



COMPTROLLER'S REPORT

For the Year Ended April 30, 2021

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Comptroller



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Executive Summary

The 2020-21 fiscal year was unprecedented and challenging. COVID-19 created uncertainty unlike anything else in recent history. Despite this, the University community was resilient and dedicated, students and faculty transitioned quickly to learning and teaching through alternative delivery models and staff transitioned to remote working environments. The operating budget was developed in anticipation of declines in enrolment and ancillary services and used established reserve funds to mitigate this uncertainty and ensure the University was well positioned to execute on its strategic plan.

This report offers commentary on the University's financial statements and should be read in conjunction with the University's consolidated financial statements and accompanying notes (hereinafter "financial statements") for the year ended April 30, 2021. The Comptroller's Report and financial statements are reviewed and approved by the University's Board of Governors on the recommendation of the Audit Committee.

The financial statements report on the operations and financial position of the entire University, including the operating fund, restricted fund, and trust & endowment. The financial statements have been audited by Deloitte, LLP and their Auditor's Report is part of the audited financial statement package.

The major highlights of the 2020-21 financial statements include:

- The University's consolidated revenues exceeded consolidated expenses by \$14.8 million. While losses were realized in ancillary services, enrollment decline was less than anticipated and investment income higher due to stronger than expected market returns. Discretionary spending was managed thoughtfully to ensure the University continued to provide quality education while managing the added costs and uncertainty created by COVID-19.
- After reflecting changes in net assets, including transfers to internally restricted net assets and net assets invested in capital assets, the net unrestricted operating deficit is \$2.3 million which increases the accumulated unrestricted operating deficit to \$8.9 million.
- The University's total assets increased by \$69.2 million or 9%. This increase is reflective of the market recovery resulting in an increase in cash of \$23.8 million and an increase in long-term investments of \$37.2 million. In addition, capital assets increased (net) by approximately \$16.8 million, reflecting the on-going residence renewal on both campuses which included the completion of the Barry and Flora Beckett Residence, the renovations to the Lady Dunn Residence as well as the renovations to the Harriet Irving Library.
- Total net assets increased by \$36.0 million or 11%. This change is largely the result of a decrease in the Unfunded Employee Benefits created by the remeasurement gain on the Academic Employee Shared Risk Pension Plan and an increase in the internal fund. In addition, there were increases in Internally Restricted Net Assets, Net Assets Invested in Capital Assets, and an increase in the Endowed Net Assets.

Basis of Accounting

The University's audited financial statements have been prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) issued by the Chartered Professional Accountants of Canada (CPA Canada). Canadian Universities generally apply either these standards or Public Sector Accounting Standards depending on the level of control exercised 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 follows the deferral method. 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 used for their intended purpose. This includes such items as sponsored research revenue, contributions for specific purposes, and contributions for capital 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.

While the audited financial statements offer a consolidated view of operations and a basis for global comparisons with other universities, 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.
- Employee future benefits are expensed as incurred in the funds format financial statements but are reported on an actuarially determined accrual basis 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; and
- 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; and
- 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 2021 is unmodified.
- 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 the University less the liabilities, resulting in the Net Assets of the University.
- Consolidated Statement of Operations and Changes in Net Assets, which shows the gross revenues and expenses of all University funds, excluding deferred amounts, resulting in the difference of revenues and expenses. This amount is then adjusted for the amounts applicable to the various components of net assets, ending in the change in the net unrestricted operating surplus or deficit for the year.
- Consolidated Statement of Changes in Net Assets, which shows the changes in each category of net assets.

- Consolidated Statement of Cash Flows, which shows the primary sources and uses of cash during the fiscal year.
- Notes to the financial statements, which provide additional disclosure and information to assist the reader in understanding the financial results.

The Consolidated Statement of Operations and Changes in Net Assets reports an excess of revenues over expenses before changes in net assets, of approximately \$14.8 million (5% of total revenues). This reflects all restricted and unrestricted activities of the University. The \$14.8 million is then adjusted for the changes in net assets resulting from various internal and external restrictions that ultimately result in an increase to the net accumulated unrestricted operating deficit of \$2.3 million. The adjustments to the excess of revenues over expenses in 2020-21 were as follows:

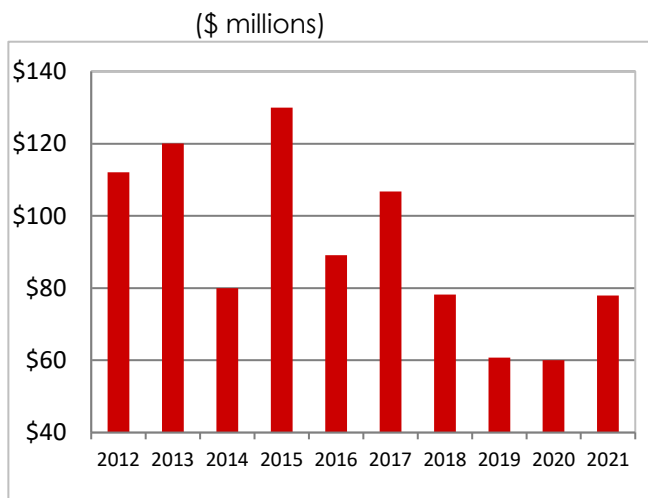
- The excess of revenues over expenses decreased by \$3.6 million because of differences between the actuarially determined employee future benefit expense, the actual cash contributions made and the gain on the internal fund.
- The excess of revenues over expenses decreased by \$3.2 million in the year due to an increase in investments in capital assets. The increase resulted from \$21.9 million in capital asset acquisitions funded from operations and \$10.1 million in amortization of deferred capital contributions. These increases were offset by \$15.4 million in amortization of capital assets and a net increase in external financing of \$13.4 million.
- The excess of revenues over expenses decreased by \$10.3 million because of an overall increase of internally restricted net assets. This increase is mainly the result of the positive returns on our investments which resulted in transfers to our reserve balances. Other reserve balances fluctuated as funds were used for their intended purpose and funds were set aside for future initiatives.
- 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 \$2.3 million and a corresponding increase in the University's accumulated unrestricted operating deficit from \$6.6 million in 2020 to \$8.9 million in 2021.

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, 2021 (with comparative balances). 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 a ten-year comparison of the values reported in various categories on the Consolidated Statement of Financial Position.

