

Internally Restricted Funds Ad Hoc Committee Report

April 29, 2015

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Introduction

The ad hoc committee was assembled, at the request of the president, to explore and understand UNB Internally Restricted Funds, as reported in the University's audited financial statements for the years ending April 30, 2011, 2012, 2013 and 2014. The goal is to make clear from whence these funds originated, to make clear which units at UNB have care and control of these funds, and to make clear the purposes for which these funds were restricted. Our precise mandate is reproduced as Appendix 1. We consider Internally Restricted Funds as a whole across UNBF and UNBSJ in this report.

The University of New Brunswick saw substantial growth in Internally Restricted Funds in the period 2011 to 2014. This growth has caused concern and disquiet within the university community. The goal of our committee is to explain this growth, in plain language, with minimal accounting terminology. The goal of our report is not to judge decisions made in the reporting period. The goal is to provide a simple description of what happened.

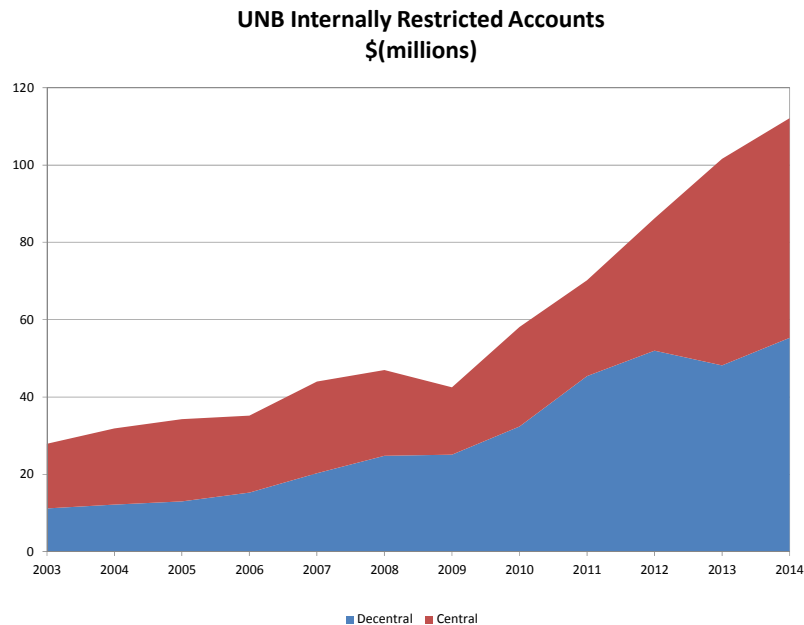
Accounting explanations, as required, will be restricted to endnotes and appendices. As part of this plain language explanation we will not speak of internally restricted funds, we will speak of internally restricted accounts¹, which is the phrase commonly employed by members of the university. One of the major concerns, expressed by members of the university, has been the growth in internally restricted accounts through money transferred from UNB operating account² surpluses. We will thus also report on UNB operating account surpluses generated in the reporting period. In discussing operating budget surpluses, of necessity, we do employ accounting terminology. We do however illustrate the discussion through examples.

The growth in restricted accounts is illustrated by the plot on page 3³. Note that prior to the end of fiscal year 2009 the amount of money in restricted accounts grew slowly. After 2009⁴ the balance grew much more rapidly. The growth in the restricted account balances was approximately \$ 69.6 million dollars from the end of fiscal year 2009 to the end of fiscal year 2014. The growth was approximately \$41.7 million dollars in our reporting period, the end of fiscal years 2011 to 2014.

The growth in restricted accounts must be seen in the context of the state of the global economy in 2008-2009. The recession shook investor confidence and university finances became much more uncertain, in part due to poor performance of endowment investments. The university as a whole changed its behavior following 2009. Department and Faculty carry forward balances increased and department and faculty entrepreneurial accounts also increased in value. It appears that departments and faculties who may have felt that things would get worse, not better, decided to continue saving in entrepreneurial and carry forward accounts. These trends are described further below. Due to heightened levels of risk and uncertainty, university budgeting was conservative in the same period of time. This contributed to substantial annual operating account surpluses as revenues exceeded budget and reductions were undertaken across the university. As noted above, much of the annual surplus money was allocated to internally restricted accounts.

The data of the plot below incorporates a restatement of accounts that occurred in 2011 and 2012. These restatements, their origin and consequences, will be considered in a later section. The plot has been segregated into amounts that are centrally controlled versus amounts that have decentralized control. Centralized versus decentralized control is determined within the individual account categories described in the main body of this report⁵.

Note that in the plot below, and in most subsequent discussion, we consider year-end balances.⁶ The number of accounts, and number of transactions, is too large to permit a detailed transactional analysis of all accounts. We do seek however to identify significant drivers that resulted in the increase in the internally restricted account balance. We therefore concentrate on large transactions, and annual surplus money, since it is our belief these transactions are the ones of greatest interest to the university community.



