



# Comptroller's Report

For the Year Ended April 30

# 2013

Karen Cunningham, CA  
University Comptroller



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

## Table of Contents

Executive Summary.....	1
Basis of Accounting.....	2
Analysis of Major items on Consolidated Balance Sheet.....	4
Analysis of Major items on Consolidated Statement of Revenues, Expenses and Change in Net Assets.....	9
Key Financial Indicators.....	12
Appendix	
Supplementary Information to the Notes to the Financial Statements	
Net Assets Restricted for Specific Purposes.....	14
Pension Costs.....	15
Academic Pension Plan.....	16
Non-Pension Employee Benefit Costs.....	17

---

## Executive Summary

I am pleased to present the Report of the Comptroller for the fiscal year ended April 30, 2013.

This report is in addition to the University's audited financial statements and offers analysis and commentary with respect to the University's financial results for the year and the financial position at the end of the year. The audited financial statements report on the operations and financial position of the entire University and were prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) as issued by the Canadian Institute of Chartered Accountants (CICA).

The ASNPO standards are new and were adopted by the University as required by the CICA. Most Universities in Canada are required to use the standards although in some provinces, universities must use the Public Sector Accounting Standards based on their reporting relationship with the government in the province in which they reside. The adoption of the new standards resulted in one change to the University's accounting as described in note 2 to the audited financial statements.

The financial statements have been audited by Deloitte, LLP and their Auditor's Report is part of the audited financial statement package. For the year ended April 30, 2013, Deloitte has issued an unqualified audit opinion, meaning that according to their independent audit, the financial statements express fairly the University's financial position and results of operations in accordance with ASNPO.

In addition, a Statement of Management Responsibility, signed by the President and Vice President (Finance and Corporate Services), is also included with the financial statement package. This statement acknowledges management's responsibility for the preparation of the financial statements and maintenance of a system of internal controls to safeguard University assets and result in reliable accounting records.

The major highlights of the 2013 financial statements were:

- The University reported a \$1.5 million accumulated operating surplus for the year ended April 30, 2013 resulting in an accumulated operating surplus of \$1.5 million.
- UNB acquired capital assets during the year totaling \$16.0 million, primarily related to classroom and facilities upgrades on both campuses.
- The accounting change required as a result of the adoption of the new accounting standards resulted in interest swaps no longer being recognized at market value on the statement of financial position. This change is reflected retroactively in the financial statements and the analysis contained in this report. The only impact of the change was on the statement of financial position (long term debt decreased and net assets invested in capital assets increased).
- An additional restatement of prior years was required when management determined certain accounts had been improperly classified as externally restricted rather than internally restricted. The misclassification resulted in changes to unexpended deferred contributions (decrease) research grants and contract revenue (increase), and net assets restricted for specific purposes (increase). There was no impact on the annual change in operating surplus nor the accumulated surplus (or deficit).

---

## Basis of Accounting

The audited financial statements of the University of New Brunswick for the year ended April 30, 2013 have been prepared in accordance with Accounting Standards for Non-Profit organizations (ASNPO) issued by the Canadian Institute of Chartered Accountants (CICA). The standards are new and the CICA required their adoption in the first fiscal year starting on or after January, 2012. Many Canadian Universities adopted these standards in the 2013 although under the CICA accounting framework universities in provinces where the province is deemed to control the University, (as determined according to the accounting standards) were required to adopt the Public Sector Accounting Standards.

Within the ASNPO standards, non-profit organizations have the option to adopt either the deferral method of revenue recognition or the restricted method. This has not changed under the new standards. UNB selected the deferral method a number of years ago. Under this method the University is required to report the operations of all Funds on a consolidated basis in the financial statements. However, all contributions with external restrictions placed on their use are deferred and recognized as revenue only in the period the funds are actually used for the intended purposes. This includes such things as sponsored research revenue, contributions for specific purposes, and contributions for fixed asset acquisitions. Contributions to the Endowment Fund which are required by the donor to be held in perpetuity are credited directly to the net assets and are not reflected as revenue.

The audited financial statements are one component of the financial reports used in the management and oversight of the University operations. They offer a consolidated view of operations and the basis for global comparisons with other universities. However, other universities may use different accounting standards based on the degree of control by their provincial government or may use different revenue recognition standards. Of note to UNB, the deferral accounting method results in some significant differences from the funds format financial statements which are typically used throughout the year by University management and the Board of Governors to assess operations. For example:

- Donations and research grants received are reported as revenue in the year received in the funds format financial statements but in the audited financial statements, are only recognized to the extent the revenue is spent in the year. Unspent amounts are deferred and reported on the statement of financial position as unexpended deferred contributions until spent for the restricted purpose.
- Endowment contributions received are not recognized in the audited financial statements as revenue but rather as a direct increase to endowed net assets.
- Capital assets are expensed as acquired in the funds format financial statements but are capitalized and amortized over their useful lives in the audited financial statements.

Therefore, the two accounting methods result in significant differences in amounts reported in the audited financial statements and the funds format financial statements. The fund accounting approach used by management to monitor operations more closely aligns with the approach to manage resources:

- It provides a central mechanism to ensure external and internal restrictions of funds such as research grants, endowment contributions and restricted capital grants are respected;
- It provides an additional measure of expenditure control in that expenditures can only be

---

made when/if there are budgeted funds available in the account

The University operates the following four funds which are consolidated in the audited financial statements prepared in accordance with ASNPO:

- Trust and Endowment Fund - holds the endowed assets (contributions which are required to be held in perpetuity) and other contributions which have legal restrictions with respect to their use;
- Restricted Fund - holds restricted research, capital project and other accounts which are funded from internally and externally restricted sources;
- Plant Fund - holds the University's capital assets; and
- Operating Fund - where the financial operations of the University are reported.