Cash and Short-term Investments

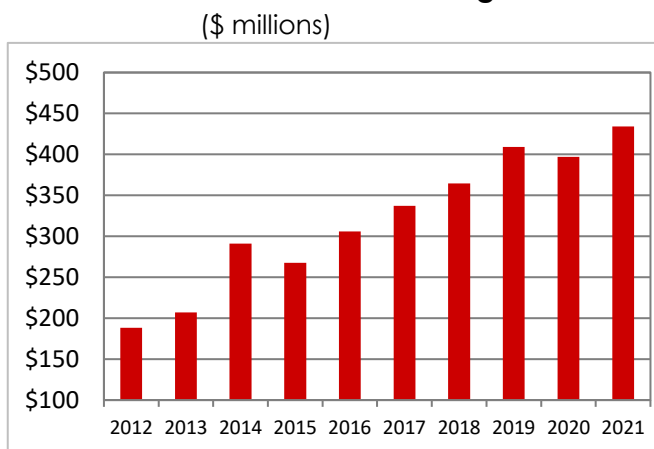


Description: Includes cash and short-term investments with maturity dates of less than 12 months. A large portion of the cash is invested in short-term, fixed income vehicles with an emphasis on preserving liquidity and capital. The remainder is invested over a longer investment horizon.

2021 Comments: The combination of cash and short-term investments increased by \$18.0M for the fiscal year ending April 30, 2021. Typically, when short-term investments mature, the proceeds are re-invested in fixed income securities with maturities between one and four years. However, in fiscal 2021, the return on these types of investments did not compensate the University for the additional liquidity risk. As a result, maturity proceeds were held as cash.

Trend: The year-end cash balance has historically been quite high as the research year ends in March and a significant portion of the new year's funding is received in April. An update to the cash and short-term investment policy in 2018 resulted in the transfer of a larger portion of this balance to longer-term investments and as a result, lower balances in 2019 and 2020.

Long-term Investments

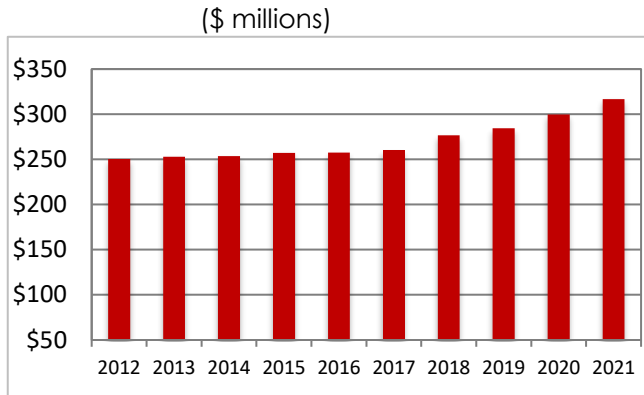


Description: Long-term investments primarily represent the assets of the Trust and Endowment Fund and specific purpose contributions held in trust. The investment pool assets are under the oversight of the Board of Governors Investments Committee. Long-term investments also include fixed income vehicles with maturity dates greater than 12 months.

2021 Comments: Long-term investments had a net increase of \$37.1M due to positive investment returns on the Long-term Investment Fund. The increase was mitigated by the movement of certain fixed income holdings from long-term investments to short-term investments, as the maturity dates are now less than 12 months. The Long-term Investment Fund had an annual investment return of 18.69%

Trend: The University's investments have performed well over the last ten years with new contributions and solid returns.

Capital Assets

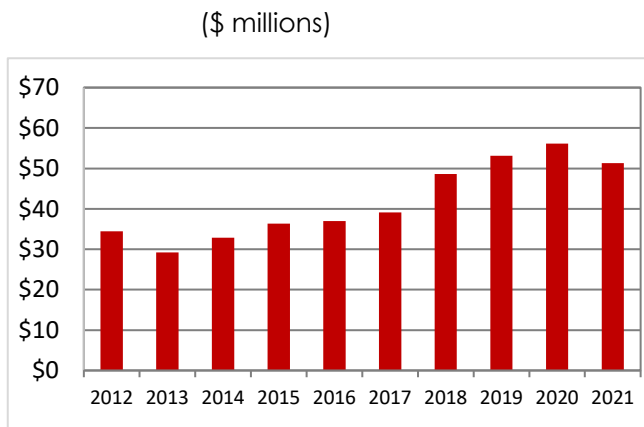


Description: Capital assets represent the undepreciated cost of University owned buildings, infrastructure, equipment, and other tangible assets used in University operations.

2021 Comments: The University had net capital asset acquisitions of \$32.2M in 2021. This includes the work require to complete the Barry and Flora Beckett residence, the Lady Dunn Residence building and the Harriet Irving Research Commons.

Trend: Capital asset acquisition levels have been stable over the last number of years and are expected to grow as the University continues with residence renewals and plans for the Health & Social Innovation Centre, the Engineering and Computer Science renewal, and other capital infrastructure projects.

Current Liabilities

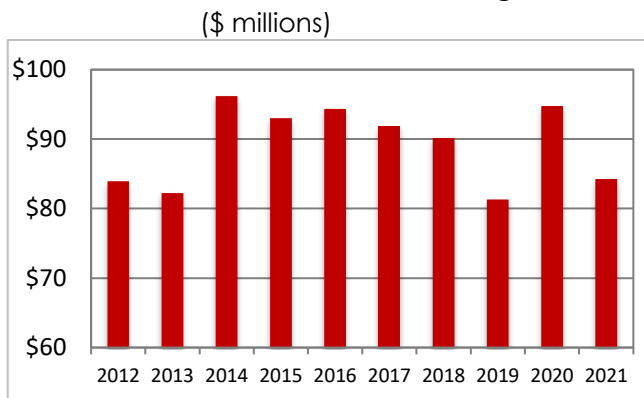


Description: Current liabilities are made up of accounts payable, accrued liabilities, unearned revenue, demand loans and the current portion of long-term debt.

2021 Comments: Current liabilities decreased by \$4.9M from 2020. This is mostly due the distribution of the surplus funds in the employee rate stabilization account (\$6.6M) and a decrease in the payroll liability (\$10.0M) due to the timing of last pay in fiscal 2021 as well as the resolution of the retroactive pay to the Professional & Technical Staff Union (PTSU) members. These decreases are offset by an increase in the demand loan (\$8.1M) related to the Barry & Flora Beckett residence and an increase in unearned revenue (\$3.1M).

Trend: While current liabilities have been steadily increasing, the distribution of the surplus funds in the employee rate stabilization account and the retroactive pay to the PTSU, have had a positive impact on this group of liabilities.

Long-Term Liabilities

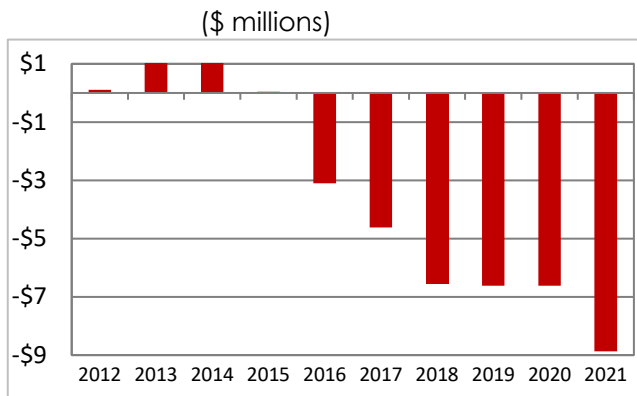


Description: Long-term liabilities consist of long-term debt and employee future benefits.

