Campus	7.3
Saint John Campus	2.0
Total	9.3
Sightlines Study recommends 1.3% of replacement value**	12.9
Shortfall	(3.6)
APPA: Leadership in Educational Facilities recommends 2.0% of replacement value	19.9
Shortfall	(10.6)

*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.

**The Sightlines recommendation is a range from 1.3% to 3% of replacement value. 3% of replacement value is $29.8M which would increase the shortfall to $20.5M.

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 2018 is $20.3 million, which is an increase of $0.8 million from the 2017 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.

Internally Restricted Net Assets

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 April 30, 2018, UNB reported $156.2M in unspent deferred contributions (externally restricted amounts received for specific purposes), $150.0M in deferred capital contribution (external funding for capital assets that is amortized to revenue over the lives of the assets the funds were used to acquire), $90.0M in internally restricted net assets (restricted by Board of Governors policy or decision for specific purposes), and $169.0M in endowed net assets ($157.2M externally endowed and $11.8M 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, 2018 were $90.0M and at the end of the 2017 fiscal year totaled $100.8M (restated).

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 from where the funds arose. 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> (2018 - $17.8M / 2017 (restated) $24.8M) – 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 previous year's operating surplus monies. 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 $266 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.

Some larger amounts include:

	$ millions		
CAPITAL	**2017**	**2018**	**Change**
Infrastructure renewal projects	8.0	8.0	0.0
Fredericton Residence renewal & ancillary projects fund	5.5	7.3	1.8
Ward Chipman Library refurbishment	6.8	6.7	-0.1
Funds from land and lease transactions	3.0	3.3	0.3
Currie Center future maintenance fund	2.2	2.1	-0.1
Klohn Commons future maintenance fund	1.2	1.1	-0.1
Saint John Residence renewal fund	0.8	0.8	0.0
Alumni Memorial building renovation	0.5	0.5	0.0
Tech Fee Program	0.3	0.4	0.1
SJ Reserve for Strategic Priorities-Shortfall SIF funding	0.3	0.3	0.0
Engineering Program Fund Projects	0.5	0.2	-0.3
Fredericton Kinesiology Building	3.2	-3.1	-6.3
Various Others	1.8	0.7	-1.1
Internal Loans	-9.3	-10.5	-1.2
TOTAL CAPITAL	**24.8**	**17.8**	**-7.0**

It should be noted that the 2017 amounts have been restated to reflect a reclassification within the Net Asset section of the Statement of Financial Position.

Specifically, internal loans previously recorded as reductions in Net Assets Invested in Capital Assets have been reclassified and are now recorded as reductions in Internally Restricted Net Assets.

Contract overhead (2018 - $5.2M / 2017 - $5.2M) – 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 to pay for indirect research costs incurred in the operating fund, 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 (2018 - $21.5M / 2017 – $20.1M) – 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 increased slightly and according to UNB Policy, the funds may

not be accessed for general operations.

Some larger amounts include:

	$ millions		
ENTREPRENEURIAL	**2017**	**2018**	**Change**
SJ - Faculty of Nursing Provincial Agreement	3.0	2.9	-0.1
FR - Faculty of Nursing Provincial Agreement	2.8	2.8	0.0
UNBSJ MBA program	1.7	1.6	-0.2
Engineering program differential	1.5	1.3	-0.2
Faculty of Education - Trinidad & Tobago	0.7	0.9	0.3
College of Extended Learning - Business Dev. Funds	0.8	0.8	0.0
Biomedical Institute	0.8	0.7	0.0
Canadian Rivers Institute	0.7	0.7	-0.1
Research Royalties	0.3	0.4	0.1
VP Research risk contingency	0.3	0.3	0.0
License Practical Nurse Pilot Reserve	0.3	0.3	0.0
Q1 labs - researcher portion	0.3	0.3	0.0
Funding from Trust for Nursing faculty position	0.3	0.2	-0.1
Various Others	6.6	8.3	1.7
TOTAL ENTREPRENEURIAL	**20.1**	**21.5**	**1.4**

Operating Budget Carry-forwards (2018 – 14.0M / 2017 – $13.3M) – 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.