Fiscal Year Ending 2010

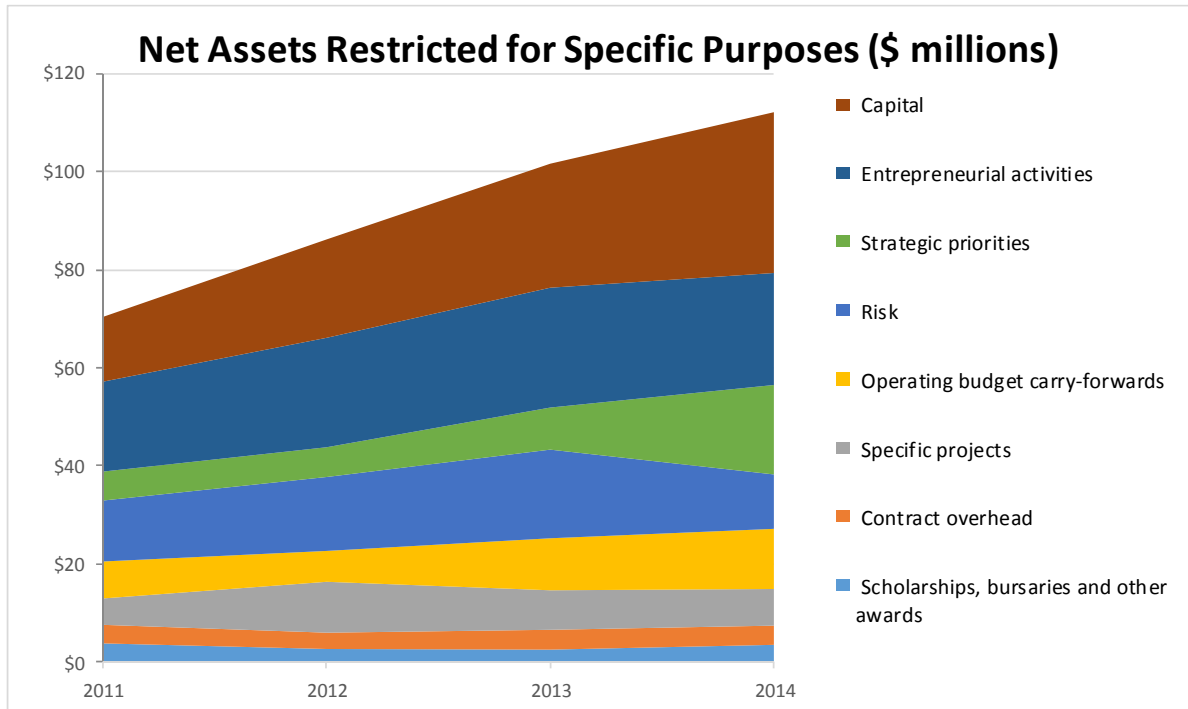
Our committee terms of reference limited our analysis to the years 2011- 2014. The UNB accounting methodologies for classification of internally restricted accounts changed in 2011. This makes it difficult to provide a comparable break down of individual categories of accounts in prior years. It is clear however that the substantial growth in restricted accounts began in 2009-2010. Therefore we have decided to broaden our mandate and include a description of the increase in restricted account balances in 2010. The plot above shows an increase of approximately \$15.5 million in the value of restricted accounts in 2010.

This increase occurred for five principal reasons. (1) Department and Faculty carry forwards increased by \$7.3 million in 2010 (Academic \$2.9 million and non-academic \$4.4 million). The breakdown of the amounts as academic and non-academic is not intuitive; for example, libraries have been classified as academic while scholarships and student services are included as non-academic. Included in this category is 'entrepreneurial activity' which became its own category in later years. (2) A \$1.5 million increase in the balance of unspent funding for approved and ongoing capital projects. (3) A \$2.6 million net increase in internally restricted trust funds and income on internal endowments resulting from trust investment earnings net of spending. (4) A \$2.1 million HST rebate received as a result of a new initiative to recover HST associated with university overhead costs.⁷ (5) A required increase of \$1 million in an accounting reserve related to the six year Academic Pension Plan Improvement Program signed in 2007. We emphasize that this was an accounting reserve, not real money, and it was not available for any other purpose.

UNB internally restricted accounts grew by approximately \$15.5 million in 2010. The above five factors tally to \$14.5 million. The UNB operating budget surplus in 2010 was minor and internally restricted accounts did not grow significantly in 2010 due to transfers of operating budget surpluses.

Eight Categories of Restricted Accounts 2011-2014

The restricted accounts, totaled in the figure on page 3, are classified in the UNB audited financial statements into eight different categories. These categories were created in an effort to provide more information about the purposes for which the accounts exist. These categories, in order of 2014 balance are Capital, Entrepreneurial activities, Strategic priorities, Risk, Operating budget carry forwards, Specific projects, Contract overhead and Scholarships, Bursaries and other awards. These eight categories did not all exist in 2010 hence our need to treat 2010 separately above. The net growth in these eight categories from 2011 to 2014 is plotted in the figure on page 5. This plot is best viewed in colour. The data include the restatements in 2011 and 2012 mentioned above. We will consider each category in turn.



	2011	2012	2013	2014
* Scholarships, bursaries and other awards	\$3.84	\$2.70	\$2.58	\$3.56
* Contract overhead	3.8	3.34	4.03	3.89
* Specific projects	5.36	10.36	8.07	7.47
* Operating budget carry-forwards	7.54	6.29	10.59	12.26
* Risk	12.42	15.06	18.07	11.08
* Strategic priorities	5.9	6.07	8.57	18.23
* Entrepreneurial activities	18.33	22.3	24.41	22.84
* Capital	13.19	20.04	25.27	32.76
	<u>\$70.38</u>	<u>\$86.16</u>	<u>\$101.59</u>	<u>\$112.09</u>

Scholarships, Bursaries and Other Awards

The Scholarships, Bursaries and Other awards category contains un-awarded operating funds set aside for scholarships, bursaries and other student assistance in addition to a limited number of internally restricted scholarship trust funds⁸. The Scholarships, Bursaries and Other awards category of accounts is a minor contributor to the sum of internally restricted accounts, and the balance in this category has not changed significantly over the reporting period. The 2014 balance was \$3.56 million and consisted of 71 individual accounts. The 2011 balance was 57 accounts totaling \$ 3.83 million.

Most of the accounts in this category are from the operating fund, meaning that the unspent amounts originated from the operating budget, and more specifically the School of Graduate Studies, which accounts for 22 of the 71 accounts in 2014, and over

\$970 thousand. Three other large accounts in this category in 2014, are trust funds: the Woodlot Scholarship Fund (\$1.07 million), the Forestry Complex Endowment (\$0.53 million), and Scholarships 2000 (\$0.66 million). These trust accounts were created as a result of specific Board of Governors decisions to allocate unbudgeted proceeds from land sales to fund scholarships and bursaries.

Accounts in this category, in general, are controlled by UNB committees who work through established procedures to distribute the funds.

Contract Overhead

The Contract Overhead category includes individual overhead accounts, departmental overhead accounts and research trust accounts. The balance in the Contract Overhead account category at April 30, 2014 was \$3.89 million and consisted of 205 individual accounts (2011- 210 accounts totaling \$3.81 million). Control of these accounts is decentralized. In most cases they are controlled by the department, faculty or lab that generated the overhead. Contract overhead category balances were relatively constant in the reporting period.