2021 Comments: While there was \$6.9M of new debt issued in the year, resulting in an overall net increase to long-term debt of \$4.9M, total long-term liabilities have decreased by \$10.5M because of a \$15.4M decrease in the employee future benefits liability. This reduction is mainly due to the valuation of the Academic Employee Shared Risk Pension Plan (AESRPP) and the actuarial gain on the post-employment / post-retirement benefits. The reduction in the AESRPP liability more than offsets the prior year's increase.

Trend: Overall, long-term debt is expected to stabilize and potentially increase as the University contemplates future capital projects and the funding sources for these projects.

Accumulated Unrestricted Operating Surplus (Deficit)

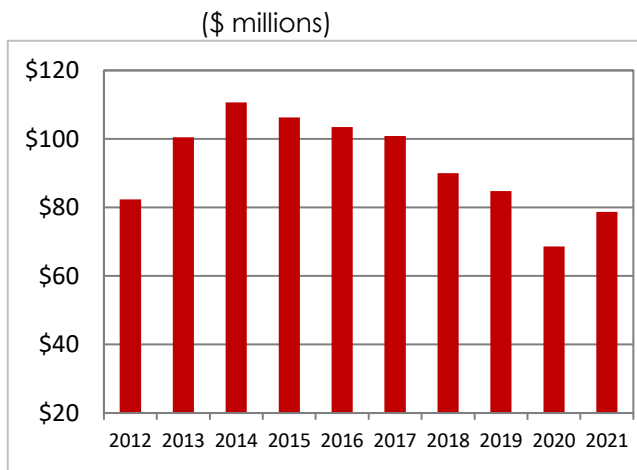


Description: This balance represents the accumulation of unrestricted operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual net unrestricted operating surplus or deficit.

2021 Comments: The University reported a net unrestricted operating deficit of \$2.3M for fiscal 2020-21 which has increased the accumulated unrestricted operating deficit to \$8.9M.

Trend: This is the first time in the last four years that there has been a significant increase in the accumulated unrestricted operating deficit. The accumulated deficit will only be reduced through the accumulation of surpluses or transfers from internally restricted net assets.

Internally Restricted Net Assets

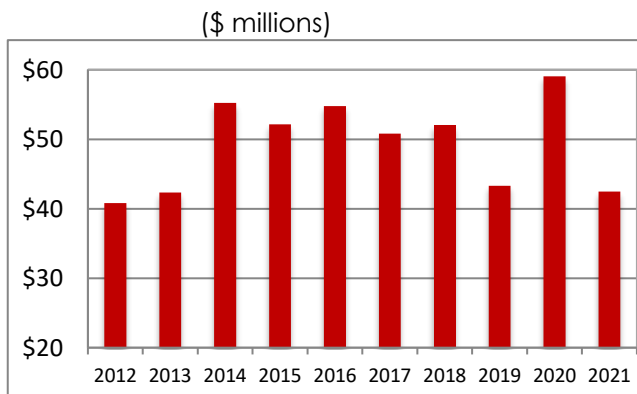


Description: This balance represents net assets that have been internally restricted based on the priorities established by the Board of Governors, management, faculties, and departments.

2021 Comments: The IRNA balance has increased by \$10.1M from 2020. While there are variances in each individual category included within this balance, the most significant changes relate to an increase in internally restricted funds for specific projects (\$2.4M); scholarships, bursaries, and other awards (\$2.5M) and strategic priorities (\$5.6M). The funds used to finance energy management projects are now reported as an offset to IRNA and have resulted in a reduction of the balance of \$3.8M.

Trend: This is the first increase in internally restricted net assets since 2014. A more detailed analysis is found in the supplementary information section of this report.

Unfunded Employee Benefits



Description: The unfunded employee benefits include retiring allowances, post-retirement benefits, early retirement plans, unused vacation, the academic pension plan, and other post-employment benefits. This balance represents the extent to which these liabilities are unfunded.

2021 Comments: The decrease of \$17.3M relates primarily to the in-year adjustments resulting from the updated actuarial valuations and specifically, the unrealized gain on the AESRPP and the increase of the internal fund associated with the early retirement plans.

Trend: The significant in year change was mainly the result of favorable returns on the AESRPP plan assets. The current year's gains offset the losses experienced in 2019-20 and reflect the volatility of this liability.

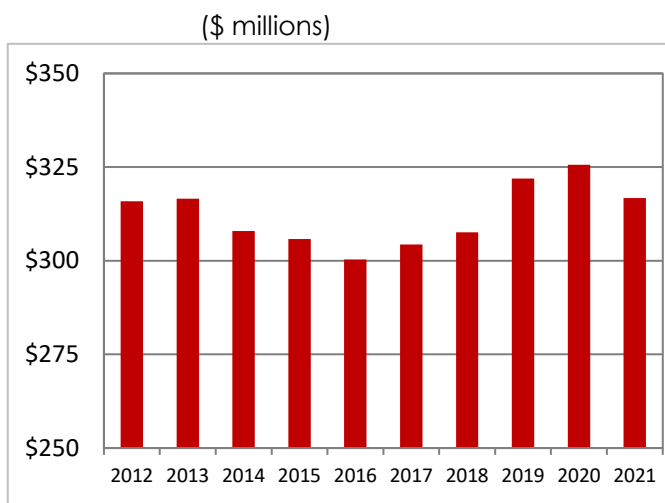
Analysis of Major items on the Consolidated Statement of Operations and Change in Net Assets

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 Consolidated Statement of 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 and non-sponsored research, Research grants and contracts, Plant operations, Administration and General, Student services, and Libraries. This presentation is consistent with prior years.

The following charts offer additional information with respect to revenues and expenses for the past ten years.

Total Revenue

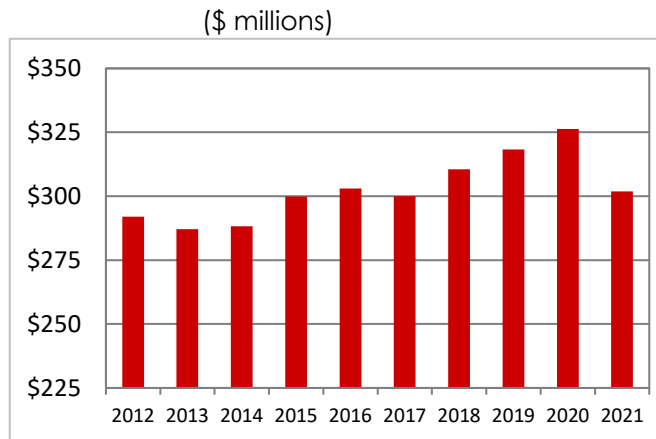


Description: Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when the funds are received.

2021 Comments: Total revenue decreased by \$7.9M (2%) from 2020. This decrease is largely reflective of the impact of COVID-19 on certain revenue streams. Specifically, there were decreases in ancillary services, (residences, food services, etc.) and services and other income. These decreases were partially offset by an increase in investment income.