The audited financial statements include:

- Statement of Management Responsibility where senior management acknowledge their responsibility for preparing the financial statements and maintaining adequate internal controls. In addition, it acknowledges the Board of Governors' responsibility of review of the audited financial statements primarily through its Audit Committee.
- Auditor's Report where the responsibilities of management and the auditor are stated. The auditor's report for 2013 is unqualified.
- Consolidated Statement of Financial Position which shows the financial position of the University as at the end of the fiscal year. This includes the assets owned by UNB less the liabilities, resulting in the Net Assets of the University;
- Consolidated Statement of Revenues, Expenses 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 operating surplus or deficit for the year.
- Consolidated Statement of Changes in Net Assets which shows the changes in each category of net assets.
- Consolidated Statement of Cash Flows which shows the primary sources and uses of cash during the fiscal year.
- Notes to the financial statements which are audited and provide additional disclosure and information to assist the reader in understanding the financial results.

The Consolidated Statement of Revenues, Expenses and Changes in Net Assets reports an excess of revenues over expenses before changes in internally restricted net assets, of \$27.9 million. This reflects all restricted and unrestricted activities of the university. The \$27.9 million is adjusted for the changes in net assets as outlined below, illustrating the impact of various internal and external restrictions on net assets and culminating in the net operating result that is reported in the Summary of Operating Budget Financial Results of the Assistant Vice President of Resource Planning and Budgeting.

- 
- Net assets invested in capital assets increased by \$12.6 million in the year resulting from \$12.5 million in capital asset acquisitions funded from operations, decreases in financing of capital assets of \$4.4 million, \$9.5 million amortization of deferred capital contributions, all offset by \$13.8 million in amortization of capital assets.
  - Reported expenses reflect an adjustment of \$15.3 million relating to adjustments to net assets restricted for specific purposes. These changes consist of \$2.7 million of donations and investment income on internally restricted donations that were internally restricted, less spending from the internally restricted amounts of \$2.1 million as well as net changes to operating carry-forwards and specific reserves of \$14.7 million.
  - Reported expenses reflect a net adjustment of \$1.5 million related to the accounting for employee future benefits to reflect the difference between the actuarially determined accounting cost and actual benefits paid during the year (this amount is recorded as an increase in unfunded non-pension employee benefits).

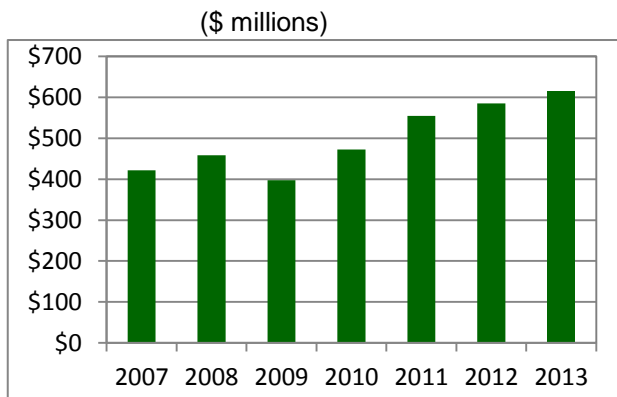
After the above-noted adjustments for changes in net assets, the Statement of Revenues, Expenses and Changes in Net Assets reports a net increase of \$1.5 million in the University's accumulated operating surplus.

## Analysis of Major Items on the Consolidated Balance Sheet

The Consolidated Balance Sheet reports the assets owned and controlled by the University; the Liabilities owed by UNB and the Net Assets of the University as at the end of the fiscal year – April 30, 2012 (with comparative amounts from the prior year). Assets and liabilities are categorized according to their liquidity, or how quickly they are expected to be converted into cash or require the use of cash with assets and liabilities closest to cash being classified as current and those with time horizons greater than one year shown as long term.

The following charts illustrate the values reported in various categories on the Consolidated Balance Sheet for the past 6 years. The balances of previous years have been restated to reflect the change in accounting standards relative to hedge accounting as well as the correction of prior period reporting of internally restricted research related funds.

### Total Assets

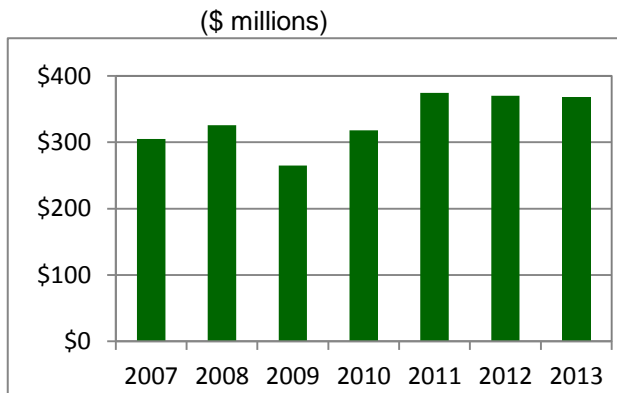


**Description:** Total assets represent the lower of cost and fair market value of all assets (excluding approximately 8,300 acres of land holdings) owned by the University in accordance with GAAP.

**2013 Comments:** The major driver of the increase in assets is an increase in long term investments (\$18.6 million in 2013). Approximately half this amount is increase in market value and half is purchases of investments.

**Trends:** Total assets have trended upward since 2007 from \$421.5 million to \$614.9 million in 2013 primarily due to increased capital activity. The changes in the major asset components are discussed in the subsequent tables.

### Total Liabilities

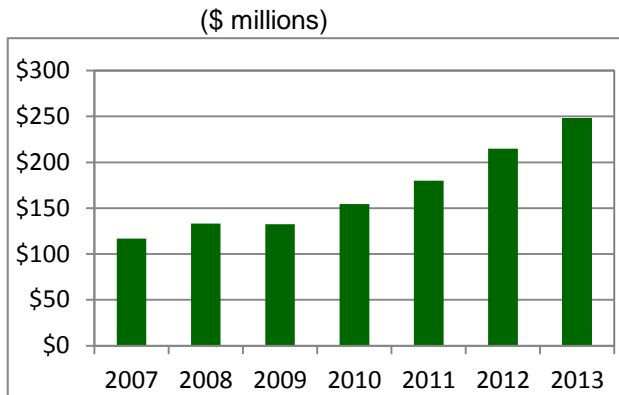


**Description:** Total liabilities represent the sum of amounts owed to external parties under various contracts and arrangements.

**2013 Comments:** Total liabilities decreased by \$2.8 million in 2013. The most notable decrease was in accounts payable and accruals with a decrease of \$3.9 million.