A breakdown of the account category balances by year follows:

Contract Overhead	(\$ millions)			
	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
Indirect cost of research	\$ 2.42	\$ 2.27	\$ 2.68	\$ 2.51
Research trust accounts	0.71	0.54	0.68	0.71
Departmental overhead	0.34	0.19	0.36	0.37
Individual research overhead	0.30	0.33	0.31	0.31
Other contracts and agreements	0.04	-	-	-
	<u>\$ 3.81</u>	<u>\$ 3.34</u>	<u>\$ 4.03</u>	<u>\$ 3.89</u>

Operating Budget Carry Forwards

The Operating budget carry forwards category of accounts holds carry forward money from many different academic and non-academic units of the university. The balance in the carry forward category totaled \$12.26 million at April 30, 2014 and included 998 separate accounts (2011 – 692 accounts totaling \$ 7.43 million). Carry forwards arise when non-salary spending in a given year is less than the budgeted amount in a particular operating unit. Balances in this category accumulate to the benefit of the originating unit according to UNB policy (Appendix 2 summarizes UNB policies for internally restricted accounts).

One large account included in this category (\$3.0 million at April 30, 2014) is the unspent portion of the amount allocated to help fund the cost of the current fund raising

campaign. The Board of Governors approved a \$4.2 million reallocation of internally restricted funds at the December 2012 Board meeting, which was the source of these funds. A further breakdown of the operating budget carry forward balances in excess of \$500,000 by faculty and department is shown below. Remaining balances are included in the 'Other faculties and academic units' and "Other administrative units" categories. We emphasize that we are reporting year-end totals in the table below, not money spent in a particular year.

Control of carry forward accounts is decentralized with the originating unit generally in charge of their own carry forward accounts.

The following table provides a summary of the carry-forward accounts at UNB.

Carry-forwards	(\$ millions)			
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Other faculties and academic units (2014 -85 accounts)	\$ 2.40	\$ 2.48	\$ 2.46	\$ 4.38
Operating Costs for Fund Raising Campaign	0.00	0.80	4.10	3.03
Other administrative units (2014 - 37 accounts)	2.62	2.82	2.12	1.84
Student Support	0.48	0.50	0.56	0.94
Faculty of Education	0.61	0.54	0.75	0.87
Faculty of Science	0.76	0.74	0.69	0.79
Facilities Management	0.27	0.23	0.57	0.78
Student Recruitment & Integrated Marketing	0.20	0.09	0.06	0.60
President's Office	(0.19)	(0.07)	0.25	0.54
Campus support	0.29	0.24	0.99	0.35
Accounting-deferred lease revenue	-	(2.07)	(1.96)	(1.84)
	<u>\$ 7.43</u>	<u>\$ 6.29</u>	<u>\$ 10.59</u>	<u>\$ 12.26</u>

Entrepreneurial Activities

Accounts in the Entrepreneurial category relate to entrepreneurial undertakings by various units in the university. These undertakings are designed to function on a cost recovery basis, with an incentive that any surplus generated can be retained by the originating unit, for reinvestment in the activities of the unit. In addition, certain research related activities such as research labs that generate fees for service, or residuals from research contracts, are also included in this category.

Some of these accounts relate to teaching programs run by an originating unit outside of UNB, for example the Education program in Trinidad and Tobago and the Humber College Nursing program.

The total balance in this category at April 30, 2014 was \$22.76 million and consisted of 471 individual accounts. The corresponding 2011 numbers are 173 accounts totaling \$18.33 million. Control of entrepreneurial accounts is decentralized, with the originating unit generally in charge of the account.

The following table provides a summary of the accounts and balances by faculty and administrative unit in the entrepreneurial category. Totals of \$500,000 and above are listed separately. Remaining balances are included in the 'Other academic units', 'Centres and Institutes' and 'Other non-academic units' categories.

Entrepreneurial	(\$ millions)			
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Other Academic units	\$ 2.46	\$ 2.44	\$ 4.26	\$ 4.83
Faculty of Nursing Fredericton	2.58	3.17	3.01	2.99
MBA Program (Saint John)	0.52	1.23	1.99	2.69
Faculty of Nursing (BN) Saint John	1.66	1.18	1.39	1.83
Other non-academic units	0.63	1.41	1.11	1.31
Faculty of Education - UWI Trinidad & Tobago	1.07	1.15	1.00	1.02
Centres and Institutes	0.55	0.47	0.79	0.96
Biomedical Engineering Institute	0.49	0.85	0.81	0.87
Faculty of Law	0.71	0.49	0.71	0.73
Engineering Program Fee	0.30	0.57	0.56	0.71
Royalties/Licenses	0.34	1.01	0.62	0.64
Limerick Pulp & Paper Centre	0.47	0.52	0.66	0.64
Andrews Initiative	0.77	0.71	0.64	0.61
College of Extended Learning	1.53	1.78	1.17	1.16
Engineering Saint John	0.25	0.43	0.50	0.60
Nursing position trust fund	0.80	0.74	0.67	0.59
Saint John College	3.19	4.15	4.54	0.57
	<u>\$ 18.33</u>	<u>\$ 22.30</u>	<u>\$ 24.41</u>	<u>\$ 22.76</u>

The decline in the SJ College account balance, approximately \$4 million, in 2013-2014 was due to a transfer to a Capital account associated with the Ward Chipman Library rejuvenation. When this transfer occurred it resulted in a sum that had been decentralized in terms of control, becoming centralized when moved to the capital category of accounts.

Specific Projects

The Specific Projects category of accounts is associated with various initiatives across the University that range from centralized to decentralized. The total balance in this category at April 30, 2014 was \$7.47 million consisting of 112 individual accounts.

(2011 – 147 accounts totaling \$ 5.36 million). The single largest amount in the category is usually the unspent library acquisition budget (\$1.56 million at April 30, 2014). UNB Fredericton library acquisitions are generally made a year in arrears so this account provides a way to secure the funding budgeted in one year but spent in the next. Other amounts in this category have come almost exclusively from operating budget surpluses in prior years.