Trend: Revenues have fluctuated over the past ten years. The changes in the major revenue stream components are discussed in subsequent tables.

Total Expenses

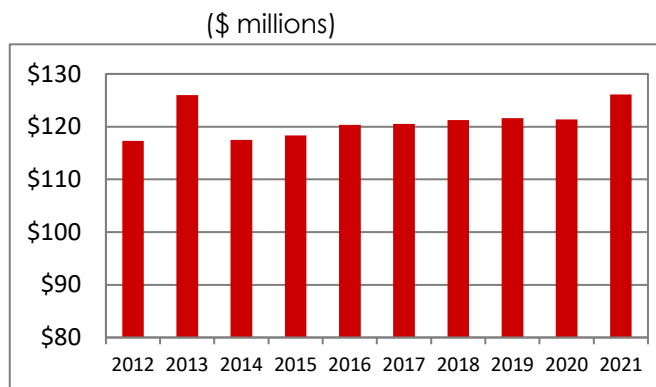


Description: Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their estimated useful lives and amortization expense is included in annual expenses.

2021 Comments: Total expenses decreased by \$23.8M (7%) from 2020. The largest decrease was in ancillary services which is consistent with the decrease in revenue. Other decreases were experienced in plant operations, student services and employee future benefits which includes expenses related to AESRPP, retirement allowances, post-employment benefits, etc.

Trend: With the exception of the current year, expenses have been steadily increasing. The current year's decline is largely related to the impact COVID-19 has had on the University's operations and the economy in general.

Government Grants

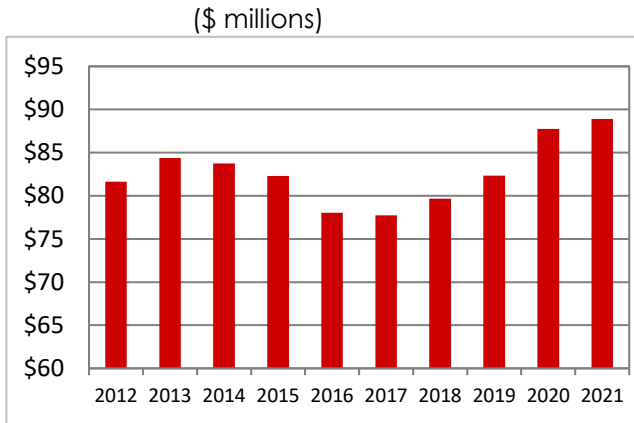


Description: Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

2021 Comments: Total government grant revenue increased by \$4.7M (4%) due primarily to an increase in the unrestricted operating grant of \$3.4M (2.9%).

Trend: While there is uncertainty with respect to the Province's long-term funding commitment, the Province has extended the four-year Memorandum of Understanding, that expired at the end of the 2020-21 fiscal year, and has committed to a 1% increase to the unrestricted operating grant for the 2021-22 fiscal year.

Tuition and Related Fees

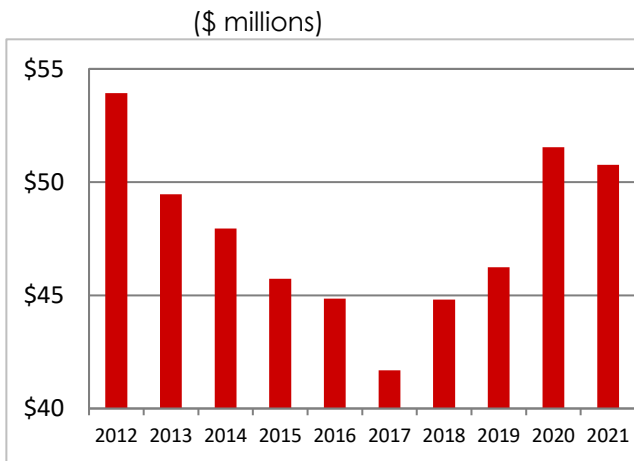


Description: Tuition and related fee revenues include tuition and other fees paid by students for specific purposes.

2021 Comments: Student fee revenue increased by \$1.2M (1%) from 2020. While enrolment decreased slightly from the prior year, the increase can be attributed to the tuition reset that went into effect in 2019-20. The tuition reset, which applies only to new students, saw increases in tuition ranging from 5.45% to just under 25%.

Trend: Provided that enrolment remains stable, tuition and related fees are expected to continue to grow as more students begin their studies under the tuition reset and legacy students graduate.

Research Grants and Contracts

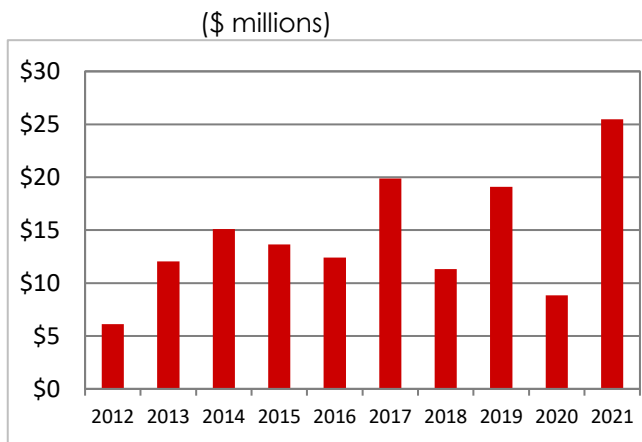


Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

2021 Comments: Research grants and contracts revenue decreased by \$0.8M (2%) from 2020. This decrease is largely timing related as research and other contract revenue is deferred and only recognized as revenue in the year the funds are spent.

Trend: While there was a slight decrease in 2020-21, the expectation is that research and other contract revenue will increase as the University continues to implement its Strategic Vision – *UNB Toward 2030* which includes aspirations to double the annual value of the University's research grants and contracts.

Investment Income



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

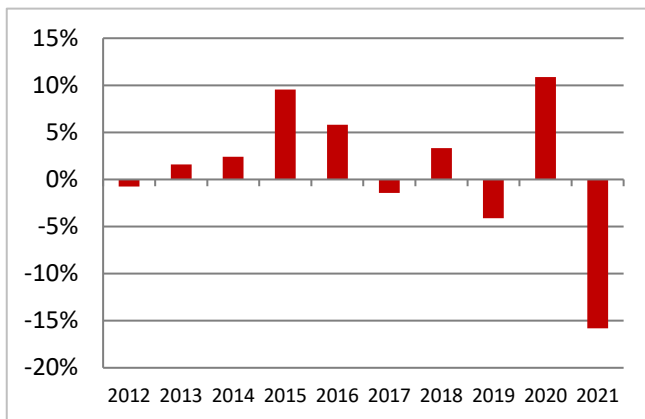
2021 Comments: As a result of markets rebounding following the global pandemic, the University's Long-term Investment Fund earned 18.69% for the year, compared to (1.14)% for 2019-20.