**Trends:** Total liabilities have generally shown an increase over the past 6 years from \$307.8 million. However, the growth has ceased over the last few years with total liabilities remaining relatively stable at around \$370 million and decreasing in 2013 to \$367.1 million.

### Total Net Assets

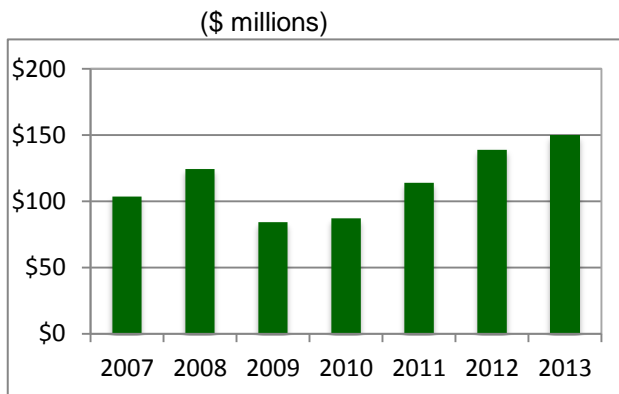


**Description:** The value of net assets is the result of deducting total liabilities from total assets. This amount is categorized as restricted, invested in capital assets, endowed, related to unfunded non-pension employee benefits or operating.

**2013 Comments:** Net assets increased by \$32.8 million in 2013 in the categories of Restricted (\$15.4 million), Invested in capital assets (\$12.6 million) and Endowed (\$4.8 million).

**Trend:** Net assets have shown a steady increase over the past 6 years in the same categories – Restricted (\$57.6 million), Endowed (\$31.2 million) and Invested in capital assets (\$44.6 million).

### Current Assets

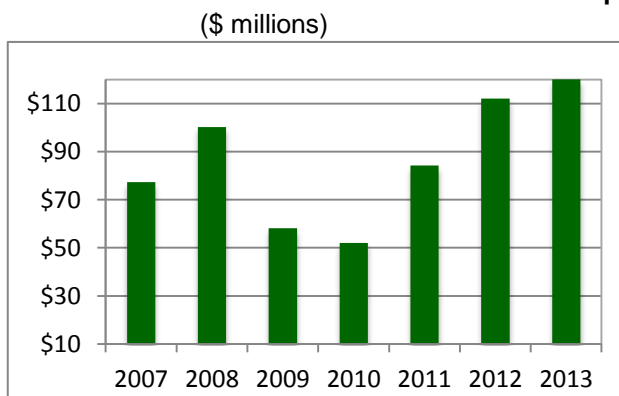


**Description:** Current assets represent assets that are cash or near cash or are expected to be converted to cash within the next 12 months.

**2013 Highlights:** Current assets increased by \$ 10.8 million due to an increased cash position and \$3.4 million in receivables growth

**Trend:** Total current assets of \$149.6 million in 2013 versus \$103.7 million in 2007. The bulk of the increase is in cash balances. Prepaids have also increased over the 6 years, in part due to improved identification of these amounts.

### Cash and Equivalents



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

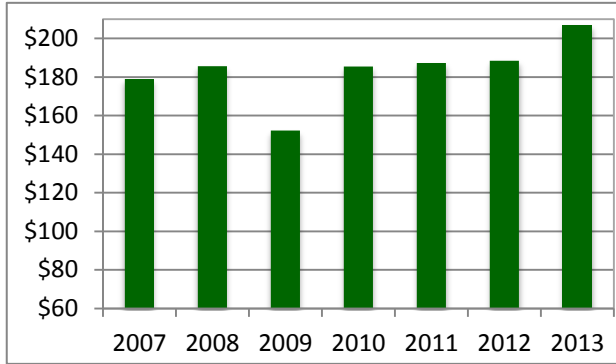
**2013 Comments:** Cash and equivalents increased by \$8.0 million during 2013. Cash balances are dependent on the timing of receipts and disbursements and can fluctuate significantly depending cash requirements.

**Trend:** Year end cash balances have traditionally been quite high. A key factor in the large balances is the fact that the research year ends in March and a significant portion of the funding is received in April.



### Long Term Investments

(\$ millions)



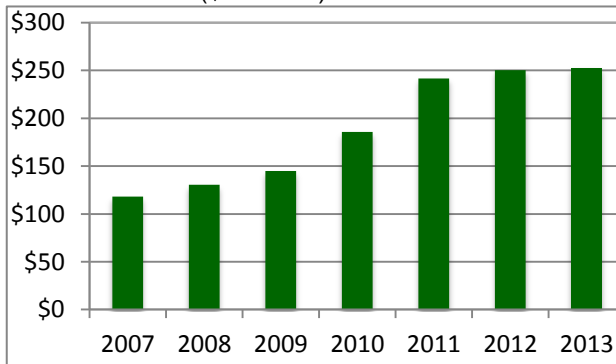
Description: Long term investments primarily represent the assets of the Endowment Fund and specific purpose contributions held in Trust. The investment pool assets are under the oversight of the Board Investment Committee.

2013 Comments: Investment returns on the Endowment Fund in the year were significantly improved this year at 9.52%. The Investments Committee recommended and received approval during the year to implement a new investment policy designed to increase returns.

Trend: UNB's investments have rebounded from the major decline in the 2008 recession and exceed \$200 million for the first time.

### Capital Assets

(\$ millions)

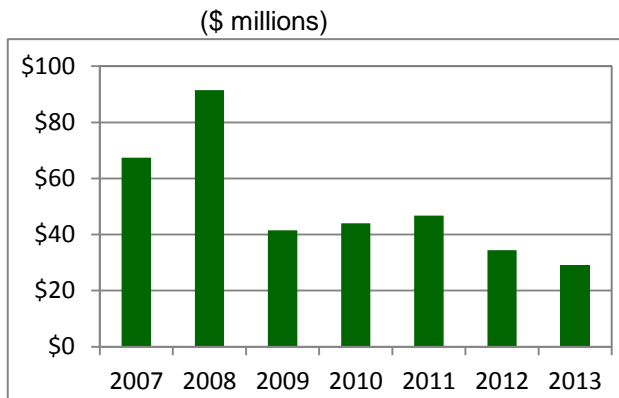


Description: Capital assets represent the un-depreciated cost of University owned buildings, infrastructure, equipment and other tangible assets used in University operations.