Another significant account in this category is the Advancement backstop (\$0.61 million at April 30, 2014). This account contains funds set aside from operating budget surpluses in prior years when the annual fund raising target was exceeded, to backstop the risk that the contribution to the operating fund from the administration fee on fund raising would not meet budgeted levels. There are other amounts set aside in individual accounts for many specific, generally short term, projects.

Other than library acquisitions, control of most specific project accounts is generally centralized with the university administration⁸. A summarized list of the accounts in this category is presented below.

Specific Projects	(\$ millions)			
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Academic and Research units	\$ 1.10	\$ 1.95	\$ 1.40	\$ 1.88
Other administrative units	2.31	2.51	3.01	1.72
Harriet Irving Library Acquisitions	1.49	1.88	1.65	1.56
Saint John campus priority funding and projects	0.29	3.52	1.00	0.84
Advancement backstop provision	-	0.18	0.61	0.61
Provisions for searches	0.03	(0.01)	0.07	0.31
Provision for Admin Leaves	0.15	0.30	0.29	0.28
Job action savings residual (for students)	-	-	-	0.23
Student support	0.00	0.03	0.05	0.05
	<u>\$ 5.36</u>	<u>\$ 10.36</u>	<u>\$ 8.07</u>	<u>\$ 7.47</u>

Examples of accounts included in 2014 in the academic and research unit sub-category include a salary increase provision and funding earmarked for recruitment initiatives on the Saint John campus. Similarly, amounts for a salary increase provision and funds set aside to fund travel for teams travelling to CIS national competitions are included in the other administrative units line. In 2011 to 2013, the other administrative unit line also included specific amounts held by the VP Fredericton on behalf of identified academic units to be used in the following year. These amounts were included in the specific units' carry forward balances in 2014.

Risk

Risk accounts have been created at UNB, under the direction of the Board of Governors, to mitigate financial threats the university may face due to specific risks. Risk accounts and risk management are critical to a large organization such as the university, and risks can be hard to predict.

The balance in the risk account category was \$11.1 million at April 30, 2014 and consisted of 22 accounts (2011- 29 accounts totaling \$12.42 million). Risk category accounts are controlled by the university administration with significant oversight by the Board of Governors. The table below presents a summarized version of these accounts.

Risk	(\$ millions)			
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Revenue risk	\$ 1.25	\$ 1.97	\$ 5.15	\$ 5.15
Employee benefit reserves	3.73	2.17	2.11	1.99
Identified risks	0.56	0.78	1.04	1.10
Self-insurance reserves	0.57	0.60	0.69	0.98
Endowment backstop	3.30	4.00	3.79	0.80
Contingencies	2.41	2.39	0.59	0.66
Fuel price variance	0.42	0.52	0.63	0.18
Academic pension plan risk	-	2.13	3.80	0.17
Wellfield protection	0.18	0.22	0.28	0.05
	<u>\$ 12.42</u>	<u>\$ 14.78</u>	<u>\$ 18.07</u>	<u>\$ 11.08</u>

Because of the discretionary nature of these accounts, we are providing more detail about some of the larger line items.

- The identified risks line refers to funding that has been set aside to cover known risks such as potential legal settlements or specific known risks or uncertainties. Carry forward amounts related to unused annual budget contingency amounts are included in this category.
- Employee benefit reserves are rate stabilization accounts for various benefit plans, or funding required under agreements to cover future claims. These accounts are established as trust funds within the trust and endowment fund and are under the oversight of the fringe benefits committee.
- The academic pension plan risk account was established in past years from fringe benefit savings to provide funding for the academic pension plan when the plan was in a large deficit. This risk was mitigated by conversion of the academic

pension plan to a shared risk plan. The Board of Governors voted to “de-risk” most of this account for use in other priorities. In 2014, most of the balance was transferred to the strategic priorities category.

- The single largest amount in this category is the revenue risk account of \$5.2 million. This was accumulated over 3 years from operating grant amounts that the Province of NB designated as “one time” funding. The Board of Governors elected to reserve these one-time amounts from the operating account surplus to mitigate against future risk of declining revenues.
- The self-insurance risk account was established as a result of a conscious decision a number of years ago to take larger deductibles on property insurance in order to obtain lower premiums. The premium savings, along with rebates from UNB’s insurance cooperative, have funded self-insurance reserves which is available if needed to pay out claims that are below the deductible threshold.
- The endowment backstop risk account was established following the economic crisis of 2008-2009. This risk account was intended to provide funding that could supplement scholarships that would otherwise decline in value due to the impact of the financial crisis. Payment from the risk account was judged to be preferable to decreasing the scholarship value or spending the endowment principal. The decrease in the 2014 balance was due to a transfer to a Strategic Priorities account as described below.

Strategic Priorities

As the name suggests, the strategic priorities account category is conceptually similar to the specific projects category but is intended to provide a more general source of funds for strategic priorities as these are identified. The strategic priorities category of accounts is recognition that if the university is to advance strategically a source of funds must be available to support such efforts. Once a specific project is identified, the funds are usually transferred to a project specific account which may or may not be in a separate account category.

Funds in the strategic priorities category have primarily come as a result of specific decisions of the Board of Governors, on the recommendation of the university administration. As of April 30, 2014, there were 19 accounts included in this category for a total of \$18.2 million (2011 - 16 accounts totaling \$ 5.9 million).

The 2014 total includes almost \$6 million transferred from risk reserves (from the academic pension plan risk account and the endowment backstop account) as well as the 2013-14 operating account surplus of \$4.2 million. The list below summarizes the accounts included in this category. The HST rebate amount included in this category came about as a result of extraordinary, one-time HST rebates on the capital construction of the Currie Centre and other buildings on the Fredericton campus as well

as an initial special HST rebate claim. This latter claim was referenced earlier, in our discussion of the fiscal year ending 2010. University administration recommended, and the Board of Governors approved, the restriction of these one-time funds to be used for strategic initiatives.

Some of the HST rebate funds, \$ 1.5 million, were transferred in 2012 to the current fund raising campaign, as described earlier in this report. They now appear in the carry forward account category.