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

Key Financial Indicators

Financial indicators have been developed as a quick assessment tool for use by management and the Board of Governors to assess the financial position and condition of the University. The following indicators have been selected by management to assess a variety of areas. Each indicator is briefly described below and analyzed in the context of the University.

Growth in Operating Expenses per FTE Student

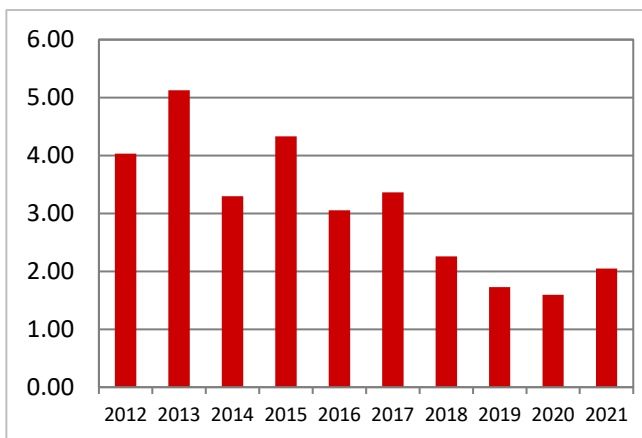


Description: This shows the growth/decline in actual operating expenses per student. Under normal circumstances a stable or declining percentage is preferred.

2021 Comments: While enrolment decreased slightly from the prior year, the impact and limitations created by COVID-19 have resulted in a decline in operating expenses of approximately \$50.0M. This includes decreases in ancillary services, food services, etc. The decline in operating expenses was approximately 20% while enrolment decreased by just over 4%.

Trend: Growth in operating expenses per student has fluctuated over the last ten years and was expected to stabilize as the University moved to a balanced budget. The effects of COVID-19 have created further fluctuations in 2020-21.

Working Capital Ratio

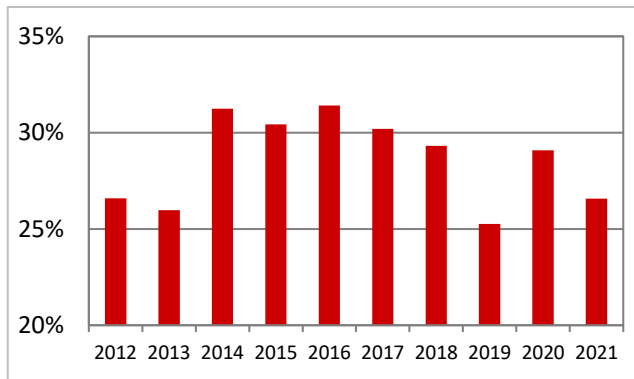


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity. A ratio of 3 or more is very strong.

2021 Comments: This ratio improved from 1.6 in 2020 to 2.1 in 2021. This increase is due primarily to the growth in cash and short-term investments and a decrease in the accounts payable & accrued liabilities.

Trend: This ratio will fluctuate because of timing differences affecting both current assets and current liabilities as well as decisions by management specifically as it relates to the financing arrangements for capital projects.

Long-term Liabilities as a percentage of Total Revenue

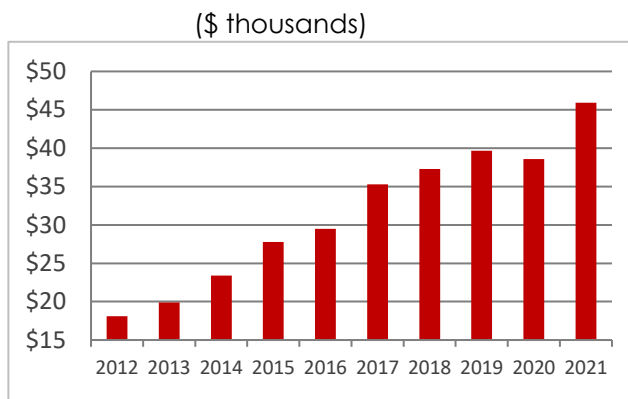


Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2021 Comments: This indicator decreased by 2.5% in 2021 from 29.1% to 26.6%. This percentage is in line with 2019 and similarly to the prior year, the change was primarily driven by a change in the Employee future benefits. In 2020 the liability increased significantly and in 2021, there was a comparable decrease.

Trend: Apart from 2019, this measure has fluctuated between 26.0% and 31.4% over the past ten years. The percentage increased in 2014 when the Academic pension plan was converted to a shared risk plan. This measure is expected to increase again as the University continues with residence renewal and other capital infrastructure projects.

Endowment and Trust Funds per FTE Student

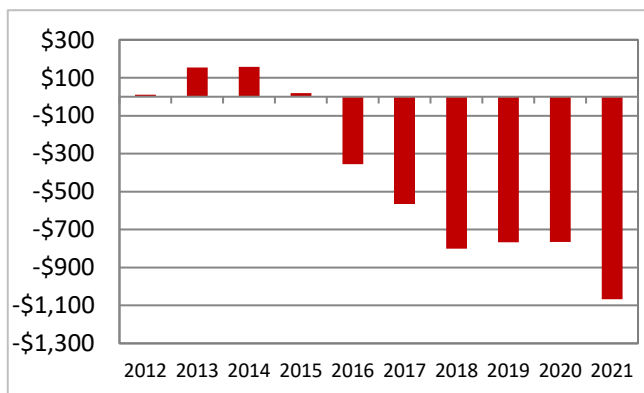


Description: This indicator shows the value of the endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2021 Comments: The endowment and trust fund assets per student increased in 2020-21 by just over \$7.0K to \$45.8K per student. The increase was the result of both a decrease in enrollment and an increase in the market value of assets.

Trend: As the endowment fund continues to grow, this financial indicator will continue to strengthen.

Accumulated Unrestricted Operating (Deficit) Surplus per FTE Student



Description: This indicator is intended to measure the deficit burden that must be supported by each student.

2021 Comments: The accumulated unrestricted operating deficit increased by \$2.3M from 2020 and with a slight decline in enrolment, the deficit burden per student increased from \$768 per student to \$1,068 per student.

Trend: This indicator will improve when enrolment increases, surpluses are applied to the accumulated deficit, or a decision is made to transfer internally restricted net asset to cover the accumulated deficit balance.

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 University's capital assets.

As one of the oldest Universities in Canada, UNB is in a more challenging position than other universities due to the age of many campus buildings. As such, deferred maintenance is an ongoing challenge, as annual capital spending is not sufficient to maintain the University's current infrastructure. Estimated at \$305 million (Fredericton Campus \$280 million, Saint John Campus \$25 million), the accumulated deferred maintenance balance at UNB remains a major concern. Annual spending is not sufficient to keep up with required maintenance.