2013 Comments: UNB acquired capital assets totaling \$16.0 million in 2013, primarily in the form of classroom and facilities upgrades on both campuses. Depreciation charged in the year was \$13.8 million.

Trend: After several years of large capital asset growth due to funding from government infrastructure programs and the Forging our Futures campaign, 2012 and 2013 have seen more typical capital asset acquisition levels.

### Current Liabilities

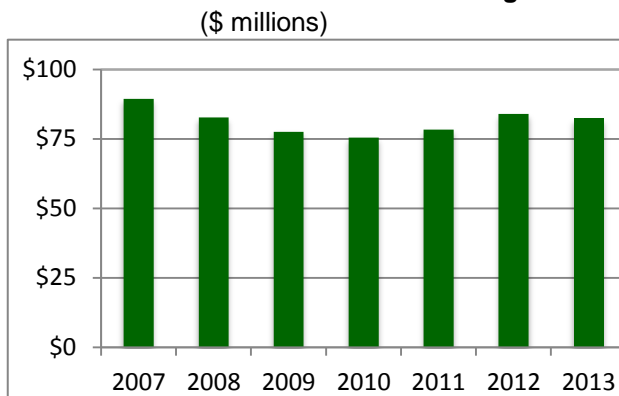


Description: Current liabilities are made up of regular accounts payable and unearned revenue.

2013 Comments: Current liabilities decreased by \$5.2 million from 2012, mostly due to a decline in outstanding accounts payable. This is a reflection of the reduced level of capital projects from 2012 to 2013.

Trend: Since 2008 when UNB received a larger portion of the operating grant early and recorded the amount as unearned revenue, current liabilities have decreased.

### Long Term Liabilities

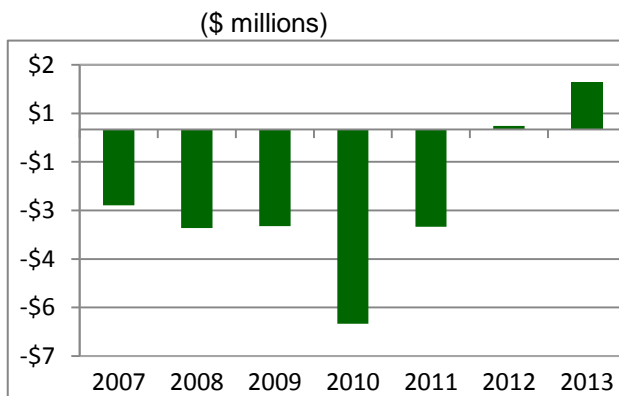


Description: Long term liabilities consist of long term debt and employee future benefits.

2013 Comments: There was no new long term debt issued in the year, resulting in a decrease in the liability of \$1.8 million as principle payments were made. The employee future benefits liability remained virtually unchanged.

Trend: These amounts are relatively stable. The employee future benefits liability has remained virtually unchanged for the past three years as changes in discount rates and interest on the liabilities have offset reduction of the liabilities through benefit payments.

### Accumulated Operating Surplus (Deficit)

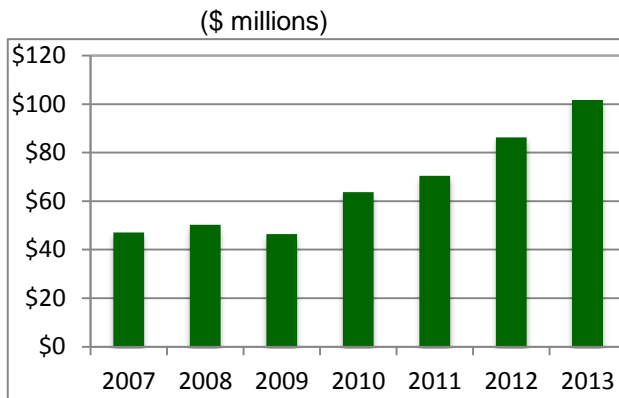


Description: This represents the accumulation of operating surpluses and deficits since the inception of the University. It changes each year by the amount of annual surplus or deficit.

2013 Comments: The University reported an operating surplus of \$1.5 million in the year.

Trend: 2013 was the third successive year the University reported an operating surplus. This positive trend has enabled the University to set aside some funds for strategic initiatives and to address other risks.

**Net Assets Restricted for Specific Purposes**

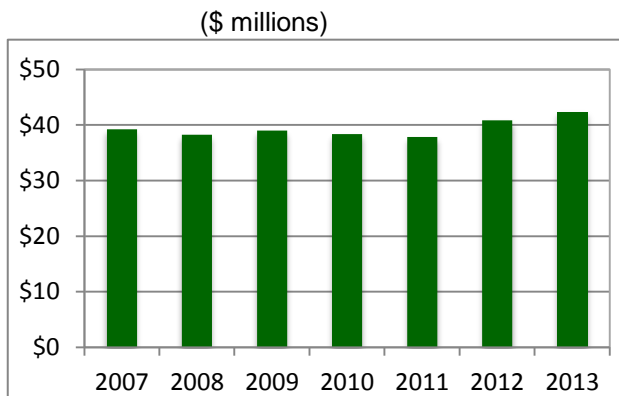


Description: This represents net assets that have been restricted either through restrictions by Board policy or specific decisions of the Board.

2013 Comments: The main restricted asset categories that increased in the year were Capital projects (\$5.2 million), Operating budget carry-forwards (\$4.3 million), and Risk (\$3.7 million).

Trend: Internally restricted net assets have more than doubled over the past 6 years from \$47.0 million to \$101.6 million.

**Unfunded Non-Pension Employee Benefits**



Description: These benefits include retiring allowances, post-retirement benefits, early retirement plans and unused vacation. This amount represents the extent to which these liabilities have not been funded by the University.