Note that in the table below account summary names are a mix of names that indicate purpose (for example Strategic plan implementation), and names that indicate origin (for example HST rebates). Accounts in this category are generally controlled by the university administration.

On the Fredericton campus the funds are allocated for a variety of purposes including funding for the CAE information system, a contribution towards the branding plan for UNB, the Mi'kmaq-Wolastoqey Centre, assistance to the Harriet Irving Library for acquisitions, and Undergraduate scholarships. In Saint John the purposes are also varied including funding for the Promise Partnership, recruitment initiatives, a student development coordinator and various technology upgrades for classrooms.

	(\$ millions)			
Strategic	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Transferred from risk reserves	\$ -	\$ -	\$ -	\$ 5.95
2013-14 Operating surplus	-	-	-	4.29
HST Rebates	0.08	2.08	0.81	2.49
Saint John campus initiatives	2.18	0.51	2.18	1.41
Fredericton campus initiatives	1.80	1.69	1.62	1.10
Academic Planning	-	-	1.00	1.00
Strategic plan implementation	1.00	1.00	1.95	0.85
Priority funding - University wide	0.00	0.22	0.22	0.34
CRC matching (Saint John)	0.38	0.24	0.32	0.31
Salary bridging - Fredericton	0.12	0.14	0.01	0.23
Health Centre (Fredericton)	0.12	0.18	0.26	0.13
Nursing professional development (Saint John)	0.14	0.12	0.11	0.11
President's Fund	-	0.09	0.09	0.03
Indirect costs of research (Fredericton)	0.07	0.07	-	-
	<u>\$ 5.90</u>	<u>\$ 6.35</u>	<u>\$ 8.57</u>	<u>\$ 18.23</u>

Capital

Capital accounts are employed for above and below ground infrastructure projects including deferred maintenance, building renovations and classroom upgrades and renovations. The portion of large building projects funded from external sources, such as the Hans W. Klohn Commons in Saint John and the Richard J. Currie Center in Fredericton, will not appear in this category of accounts. Internal funds which may have been employed for large building projects will appear in this account category.

Examples of recent or current capital projects include the ITS Data Centre in Head Hall, new boilers in the Fredericton steam plant, and new windows in McLaggan Hall. Many projects are part of large multi-year initiatives such as renovating all of the large lecture theatres in Fredericton and new windows for many of the old buildings in Fredericton. In Saint John, in addition to the Hans W. Klohn Commons and saving for the Ward Chipman Library refurbishment, projects have included two large lecture theatres, a new gym floor, parking lot expansion, and many other classroom upgrades.

In addition to an annual operating budget UNB also prepares an annual capital budget. This process involves identifying sources of capital funding including provincial non-space and A&R money (\$4.6 million/year), other grant funds, revenue from land development, facilities fees (\$ 1.2 million/year), and technology fees (\$365 thousand/year), in addition to the provincial deferred maintenance program (\$ 1 million/year). Very little annual capital budget funding comes from the annual operating budget. However, it is not uncommon for previously internally restricted amounts to be allocated to the capital budget. The funding is then allocated to capital projects by capital budget committees on both campuses. The resulting capital budget is then reviewed and approved by the Board of Governors.

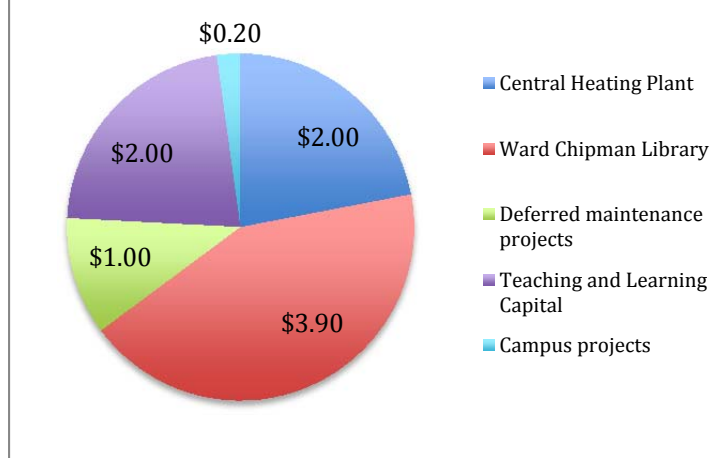
The Capital category of the internally restricted accounts totaled \$32.8 million at April 30, 2015 and included 452 accounts. Most of these accounts were established to track the costs in specific approved capital projects. At least \$ 8.1 million of the current balance reflects projects underway but not complete. It is common for projects to extend beyond the year in which they are funded since much of the infrastructure work on campus takes place in the summer, the tendering process can be lengthy and construction projects often are long term.

The single largest amount in the capital category is \$9.6 million to rejuvenate, renovate, or rebuild the Ward Chipman library on the Saint John campus. Of this sum, \$ 4.3 million came from a reclassification and transfer of Saint John College revenue that was mentioned earlier. The remainder came from a variety of sources within UNBSJ. UNB does not usually commence infrastructure projects until full funding has been secured. Federal and provincial infrastructure programs generally require matching funds so money is often accumulated in capital accounts to provide such matching.

Capital	(\$ millions)			
	2010-11	2011-12	2012-13	2013-14
Ward Chipman refurbishment	\$ -	\$ 2.30	\$ 4.38	\$ 9.61
Projects in progress (both campuses)	7.86	10.59	4.99	8.08
Building fund - Fredericton	-	-	1.76	3.04
Land sales/leases	1.36	1.60	1.92	2.16
Capital renewal reserves (Saint John)	-	-	1.66	1.55
Currie Center major maintenance fund	-	0.67	1.17	1.50
Commons major maintenance fund	-	-	1.57	1.29
Residence system projects and reserves (both campuses)	1.25	1.21	1.79	1.12
DAL Medical Lease	-	-	0.68	0.94
Funding for deferred maintenance projects	0.56	0.60	0.60	0.75
Wellfield protection	0.08	0.16	0.23	0.59
Campus master plan	0.12	0.17	0.32	0.38
Unspent A&R and Non-space funding	-	-	0.04	0.37
Bank of Nova Scotia Building (Saint John)	-	-	0.25	0.32
Priority funding	-	1.00	1.05	0.26
Woodlot development	0.44	0.13	0.16	0.26
Accessibility projects	0.14	0.13	0.09	0.11
Technology fee	0.18	(0.19)	0.09	0.11
Infrastructure renewal (Fredericton)	0.63	0.78	2.17	0.11
CFI matching capital funds (Fredericton)	-	-	0.09	0.09
Risk management reserve	-	-	0.08	0.07
Reserve for asbestos abatement (Fredericton)	-	-	0.02	0.07
VP Fredericton strategic capital	0.39	0.73	-	-
Unallocated budget	0.16	0.16	0.16	-
	<u>\$ 13.19</u>	<u>\$ 20.04</u>	<u>\$ 25.27</u>	<u>\$ 32.76</u>