There is currently an annual shortfall in funding for deferred maintenance between \$14.7 million and \$18.6 million depending on the recommended annual spending percentage used. The following tables provide additional information.

| Campus | Total Area (Sq. Ft) | Avg. Age of Buildings (Years) | Current Replacement Value* (\$millions) | Deferred Maintenance (\$millions) | Facilities Condition Index** |
|-------------|------------------------|-------------------------------------|--|---|------------------------------------|
| Fredericton | 2.7M | 60.0 | 870 | 280 | 32% |
| Saint John | <u>0.7M</u> | 39.1 | <u>203</u> | <u>25</u> | <u>12%</u> |
| Total | 3.4M | | 1,073 | 305 | 28% |

*Current replacement value (CRV) is the value taken from the University's insurance value.
** Deferred maintenance divided by current replacement value.
A value greater than 10% is considered poor.

Calculations of the annual shortfall in spending to address deferred maintenance using the Sightlines Study based on functional obsolescence targets and the "APPA: Leadership in Educational Facilities" recommendations.

| Building and Space Budget for 2020-21* | (\$millions) |
|--|---------------|
| Fredericton Campus | 4.9 |
| Saint John Campus | 1.9 |
| Total | <u>6.8</u> |
| Sightlines Study recommends annual spending of 2.4% of replacement value | <u>25.4</u> |
| Shortfall | <u>(18.6)</u> |
| APPA: Leadership in Educational Facilities recommends a minimum of 2.0% of replacement value** | <u>21.5</u> |
| Shortfall | <u>(14.7)</u> |
| *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 APPA recommendation is a range from 2.0% to 4.0% of replacement value. 4.0% of replacement value is \$42.9M which would increase the shortfall to \$36.1M. | |

While there are significant challenges ahead, it is important to recognize that there are several capital projects that are ongoing and in the planning phases that will address considerable amounts of deferred maintenance. These projects include the Engineering & Computer Science Renewal Project, the Health and Social Innovation Centre, and ongoing residence renewal as well as demolition of the South Gym.

As the University continues to execute its Strategic Vision which includes creating a modern, integrated and sustainable UNB, the reduction of deferred maintenance remains a priority as the University aspires to reduce this liability by 50% by 2030.

Supplementary Information to the Financial Statements

Donation Revenue

As stated earlier, the University follows not-for-profit accounting standards as established by 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.

In accordance with these accounting standards, donations are recorded in the financial statements as follows:

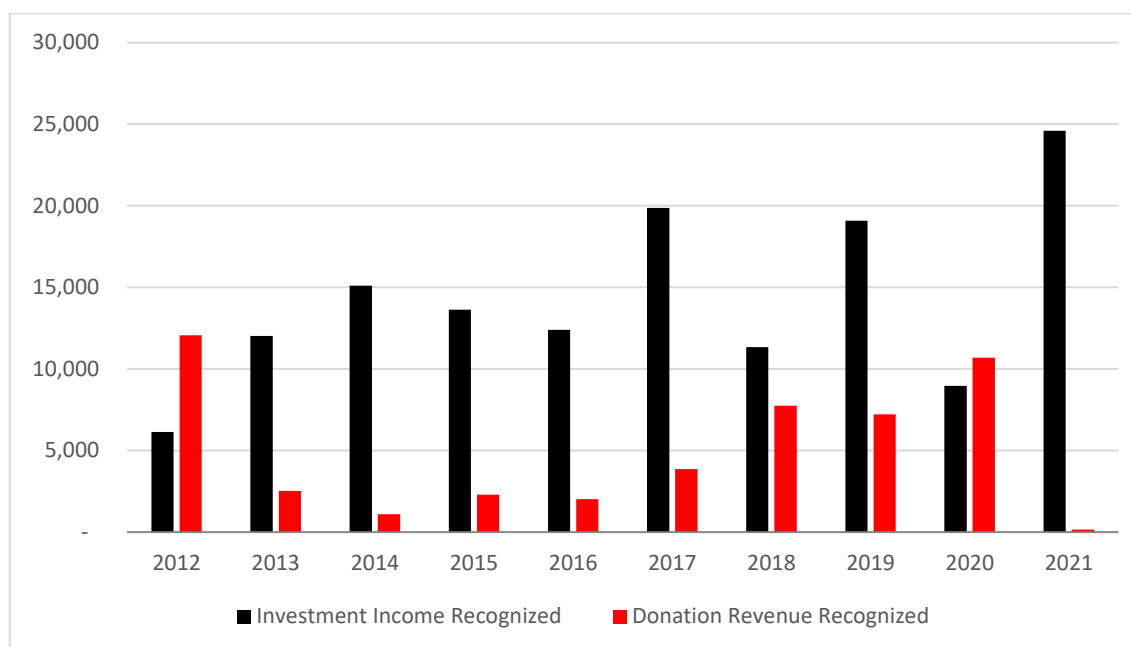
- Unrestricted donations are recorded as revenue when received
- Restricted donations are recorded as revenue when the related expenditures are incurred
- Unspent restricted donations are recorded as liabilities (unexpended deferred contributions or deferred capital contributions)
- Endowed donations are not recorded as revenue but are added directly to Endowed Net Assets.

In addition, the University has a practice of spending the investment income earned on a restricted donation before spending the original donation received. This practice impacts the amount of investment income and donation revenue recognized in any given year.

For the fiscal year ending April 30, 2021, the University received \$13.7 million in donation revenue however only \$0.2 million was recognized on the Consolidated Statement of Operations and Changes in Net Assets. Of the \$13.5 million difference, \$5.9 million was reported as a direct increase to the Endowed Net Assets because of donor stipulations requiring the funds to be held in perpetuity and the remaining \$7.6 million was reported as Unexpended Deferred Contributions and will be recognized as revenue when the funds are spent in accordance with the external restrictions.

The amount deferred and ultimately, the amount of donation revenue recognized, directly relates to the investment income earned. As noted above, the Long-term Investment Fund earned 18.69% for the year, which meant the investment income earned in 2020-21 was more than sufficient to meet the University's Trust and Endowment spending requirements.

The chart below illustrates and compares the investment income and donation revenues recognized over the last ten years.



Internally Restricted Net Assets

UNB, like most Canadian universities, places internal restrictions on some of the funds received, or net operating surpluses earned, based on the priorities established by the Board of Governors, 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. These funds may be restricted according to a Board decision (for example program fees, scholarships and bursaries, risk mitigation reserves, etc.) or according to University policy or practice (operating budget carry forwards, contract overhead, surpluses in non-core operations, etc.).

From an accounting and reporting perspective, this means the amounts are first recognized as revenue in the operating fund and then internally restricted and reported as internally restricted net assets on the Consolidated Statement of Financial Position. The University established these protocols to incent wise resource utilization; to provide a tool to facilitate long-term planning of programs and initiatives; to allow savings to accumulate over several 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 April 30, 2021 audited financial statements, the University reported \$211.8 million in unspent deferred contributions (externally restricted amounts received for specific purposes), \$153.5 million in deferred capital contributions (external funding for capital assets that is amortized to revenue over the lives of

the assets the funds were used to acquire), \$78.7 million in internally restricted net assets (restricted by a policy of the Board of Governors or a decision for specific purposes), and \$196.2 million in endowed net assets (\$183.5 million externally endowed and \$12.6 million internally endowed). Endowed net assets 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 the internally restricted net assets by category. Total internally restricted net assets as of April 30, 2021, were \$78.7 million compared to \$68.6 million as of April 30, 2020.