Some larger amounts include:

	$ millions		
OPERATING BUDGET CARRY FORWARDS	**2017**	**2018**	**Change**
FR-College of Extended Learning	0.3	0.2	-0.1
FR-Facilities Management	0.7	0.8	0.1
FR-Faculty of Arts	0.4	0.6	0.2
FR-Faculty of Business Administration	0.5	0.4	-0.1
FR-Faculty of Computer Science	0.6	0.7	0.1
FR-Faculty of Education	0.9	0.9	0.0
FR-Faculty of Engineering	0.6	0.6	0.0
FR-Faculty of Kinesiology	0.3	0.2	-0.1
FR-Faculty of Science	0.7	0.6	-0.1
FR-Harriet Irving Library and Branches	0.4	0.5	0.1
FR-Renaissance College	0.3	0.3	0.0
FR-Student Services	0.6	0.8	0.2
FR-Vice-President Academic (Fredericton)	1.8	2.2	0.4
SJ-Faculty of Business	0.3	0.2	-0.1
SJ-Faculty of Science, Applied Science & Engineering	0.3	0.2	-0.1
SJ-Vice President (Saint John)	0.3	0.1	-0.2
UW-Information Technology Services	0.8	0.2	-0.6
UW-President - Integrated Recruitment & Retention	0.3	0.1	-0.2
UW-President - Special Projects	0.7	0.8	0.1
UW-School of Graduate Studies	0.4	0.5	0.1
UW-University Comptroller	0.5	0.6	0.1
UW-Vice-President (Advancement)	0.4	1.0	0.6
Various Others	1.2	1.5	0.3
TOTAL OPERATING BUDGET CARRY FORWARDS	**13.3**	**14.0**	**0.7**

Risk (2018 – 10.0M / 2017 - $8.1M) – 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 and surpluses in the employee benefits stabilization accounts, for example) which have also been internally restricted to guard against risk.

Some larger amounts include:

	$ millions		
RISK	**2017**	**2018**	**Change**
Employee Benefit reserve	4.1	5.7	1.6
VP's contingencies	2.2	2.4	0.3
Insurance reserves	1.0	1.0	0.0
Disabled life premium	0.5	0.6	0.1
Various Others	0.3	0.3	0.0
TOTAL RISK	**8.1**	**10.0**	**1.9**

Scholarships, Bursaries and Awards (2018 - $5.4M / 2017 – $5.8M) – 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 (2018 - $8.4M / 2017 - $13.9M) - 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 2020-2021 and in the interim years, the University is expecting to have deficits.

In 2017, $11.3M was reallocated from various other categories to create an Operating Deficit Support fund. $6.6M was used in the current year to cover one-time expenses (Why UNB Project) and to reduce the operating fund deficit. The University continues to identify funds to support the goal of having a balanced budget in 2020-2021 and 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 larger amounts include:

	$ millions		
STRATEGIC PRIORITIES	**2017**	**2018**	**Change**
Operating Deficit Support Fund	11.3	5.7	-5.6
Funds for Prioritization Implementation	1.0	1.0	0.0
FR Reserve for Strategic Priorities - Academic Development fun	0.7	0.9	0.2
SJ Reserve for Strategic Priorities - Academic Development fun	0.3	0.4	0.1
Various Others	0.6	0.4	-0.2
TOTAL STRATEGIC PRIORITIES	**13.9**	**8.4**	**-5.5**

Specific Projects (2018 - $7.7M / 2017 - $9.6M) – 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).

Some larger amounts include:

	$ millions		
SPECIFIC PROJECTS	**2017**	**2018**	**Change**
Administrative leaves/searches	1.2	1.2	0.0
Fundraising Campaign	1.3	0.1	-1.2
Library Acquisitions	1.0	1.1	0.1
Project Focus	0.5	0.4	-0.1
Retirement allowance reserve	0.4	0.3	-0.1
VPA (F) College of Extended Learning	1.4	1.1	-0.3
Various Others	3.8	3.5	-0.3
TOTAL SPECIFIC PROJECTS	**9.6**	**7.7**	**-1.8**

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 2020-2021, certain amounts that are centrally controlled have been reallocated to create a Deficit Support fund that is to be used to cover operating deficits expected to arise in 2018-19 and 2019-20. There are additional amounts identified but not yet transferred to this account pending final review by management. The following table notes the categories and accounts from where the currently allocated funds originated.

Category & Description	$ Millions
Capital	
Infrastructure renewal projects	0.03
Operating carry forwards	
SJ-Faculty of Business	0.03
SJ-Faculty of Science, Applied Science & Engineering	0.05
SJ-Vice President (Saint John)	0.05
Various Others	0.10
Risk	
Various others	0.02
Specific Projects	
Retirement allowance reserve	0.09
Various Others	0.01
VPA (F) College of Extended Learning	0.16
Strategic Priorities	
Operating Deficit Support Fund	5.12
Various Others	0.08
Total amounts reserved for Deficit Support (Strategic Priorities)	5.7

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 $0.2 million (0.2%) during 2018 (decreased by $0.9 million during 2017).