2013 Comments: The discount rates used to value these liabilities decreased by .5 percentage points from the prior year as recommended by the actuary resulting in increased expense which was partially offset by positive claims and membership experience on the post employment benefits plan.

Trend: The early retirement plan is partially funded by the University with investments maintained in the portfolio which has helped to stabilize the expense related to that plan.

## Analysis of Major Items

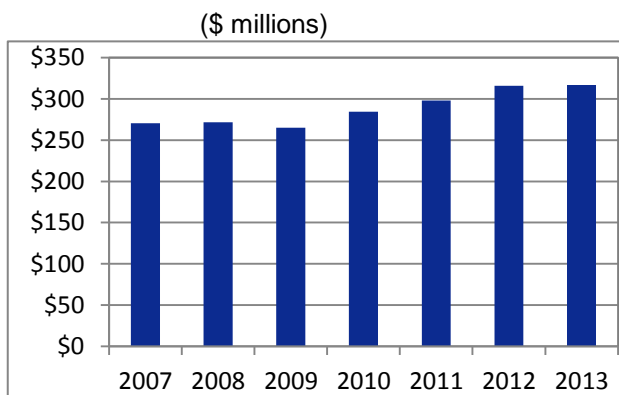
### Consolidated Revenues and Expenses

The Consolidated Statement of Revenues, Expenses 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, Endowment Fund, Plant 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 four funds because the accounting policies require that some items, such as unspent restricted funds, are deferred and brought into income when the funds are actually spent. In addition, endowment contributions which are required to be held in perpetuity are reported as direct increases in Endowed Net Assets in accordance with the accounting standards and are never recognized as revenue.

Revenues are categorized on the Statement of Consolidated Revenues, Expenses and changes in Net Assets according to the source of the revenue, such as Government grants, Tuition and student fees, Research revenue, Donations and Investment income. Expenses are categorized according to function such as Instruction, Research, Plant operations, Administration, Student services, and Libraries. This presentation is consistent with prior years.

The following charts offer additional information with respect to revenues, expenses and the net operating results for the past 6 years as restated according to the change in accounting policy and the correction of misallocation of internally restricted funds.

#### Total Revenue

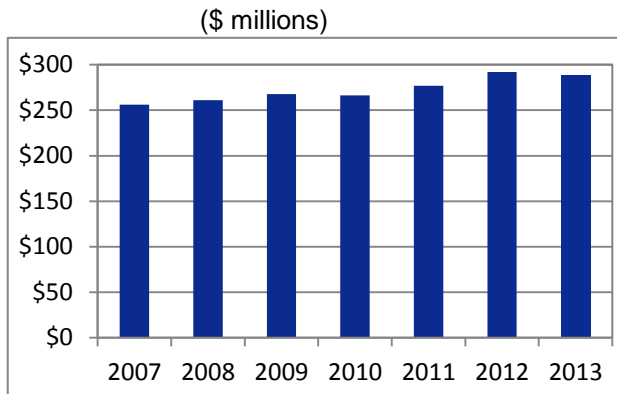


**Description:** Reported revenues include funding from all sources (restricted and unrestricted). Accounting standards require that restricted revenues be reported in the year spent regardless of when received.

**2013 Comments:** Total revenue remained virtually flat from the prior year with increases in Provincial funding, investment income and tuition offset by reductions in research grants and contracts, ancillaries and donations.

**Trend:** Revenues have grown by \$46.0 million over the past 6 years or an average of 2.8% per year. This is mostly attributable to increases in the combined operating and capital government grants (\$32.7 million) and student fee income (\$12.6 million) as well as fluctuations in several other revenue items.

### Total Expenses

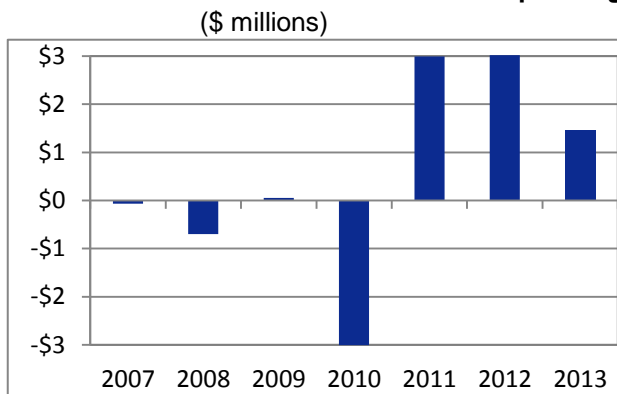


**Description:** Expenses are outflows of resources to pay for goods and services. Capital assets are amortized over their useful lives and amortization expense is included in annual expenses.

**2013 Comments:** Expenses decreased by \$3.3 million from the prior year. The most notable area showing a decline in expenses was research which had a corresponding decrease in related revenue.

**Trend:** Expenses have grown over the past 6 years by \$32.6 million or an average of 2.12% per year. \$16.7 million of this has been in instruction and sponsored research with plant operations, amortization and student services also showing growth.

### Net Operating Results

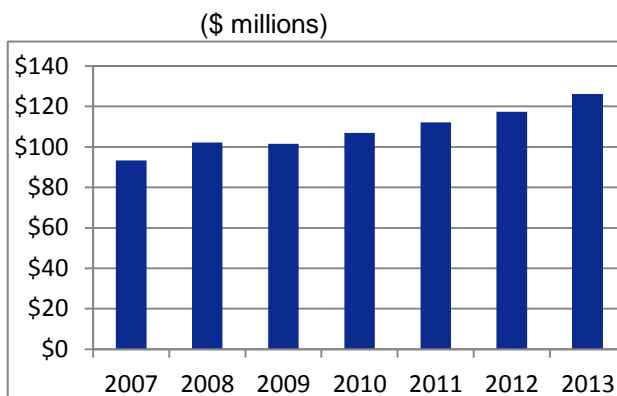


**Description:** Net operating results are equivalent to the annual surplus or deficit for the year net of internally and externally restricted amounts.

**2013 Comments:** The University reported a net operating surplus of \$1.5 million in 2013.

**Trend:** The University has realized net operating surpluses for each of the past three years following a shortfall in 2010 of \$3.0 million.