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.

Capital (2021 - \$27.8M / 2020 - \$26.3M) – these funds come from various sources such as the provincial non-space and A&R funding; land development and lease revenue; facility fees and technology fees charged to students; as well as funds received from the provincial government for the deferred maintenance program and decisions by the Board of Governors to internally restrict previous year's operating surpluses. The decision to restrict portions of past years' operating surpluses for capital purposes was made to address the very serious issue of accumulated deferred maintenance.

| CAPITAL | \$ millions | | |
|---|--------------------|-------------|---------------|
| | 2021 | 2020 | Change |
| Infrastructure Renewal Projects | 11.4 | 10.9 | 0.5 |
| Fredericton Residence Renewal & Ancillary Projects Fund | 3.8 | 3.3 | 0.5 |
| Funds from Land & Lease Transactions | 3.7 | 3.1 | 0.6 |
| Health & Social Innovation Centre | 3.6 | 4.3 | -0.7 |
| Currie Center Future Maintenance Fund | 2.2 | 2.0 | 0.2 |
| Klohn Commons Future Maintenance Fund | 1.1 | 1.1 | 0.0 |
| Engineering Program Fund Projects | 0.6 | 0.5 | 0.1 |
| Alumni Memorial Building Renovation | 0.5 | 0.5 | 0.0 |
| Saint John Residence Renewal Fund | 0.5 | 0.9 | -0.4 |
| Central Heating Plant Wood Boiler Design | 0.4 | 0.0 | 0.4 |
| Tech Fee Program | 0.4 | 0.3 | 0.1 |
| FR-Facilities Management Fleet Renewal | 0.4 | 0.4 | 0.0 |
| Fredericton Kinesiology Building | -1.5 | -1.5 | 0.0 |
| Various Others | 0.7 | 0.5 | 0.2 |
| TOTAL CAPITAL | 27.8 | 26.3 | 1.5 |

Risk (2021 - \$11.1 M / 2020 - \$10.9 M) – 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 (for example, insurance premium refunds and surpluses in the employee benefits stabilization accounts) which have also been internally restricted to guard against future risk.

| RISK | \$ millions | | |
|-------------------------------------|-------------|-------------|------------|
| | 2021 | 2020 | Change |
| Short Term Investment Fund Reserve | 3.6 | 0.6 | 3.0 |
| Employer Rate Stabilization Reserve | 3.6 | 6.3 | -2.7 |
| Vice President Contingencies | 2.3 | 2.4 | -0.1 |
| Insurance Reserves | 1.1 | 0.9 | 0.2 |
| Disabled Life Premium | 0.5 | 0.6 | -0.1 |
| Various Others | 0.0 | 0.1 | -0.1 |
| TOTAL RISK | 11.1 | 10.9 | 0.2 |

Entrepreneurial (2021 - \$14.3M / 2020 - \$15.6M) – 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 expenses 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.

| ENTREPRENEURIAL | \$ millions | | |
|---|-------------|-------------|-------------|
| | 2021 | 2020 | Change |
| SJ - Nursing Reserve | 3.3 | 3.1 | 0.2 |
| Biomedical Institute | 0.9 | 0.8 | 0.1 |
| SJ - MBA Program | 0.9 | 0.8 | 0.1 |
| Engineering Program Differential | 0.4 | 0.9 | -0.5 |
| Canadian Rivers Institute | 0.4 | 0.4 | 0.0 |
| Research Royalties | 0.4 | 0.4 | 0.0 |
| Faculty of Education - Trinidad & Tobago | 0.2 | 0.7 | -0.5 |
| Q1 labs - Researcher Portion | 0.2 | 0.2 | 0.0 |
| Funding from Trust for Nursing Faculty Position | 0.1 | 0.1 | 0.0 |
| Vice President Research Risk Contingency | -0.1 | 0.1 | -0.2 |
| Various Others | 7.6 | 8.1 | -0.5 |
| TOTAL ENTREPRENEURIAL | 14.3 | 15.6 | -1.3 |

Specific Projects (2021 - \$9.5M / 2020 - \$7.1M) – the funds in these accounts have largely come from operating accounts 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 accounts but are not spent each year and can accumulate to eventually be used for their intended purpose.

| SPECIFIC PROJECTS | \$ millions | | |
|--|-------------|------------|------------|
| | 2021 | 2020 | Change |
| Engineering Program Fees | 2.5 | 2.4 | 0.1 |
| Budget Deferrals | 1.1 | 0.0 | 1.1 |
| Administrative Leaves/Searches | 1.0 | 0.1 | 0.9 |
| Ongoing Position Returns | 0.6 | 0.0 | 0.6 |
| Vice President Academic (F) College of Extended Learning | 0.6 | 0.6 | 0.0 |
| COVID-19 Provision | 0.3 | 0.0 | 0.3 |
| Fundraising Campaign | 0.2 | 0.3 | -0.1 |
| Library Acquisitions | 0.2 | 0.4 | -0.2 |
| Retirement Allowance Reserve | 0.0 | 0.3 | -0.3 |
| Project Focus | 0.0 | 0.3 | -0.3 |
| Various Others | 3.0 | 2.7 | 0.3 |
| TOTAL SPECIFIC PROJECTS | 9.5 | 7.1 | 2.4 |

Strategic Priorities (2021 - \$9.0M / 2020 - \$3.4M) - the funds in this category have come from one-time operating items including special HST rebates and operating surpluses. While considerably higher than the prior year, the largest balance within this category is the Operating Deficit Support Fund. Throughout the 2020-21 fiscal year, \$11.1 million was reallocated from various other categories to ensure sufficient funds were available to cover the current year's transfer to the operating fund of \$6.1M and to ensure funds were available to support the University as it continues to face financial uncertainty resulting from the effects of COVID-19.

| STRATEGIC PRIORITIES | \$ millions | | |
|-----------------------------------|-------------|------------|------------|
| | 2021 | 2020 | Change |
| Operating Deficit Support Fund | 6.4 | 1.4 | 5.0 |
| FR - Academic Development Fund | 1.1 | 1.0 | 0.1 |
| SJ - Academic Development Fund | 0.9 | 0.2 | 0.7 |
| Various Others | 0.6 | 0.8 | -0.2 |
| TOTAL STRATEGIC PRIORITIES | 9.0 | 3.4 | 5.6 |

Operating Budget Carry Forwards (2021 - \$10.9M / 2020 - \$11.5M) – there is a Board approved policy that 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 long-term planning, provide flexibility to execute those plans and provide a means of accumulating monies to fund larger projects that would not otherwise be possible through regular annual operating budgets.