The plot below shows the breakdown of capital allocations, (\$ 9.1 million) from operating account surpluses during the 2011-2014 reporting period. The largest amount went to the Ward Chipman library renovation. We note that this specific money was from operating surpluses generated on the Saint John campus. The second largest has been allocated to the central heating plant modernization in Fredericton while the third largest is classroom related, most notably renovation of large lecture halls in Fredericton.

**Allocation of Operating Account
Surpluses to Capital in 2011 to
2014 Period
(Total \$9.1 million)**



Account Restatements of 2011 and 2012

During the 2012-13 fiscal year, it was determined that unspent revenues of Saint John College had been inappropriately recorded as externally restricted funds. The roots of this problem can be traced to the early days of the College when most of their work was contract based and appropriately reported as externally restricted. However, as the College transitioned from a contract based model to a fee for service model, the restriction of surplus amounts became an internal decision and hence was most appropriately held in an internally restricted account according to accounting rules.

Further analysis of internally and externally restricted accounts was undertaken and additional accounts were discovered that were also misclassified as externally restricted. These accounts were primarily research related accounts (fee for service labs and residual amounts arising from expired research contracts) that had begun as externally restricted but as circumstances changed became internally restricted and accumulated over time.

In accordance with accounting standards, UNB corrected the accounting presentation and restated prior years in the audited financial statements¹⁰. The result was that the balance in internally restricted accounts increased, and the externally restricted account balance (shown as deferred contributions in the audited financial statements) decreased, at the end of each of the years 2011 and 2012 by the following amounts:

	<u>As Originally Reported</u>	<u>Restatement</u>	<u>As Restated</u>
April 30, 2012	\$75.9	\$10.2	\$86.1
April 30, 2011	\$62.9	\$7.5	\$70.4

In terms of the plot on page 3, these sums are broken down as follows, 2011 – central \$3.19 million, decentral \$4.31 million; 2012 central \$4.15 million, decentral \$6.08 million. Note the increase that resulted in UNB internally restricted accounts is simply a reclassification. The university has neither gained nor lost money due to the reclassification. Thus a significant portion of the increase in the restricted account totals for 2011 and 2012 is susceptible to misinterpretation.

UNB Operating Account Surpluses

UNB employs generally accepted accounting principles as recommended for public not-for-profit organizations. That does not mean the UNB accounting system is simple or easy, even for accountants. It is complicated, and all too often transactions appear counter intuitive for those without an accounting background largely as a result of the not-for-profit accounting and reporting requirements. In order to help understand operating budget surpluses we reproduce on the next page the consolidated statement of operations for the university showing the financial results from all activities for the fiscal years ended April 30, 2013 and 2014.

The first red circled line is the difference between revenue and expenses after applying not-for-profit accounting standards. This seems like it should be the surplus (or deficit). More appropriately it should be called an accounting surplus before adjustments. The first red circled line is reduced (or increased) by four additional line items to convert the surplus calculated using the accounting standards as required in the audited financial statements to a surplus that corresponds to the way UNB budgets and manages its resources which is closer to a cash basis – or a pay-as-you-go basis. The four adjustments are considered below, line by line. The first two adjustments are non-cash accounting adjustments. The third is driven by UNB policy and department and faculty level decisions. The fourth results from specific decisions of the Board of Governors.

Line 1 – Unfunded non-pension employee benefits.

The university budgets for employee benefit expenses based on cash contributions that UNB is expecting to make for employee benefits during the year. However, the actual expenses for accounting purposes are determined on an actuarial basis which considers the estimated cost of benefits earned during the year that will not be paid out until some time in the future, as well as the investment performance of the underlying plan assets. This results in an accounting expense that is different from the actual cash outlay by UNB. The difference between actuarial expense and actual cash outlay is adjusted on the first line.

UNIVERSITY OF NEW BRUNSWICK
CONSOLIDATED STATEMENT OF OPERATIONS
AND CHANGES IN NET ASSETS
for the year ended April 30, 2014

	(\$ thousands)	
	2014	2013 (Restated-Note 2)
Revenues		
Government grants	\$ 117,504	\$ 126,005
Tuition and related fees	83,735	84,383
Research grants and contracts	47,955	49,467
Services and other income	17,569	16,000
Ancillaries	16,114	16,658
Investment income	15,105	12,032
Amortization of deferred capital contributions (Note 15)	8,832	9,506
Donations	1,104	2,522
	<u>307,918</u>	<u>316,573</u>
Expenses		
Instruction and non-sponsored research	113,864	115,317
Research grants and contracts	45,739	44,357
Plant operations	28,949	29,975
Administration and general	22,799	20,393
Ancillaries	13,952	14,101
Amortization of capital assets	12,908	13,797
Library	11,907	11,972
Student services	11,014	10,484
Scholarships and bursaries	10,993	8,449
Non-credit instruction	7,047	7,533
Central computing	5,575	6,644
Employee future benefits (Note 12)	1,758	2,948
Other	1,760	1,183
	<u>288,265</u>	<u>287,153</u>
Excess of revenues over expenses before changes in net assets	19,653	29,420
Changes in net assets:		
Unfunded non-pension employee benefits	(3,078)	3
Net assets used to acquire capital assets	(5,482)	(12,624)
Change in net asset accounts restricted for specific purposes	(6,874)	(5,091)
Year end operating surplus allocated to restricted net assets	(4,219)	(10,250)
Increase in accumulated operating surplus	\$ -	\$ 1,458

For example the 2014 employee future benefits expense reflected in the financial statement was \$ 1.8 million calculated actuarially. This is shown on the second to last line of expenses above the first circled line. However, the cash outlay by UNB for the year was \$ 4.8 million. The unfunded employee benefits line adjusts the surplus to reflect the difference between the actuarial based¹¹ and cash based expense. A comparison of the 2013 and 2014 adjustments in the unfunded employee benefits line shows the volatility that is possible in many of these categories. One significant component of employee benefits is the UNB retirement allowance for faculty and staff.