### Government Grants

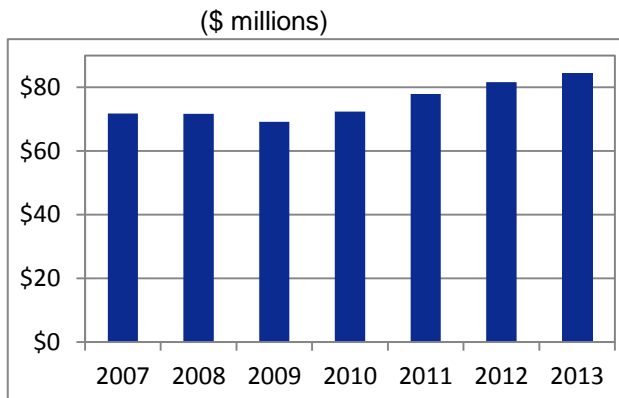


**Description:** Government grants include both the annual operating grant and grants received for specific purposes such as infrastructure and special projects.

**2013 Comments:** The regular operating grant saw no increase from 2012. The one-time increase granted in 2012 was granted again in 2013. There were other grant amounts received for the Nursing programs and various capital projects.

**Trend:** The Province has given no indication of funding levels beyond the 2014 fiscal year. However, the University remains engaged in discussions with Provincial representatives with respect to multi-year finding.

### Student Fees

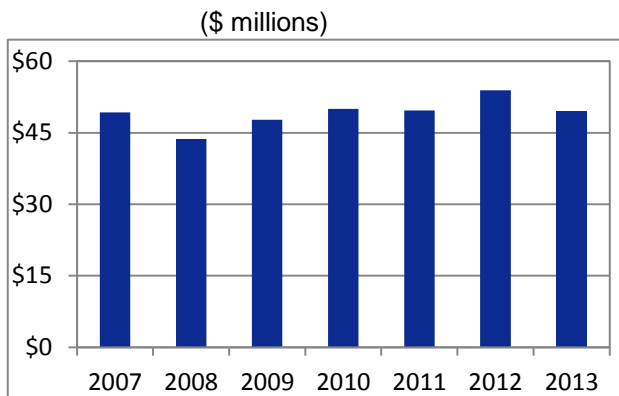


Description: Student fee revenues include tuition and other fees paid by students for specific purposes.

2013 Comments: Fee revenue from students increased by \$2.7 million from the prior year despite an enrolment decline due to a small fee increase as well as changes in the composition of the student body.

Trend: 2013 was the fourth successive year of student fee revenue increase. Overall student fee revenue has increased by \$12.6 million over the past 6 years.

### Research Grants and Contracts

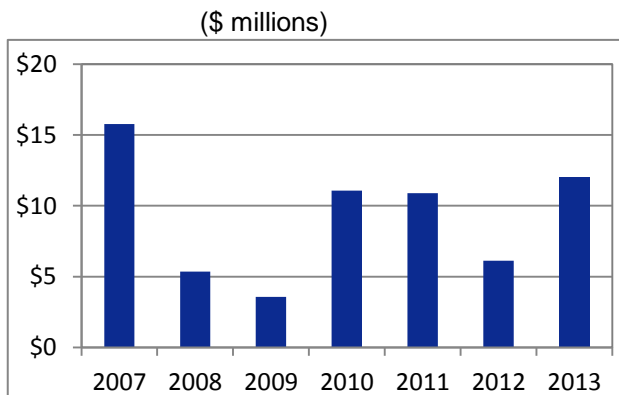


Description: Research funding is received from governments, agencies, and companies for specific research projects. Amounts received are deferred until spent for the project or the project is completed.

2013 Comments: Research revenue recognized in the financial statements decreased from the prior year by \$4.5 million to \$49.5 million. Research expenses also decreased from the prior year.

Trend: Research revenue has remained relatively constant at between \$49 and \$53 million dollars over the past 6 years except for a low in 2008 at \$43.7 million.

### Investment Income



Description: Investment income represents earnings on investments to the extent the revenue is required to support spending. Amounts are deferred to future years when earnings exceed spending requirements in accordance with the ASNPO standards.

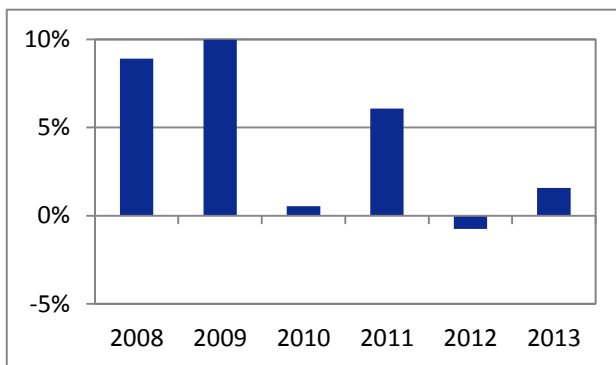
2013 Comments: Market returns were much improved at 9.52% in the year resulting in sufficient earnings to support spending in the year. As a result, a significant portion of the earnings were not recognized as revenue in 2013.

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

## Financial Indicators

Financial indicators have been developed as a quick assessment tool for use by management and the Board to assess the financial position and condition of the University. The following indicators have been selected by management as useful to assess a variety of areas. Each indicator is briefly described below and analyzed in the context of the University. Underlying financial statement amounts have been restated in each of the prior years to reflect the impact of both the accounting standards change and the correction of the prior period misstatement with respect to the classification of certain amounts as internally restricted.

### Growth in Operating Expenses per FTE Student

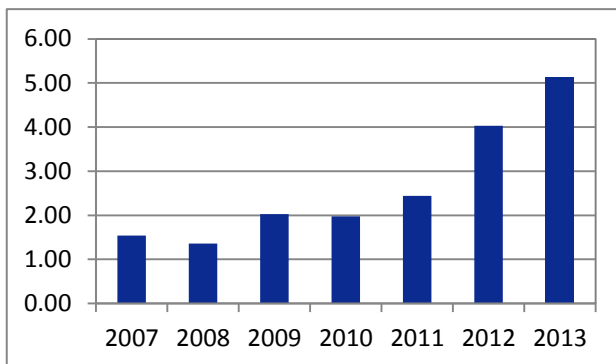


Description: This shows the growth in actual operating expenses per student. A stable or declining percentage is preferred.