| OPERATING BUDGET CARRY FORWARDS | \$ millions | | |
|--|-------------|-------------|-------------|
| | 2021 | 2020 | Change |
| FR-College of Extended Learning | 0.2 | 0.3 | -0.1 |
| FR-Facilities Management | 0.5 | 0.3 | 0.2 |
| FR-Faculty of Arts | 0.4 | 0.6 | -0.2 |
| FR-Faculty of Computer Science | 0.3 | 0.5 | -0.2 |
| FR-Faculty of Education | 0.4 | 0.8 | -0.4 |
| FR-Faculty of Engineering | 0.4 | 0.9 | -0.5 |
| FR-Faculty of Kinesiology | 0.3 | 0.2 | 0.1 |
| FR-Faculty of Management | 0.3 | 0.3 | 0.0 |
| FR-Faculty of Science | 0.5 | 0.4 | 0.1 |
| FR-Renaissance College | 0.1 | 0.2 | -0.1 |
| FR-Student Services | 0.6 | 0.7 | -0.1 |
| FR-Vice-President Academic (Fredericton) | 1.2 | 1.3 | -0.1 |
| SJ-Faculty of Business | 0.1 | 0.3 | -0.2 |
| SJ-Faculty of Science, Applied Science & Engineering | 0.2 | 0.3 | -0.1 |
| SJ-Vice President | 0.5 | 0.3 | 0.2 |
| UW-Information Technology Services | 0.3 | -0.2 | 0.5 |
| UW-President - Integrated Recruitment & Retention | 0.0 | 0.1 | -0.1 |
| UW-President - Special Projects | 1.5 | 0.3 | 1.2 |
| UW-School of Graduate Studies | 0.5 | 0.5 | 0.0 |
| UW-University Comptroller | 0.5 | 0.7 | -0.2 |
| UW-Vice-President (Advancement) | 0.4 | 1.1 | -0.7 |
| Various Others | 1.7 | 1.6 | 0.1 |
| TOTAL OPERATING BUDGET CARRY FORWARDS | 10.9 | 11.5 | -0.6 |

Scholarships, Bursaries and Other Awards (2021 - \$8.3M / 2020 - \$5.9M) – these amounts arose from donations and internally restricted income and contain un-awarded operating funds set aside for scholarships, bursaries, and other student assistance in addition to a limited number of internally restricted scholarship trust funds that were designated by the Board from allocations of unbudgeted proceeds from land sales. These funds are not available for general operating expenses.

Contract overhead (2021 - \$6.7M / 2020 - \$6.6M) – this amount is the remaining unspent value of the 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 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.

Internal loans (2020 - \$15.1M / 2020 - \$14.8M) – the internal loans program provides a source of long-term financing for capital projects and / or major equipment purchases in appropriate circumstances. The program may also be used to provide internal or short-term financing for

projects waiting for external financing arrangements to be finalized. Internally financed projects are only considered in circumstances where there is an identified expected cash flow stream available to service the internal debt.

| Internal Loans | \$ millions | | |
|--------------------------------------|--------------|--------------|-------------|
| | 2021 | 2020 | Change |
| Central Heating Plant Boiler Project | -7.3 | -7.8 | 0.5 |
| DKT Residence Renewals Projects | -5.9 | -1.7 | -4.2 |
| AUC Ice Plant Renewal | -0.8 | -1.0 | 0.2 |
| Central Heating Plant Generator | -0.5 | -0.6 | 0.1 |
| VOIP Recovery | -0.3 | -0.3 | 0.0 |
| HIL Library Infrastructure | -0.2 | -0.2 | 0.0 |
| Enterprise Network Storage | -0.1 | -0.2 | 0.1 |
| Barry and Flora Beckett Residence | 0.0 | -3.0 | 3.0 |
| TOTAL Internal Loans | -15.1 | -14.8 | -0.3 |

Energy management (2021 – \$3.8M / 2020 - \$3.9M) – the energy management program provides a source of financing for projects that control and reduce energy consumption. The program was established in 1997 with approval from the Board of Governors. Projects are approved, through an established committee, with the expectation that, through utility cost avoidance, the project cost would be recovered in five to eight years.

As detailed above, 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 initiatives (i.e., 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. 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 typically not available to be used on operating expenses without a specific change approved by the Board of Governors.

As noted above, certain amounts that are centrally controlled have been reallocated to the Deficit Support Fund to be used to cover the anticipated operating deficit resulting from lost revenues and increased costs associated with COVID-19. Any residual amount is to be maintained as a contingency for future years' deficits.

| Deficit Support Changes in 2021 | \$ Millions |
|--|--------------------|
| Opening Balance 2021 | 1.37 |
| Less: Transfers from Deficit Support Fund in the year | |
| Strategic Priorities | |
| Operating Deficit Support Fund | -6.06 |
| Add: Transfers to Deficit Support Fund in the year | |
| Capital | 0.05 |
| Entrepreneurial | 1.71 |
| Operating Budget Carry Forwards | 4.45 |
| Risk (Employer Rate Stabilization Reserve) | 3.02 |
| Specific Projects | 1.51 |
| Strategic Priorities | 0.09 |
| Contract Overhead | 0.21 |
| Scholarships, Bursaries & Awards | 0.03 |
| Closing Deficit Support Balance 2021 | 6.38 |

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 between 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 the University. Parties agreed that a change was required to make the plan sustainable. The AESRP 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 Consolidated Statement of Financial Position. It is important to note that the University does not "owe" this money to anyone, nor would it ever be responsible to pay the plan deficit under the terms of the plan agreement and legislation over shared risk pension plans.

Consistent with our accounting for non-pension employee benefit liabilities, this unfunded amount has been disclosed separately in the Net assets section of the Consolidated Statement of Financial Position to identify that the liability is not funded. The University's 50% share of the liability at April 30, 2021 is \$7.0 million, which is a decrease of approximately \$12.9 million from 2020. This significant change is attributed to better than anticipated returns on the plan assets and essentially eliminates the increase in the liability experienced in 2020. These significant fluctuations can largely be attributed to COVID-19 and the uncertainty it created in the markets in 2020.

In addition, accounting standards require that the actuarially determined annual expense amount be reported partially on the Consolidated Statement of Operations and partially as a direct charge against net assets on the Consolidated Statement of Financial Position. Note 23 to the financial statements provides an overall summary of the plan, the expense, and the liability.

Non-Pension Employee Benefit Costs

The University operates several cost shared employee benefit plans including health & dental, group life family protection, and long-term disability (LTD) benefits. The overall cost of these benefit plans is paid 50% by the University and 50% by employees. These plans are largely self-insured, with risk management tools in place to limit the University's (and employees') exposure to adverse claims experience. These tools include the purchase of large amount pooling coverage on the health & dental plan whereby the Plan's exposure is capped at \$50,000 per individual claim (reduced to \$20,000 effective July 1, 2021), 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 appropriately 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 to 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.