Line 2 – Net assets used to acquire capital assets.

The “excess of revenues over expenses before changes in net assets” line includes depreciation expense relative to capital assets at UNB, but not the cost of assets acquired during the year. The second line adjusts the surplus to reverse the depreciation expense, which is only an accounting item, and to reflect the net cash outlay from the Operating account during the year to acquire capital assets.

It is easier to understand through an example. Assume the Hans K. Klohn Commons building in Saint John was estimated to have a 40 year lifespan. The building would be recorded as an asset on the balance sheet of the audited financial statements but not expensed on the income statement in the year it was built. Rather the cost of the asset would be depreciated over its useful life (40 years) and 1/40th of the costs expensed each year. This expense is included in “amortization of capital assets” line in the expenses shown on the income statement. The second line in essence adjusts the surplus to reflect the cash impact to UNB (reverses the depreciation expense and instead reflects any contribution from the operating account to the purchase of capital assets (in this example, the Commons Building)).

Line 3 – Change in net asset accounts restricted for specific purposes.

The third line item reflects current year policy based increases in internally restricted accounts, net of current year spending from internally restricted account balances that arose in prior years. For example, changes in carry-forward accounts and entrepreneurial accounts that happen annually. Each year, a carry-forward account can increase as a result of the unit not spending all of its budgeted non-salary funds or can decrease if the unit owner spends funds that were carried forward in a prior year.

Line 4 – Year end operating surpluses allocated to restricted net assets.

The fourth line item identifies the current year increases in internally restricted accounts that result from a specific Board of Governors decision to internally restrict all or a portion of the current year unrestricted operating surplus for a specific purpose or purposes. Such specifically approved amounts are transferred to internally restricted accounts. The transfer was \$4.2 million in 2014 and \$10.3 million in 2013. The entire operating surplus was not restricted in 2013 resulting in a net increase to the accumulated unrestricted operating surplus of \$1.4 million.

The operating account surpluses generated from 2010 to 2014, transferred to internally restricted accounts, were :

Operating surpluses internally restricted	
(\$ millions)	
2010	\$ 0.20
2011	4.82
2012	7.30
2013	10.28
2014	4.29
	<u>\$ 26.89</u>

2010 additions were to Fuel price variance reserve and Administrative leave provision.

The break down of where these transfers were allocated, in four of the eight account categories, is given below:

(\$ millions)					
	<u>Capital</u>	<u>Risk</u>	<u>Strategic priorities</u>	<u>Specific projects</u>	<u>Total</u>
2010	\$ -	\$.10	\$ -	\$ 0.10	\$ 0.20
2011	1.72	1.50	1.60		4.82
2012	3.30	1.80	0.50	1.70	7.30
2013	4.05	1.80	3.83	0.60	10.28
2014			4.29		4.29
	<u>\$ 9.07</u>	<u>\$ 5.20</u>	<u>\$ 10.22</u>	<u>\$ 2.40</u>	<u>\$ 26.89</u>

The Board of Governors motions that led to the transfers outlined above are included as Appendix 3 to this report.

Conclusion

The ad hoc committee has attempted to demystify internally restricted accounts in this report. We have provided more detail with respect to the balances within each category and, while keeping the information manageable, tried to give a good indication of the purposes for which the funds have been restricted.

This report has been a useful and interesting exercise on the part of the committee members. We trust that it will be well received by the university community and that it will aid in a more fulsome understanding of UNB finances.

Endnotes

1. We distinguish internally restricted accounts from externally restricted accounts. Funds provided by donors or external agencies that are restricted by the donor for a specific purpose are placed in externally restricted accounts. A simple example would be research funds provided by a granting agency. Internally restricted funds are funds that have been restricted by the University for a specific purpose. These funds are recorded and tracked in individual accounts to ensure they are used for the purpose specified. However, the purpose can be changed by the University.

A more formal description of restricted accounts at UNB may be found at

<http://www.unb.ca/vpfinance/resources/pdf/reports-presentations/appendices.pdf> Appendix E relates to Internally Restricted Funds

http://www.unb.ca/financialservices/resources/pdf/financial_accounting/report_of_the_comptroller_for_the_year_ending_april_30_2014.pdf Net Assets Restricted for Specific Purposes are described on page 19

2. Operating accounts are university accounts intended to fund ongoing operations in a given year funded by the university budget. They are distinct from internally and externally restricted accounts. In a department context we could identify the departmental salary budget as an operating account, a budget carry forward account as an internally restricted account and a research contract account as an externally restricted account.
3. The original plots on page 3 and page 4 were provided by Dr. Lloyd Waugh of AUNBT. The plot on page 4 has been modified from Dr. Waugh's original to account for the restatements of 2011 and 2012. The plot on page 3 has been modified to breakout accounts under central control versus those of a decentralized nature.
4. Unless otherwise noted, reference to a specific year signifies the end of the fiscal year. For example 2012 would indicate the fiscal year 2011-2012 ending April 30, 2012.
5. For the years 2011 to 2014, the internally restricted accounts have been classified as centralized or decentralized, in terms of control, for the purposes of the plot. In the years prior to 2011, the accounts were classified as general accounting (non-salary carry forwards and departmental share of overheads) and specific purposes. These categories have been used as proxies for the decentralized and centralized classification, although they are not exactly the same.
6. For example, an account with a starting balance of \$1 million dollars, that increased by \$1 million dollars, is not differentiated from an account that started

with \$1 million but which had \$ 2 million added in a fiscal year but \$1 million was spent.