2013 Comments: Due to an enrolment decrease and reduced spending, there was a small increase in expenses per student.

Trend: Operating expenses per student have declined since a high in 2008 and 2009. Levels in 2012 and 2013 have remained fairly stable.

### Working Capital Ratio

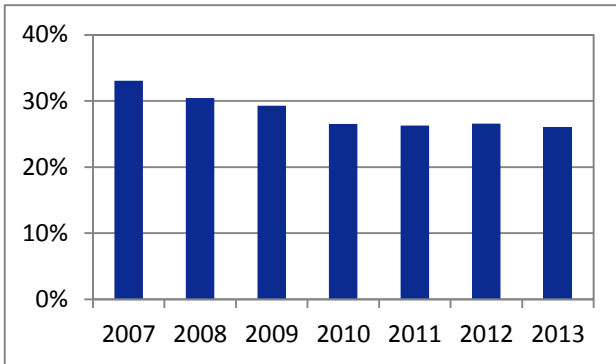


Description: The working capital ratio is a measure of the ability of the University to meet its current obligations from its current assets. A higher ratio indicates greater liquidity.

2013 Comments: A ratio of 5.1 is very strong.

Trend: This ratio has remained strong throughout the period which is a reflection of large cash balances and decreases in accounts payable over the period.

**Long-term Liabilities as a percentage of Total Revenue**

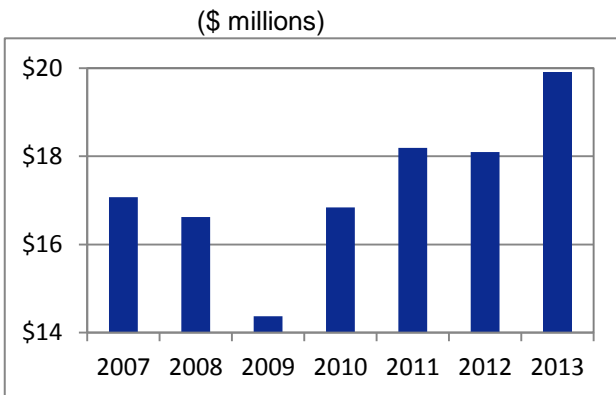


Description: This measure is an indicator of the University's ability to meet debt obligations from revenue. A lower percentage is preferred.

2013 Comments: There was a slight decrease in this percentage in the year from 26.6% to 26.0% as revenue showed a slight increase and long term debt decreased by the amount of the annual debt repayments.

Trend: The general trend over the past 6 years has been a decline in the percentage of long-term debt to revenue.

**Endowment and Long-term Trust Funds per FTE Student**

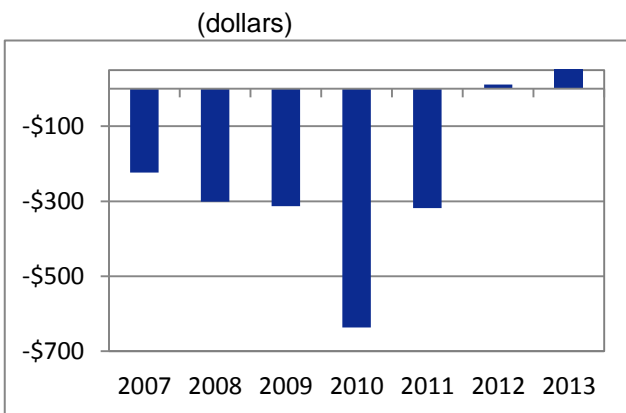


Description: This indicator shows the value of endowment and trust fund assets being held per student, as an indicator of resources available for student assistance.

2013 Comments: The funds per student increased in 2013 by \$1,800. An increase in endowments combined with reduced enrolment is responsible for the change.

Trend: The general trend over the past 6 years has been an increase in funds per student.

**Accumulated Operating (Deficit) Surplus per FTE Student**



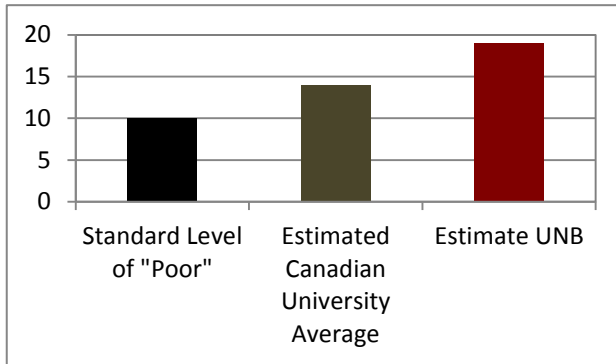
Description: This indicator is intended to give an idea of the deficit burden that must be supported by each student.

2013 Comments: The accumulated Operating Deficit was eliminated in 2012 so there is no longer any deficit to per student.

Trend: The accumulated deficit has been eliminated over the past two years after reaching a high of \$6.0 million at the end of the 2010 fiscal year.



**Facilities Condition Indicator**



Description: This indicator gives a picture of the condition of the capital assets and infrastructure of the University with Canadian comparators. A high FCI indicates a poor condition.

Comments: As one of the oldest campuses in Canada, UNB is in a more challenging position than many universities due to the age of the campus buildings. The University strategic plan recognizes the importance of improving the condition of its capital assets and is developing a long term capital plan to address the infrastructure issues in a sustainable manner.

## Appendix

---

# Supplementary Information to the Notes to the Financial Statements

### Changes Required due to Accounting Standards Change

As described in Note 2 to the audited financial statements and previously mentioned in this report, the adoption of new accounting standards in 2013 by the University was required under the Canadian accounting framework as established by the Canadian Institute of Chartered Accountants (CICA). The new standards are referred to as the Accounting Standards for Non-Profit organizations (ASNPO) and replaced the former standards for non-profit organizations referred to as Generally Accepted Accounting Principles (GAAP).