7. HST rebates that are recurring are not usually recorded in internally restricted accounts, they are part of the university operating budget. This HST rebate was an unbudgeted recovery of HST paid in previous years. Hence it was decided to place this amount in a restricted internal account.
8. The principal source of scholarship and bursary funds at UNB is the annual operating budget allocation, plus a large number of externally restricted trust and endowment funds.
9. When referring to the 'UNB administration' we are generally referring to an administrative level above that of academic dean.
10. Audited financial statements. An external agency, Deloitte, has examined and validated the university's financial statements to ensure they are accurate and follow Canadian accounting standards. The university financial statement presents the results of all university activities in operating, restricted, as well as trust and endowment accounts.
11. Actuarial cost in this case is an attempt to determine the dollar value of employee benefits earned in the current year, but which will not be paid until some future time, based on assumptions regarding future factors including lifespan, retirement age and future salary increases.

Appendix 1

Ad Hoc Committee Mandate

'The committee is to explore and understand the Internally Restricted Funds for the years 2010/11, 2011/2012, 2012/2013 and 2013/2014, to make clear from whence these funds arose, to make clear which units at UNB have care and control of these funds, and to make clear the purposes for which these funds were created. This will by its nature necessitate looking at records considerably before these dates to determine the origin of funds and other pertinent details. I note that recreating the full lists of accounts prior to 2010-11 is not practical: records do not exist in the same format and accounts were not classified as they are now.'

President Campbell
Feb 19, 2015

Appendix 2

UNB Policies Internally Restricted Accounts

Internally restricted net assets, referred to in this report as internally restricted accounts, represent the portion of accumulated net assets (surplus) that has been restricted by the University's Board of Governors for specific purposes.

Internally restricted net assets generally arise in one of two ways:

By Policy

Under University policy, departments are permitted to carry forward the unspent portion of annual non-salary budget allocations for expenditure in future years. This policy allows departments to engage in multi-year planning for activities such as major equipment purchases. In keeping with this policy, annual changes in departmental non-salary carry forwards are not reported as budget variances for the year.

By Specific Decision

Net assets may also be internally restricted by a specific decision of the Board. For example, the Board may restrict all or portions of annual operating budget surpluses for specific projects and purposes. This decision is typically made at year-end at the conclusion of the year-end accounting processes.

Other specific decisions may be made "in-year" and are generally related to special "one-time" unbudgeted revenues. For example, a decision to internally restrict special HST recoveries for strategic plan implementation.

Other

The two categories of internally restricted accounts (policy and specific decision) noted above generally refer to internally restricted accounts originating within the unrestricted operating budget (the Operating Fund).

Other internally restricted accounts originate within the Restricted Fund and within the Trust & Endowment Fund.

Internally restricted accounts within the Restricted Fund include the departmental share of contract overhead income, and accounts set up for entrepreneurial, cost-recovery activities that are not funded from the operating budget eg. Saint John College. Also included are individual accounts for approved and ongoing capital projects.

Internally restricted Accounts within the Trust & Endowment Fund include unspent income for four internal endowments (endowed by Board decision some years ago sourced from the proceeds of land sales and used to grant scholarships and bursaries),

and rate stabilization reserves as well as contractually required funding reserves related to the University's self-insured employee benefit plans, under the oversight of the Fringe Benefits Committee.

Reporting of Internally Restricted Accounts

It should be noted that the categories of internally restricted net assets as reported in the notes to the University's audited financial statements (eg. Note 17 of 2014 financial statements) are based on the purpose of the restriction, not the source of the restriction (policy versus specific decision, or Operating Fund versus Restricted Fund versus Trust & Endowment Fund). For example, amounts reported under the category "Specific Projects" could include amounts originating within the Operating Fund by specific decision or by policy, as well as amounts originating within the Trust & Endowment Fund.

Appendix 3

Board of Governors Motions Related to Operating Account Surpluses

MOTION 13.1 October 23, 2014 BoG

“That the Board approve the recommendation of the Finance Committee that the 2013- 14 operating account surplus be internally restricted for University priorities to be determined.”

MOTION 11.1 October 24, 2013 BoG

“That the Board approve the proposal for redeployment of 2012-13 operating budget funds as outlined in the report: \$4.05 million to capital and deferred maintenance, \$3.825 million to strategic priorities, \$1.8 million to risk reserves, \$0.6 million to one- time operational priorities, and \$1.458 million to accumulated operating surplus.”

MOTION 11.1 October 18, 2012 BoG

“That the Board approve management’s recommendations for application of the net budget savings to net assets, restricted for specific purposes, for the fiscal year ended 30 April 2012 as follows:

- \$3.0 Million to accumulated operating deficit;
- \$2.3 Million provision for capital projects to enhance the teaching and learning environment on the Saint John Campus (most notably the Ward Chipman Library);
- \$1.7 Million provision to eliminate internal debt with regard to the Saint John Campus residence;
- \$1.8 Million provision for contingency against uncertain revenues (and particularly provincial operating grant revenues);
- \$1.0 Million provision for capital projects to enhance the teaching and learning environment, safety and security on the Fredericton Campus; and,
- \$0.5 Million provision for administrative costs in support of a fundraising campaign and future collective bargaining.”

MOTION 3.5 Oct 6, 2011 Finance Committee (subsequently approved at BoG)

Loughrey/Stevenson “That the Finance Committee recommend to the Board approval of management’s recommendations for current year additions to provisions and reserves within net assets restricted for specific purposes for the fiscal year ended April 30, 2011, as outlined in the Report of the Comptroller.

\$1.00m CHP	Reflected as	
\$0.60m UNB F Strategic priorities	Future capital projects	\$1.72m
\$1.00m UNBSJ Strategic priorities	Contingencies and risk	\$1.50m
\$0.72m UNBSJ WCL	Strategic priorities	<u>\$1.60m</u>
\$1.00m UNBF contingencies	Total	<u>\$4.82m</u>
\$0.35m UNBSJ contingencies		
<u>\$0.15m</u> Academic pension reserve		
<u>\$4.82m</u> Total		