The ASNPO standards are very similar to the GAAP standards for non-profit organizations that UNB was previously required to follow. The new standards call for a change in the hedges are reported, and require some increased disclosure. Because UNB has followed a practice of disclosing more than was required by the standards, the disclosure changes were minimal. The most notable change is that the Balance Sheet has been renamed as the Statement of Financial Position (SFP).

The reporting of interest rate swaps (hedges on long term debt) was changed by the CICA in 2007 when non-profit organizations were required to report both long term investments and hedges on the balance sheet at market values as opposed to historical cost. With the most recent accounting standards change, hedges are no longer to be reported at market value on the Statement of Financial Position although investments continue to be reported at market value. The impact of this to UNB was that the long term debt balance reported on the SFP was reduced by the market value of the swaps. In 2012, this was \$4.2 million (2011 - \$2.6 million). Management views this change as a positive one as UNB (like many non-profit organizations) enters into hedge agreements solely to mitigate the risk of interest rate fluctuations on its long term debt. The hedge instruments are intended to be held to maturity and do not represent increased debt to the organization. Because, under GAPP, changes in the market value of the swaps were reflected as a direct decrease in Net Assets Invested in Capital Assets, the change did not result in any change to the net operating surplus or deficit or accumulated operating surplus of prior years.

### Misclassification of Internally Restricted Net Asset Amounts in Prior Years

Note 4 to the audited financial statements describes the impact on the financial statements of a correction in classification of certain research and contract related accounts totaling \$10.2 million at April 30, 2012 (2011 - \$7.5 million) on the Statement of Financial Position and \$2.7 million (2011 - \$1.9 million) on the Statement of Revenues, Expenses and Changes in Net Assets.

During the 2013 fiscal year, staff at the University determined that the operations of Saint John College had been improperly classified as an externally restricted account rather than internally restricted. It is believed that this can be traced back to the origins of the College as contract based where the net operating balances were correctly considered externally restricted. However, as the contracts expired and its operations became more diverse, the College's activities became operational in nature and the unspent balances should have been treated as internally restricted. The

## Appendix

past accounting treatment reflected management's plan to reserve or restrict the unspent amounts in order to fund the construction of a new facility for the College but did not accurately reflect the fact that it was management's decision to restrict the funds, not a restriction imposed by an external party.

As a result of the misclassification, UNB staff and our auditors worked together to determine if there were any other accounts similarly misclassified. The review uncovered an additional 25 individual accounts that were as well as 4 categories of overhead accounts that were also misclassified. The 25 individual accounts were primarily related to activities that arose from research activities such as labs providing services to paying clients, unspent amounts from expired research contracts as well as some ancillary operations such as summer camps and surpluses from hosting conferences. These amounts did not have restrictions placed on their use from external sources but rather reflected management decisions to "reinvest" in the activities and programs.

The impact of these misclassifications was that in each year of operation, the net operating results were not recognized on the Statement of Revenues, Expenses and Changes in Net Assets and not reported as Net Assets Restricted for Specific Purposes on the Statement of Financial Position, but instead was reported as an increase in Unspent Deferred Contributions on the Statement of Financial Position. This was been corrected in these financial statements. The following table presents both a condensed Statement of Financial Position and condensed Statement of Revenues, Expenses and Changes in Net Assets to illustrate the impact of the changes on the financial statements.

Condensed Statement of Financial Position - Restated  
as at April 30, 2012

	Previously Reported	Accounting Standards	Saint John College	Overhead Accounts	Research Related	Restated Balances
Current assets	138,802					138,802
Long term assets	446,114					446,114
<b>Total assets</b>	<b>584,916</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>584,916</b>
Current liabilities	34,444					34,444
Long-term liabilities	88,145	(4,185)				83,960
Unexpended deferred contributions	103,904		(4,152)	(1,255)	(4,826)	93,671
Other long-term unearned revenue and contributions	157,847					157,847
Long-term unearned revenue and contributions	261,751	-	(4,152)	(1,255)	(4,826)	251,518
<b>Total liabilities</b>	<b>384,340</b>	<b>(4,185)</b>	<b>(4,152)</b>	<b>(1,255)</b>	<b>(4,826)</b>	<b>369,922</b>
Net assets						
Accumulated operating surplus	11					11
Restricted for specific purposes	75,933		4,152	1,255	4,826	86,166
Invested in capital assets	58,738	4,185				62,923
Other net assets	65,894					65,894
<b>Total net assets</b>	<b>200,576</b>	<b>4,185</b>	<b>4,152</b>	<b>1,255</b>	<b>4,826</b>	<b>214,994</b>
<b>Total liabilities and net assets</b>	<b>584,916</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>584,916</b>

## Appendix

Condensed Statement of Revenues, Expenses and Changes in Net Assets - Restated  
For the year ended April 30, 2012

	Previously Reported	Restatements Accounting Standards	Saint John College	Overhead Accounts	Research Related	Restated Balances
Revenue						
Research grants and contracts	51,191		967	(93)	1,860	53,925
all other revenues	261,933					261,933
<b>Total revenue</b>	<b>313,124</b>	<b>-</b>	<b>967</b>	<b>(93)</b>	<b>1,860</b>	<b>315,858</b>
Expenses	291,961					291,961
Excess of revenues over expenses before changes in net assets	21,163	-	967	(93)	1,860	23,897
Changes in net assets						
Unfunded non-pension employee benefits	3,019					3,019
Net assets restricted for specific purposes	(13,329)		(967)	93	(1,860)	(16,063)
Net assets invested in capital assets	(7,832)					(7,832)
<b>Increase in accumulated operating surplus</b>	<b>3,021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,021</b>

### Net Assets Restricted for Specific Purposes

Note 18 to the Consolidated Financial Statements presents the details of net assets restricted for specific purposes. The presentation this is year is the same as was developed last year, with the internally restricted net assets classified into eight categories. Total net assets restricted for specific purposes at April 30, 2013 were \$101.6 million and at the end of the 2012 fiscal year totaled \$86.2 million.

The restricted amounts in the various categories are outlined in the table below:

	2013	2012	Change
Capital	\$ 25,272	\$ 20,039	\$ 5,233
Risk	18,066	14,421	3,645
Entrepreneurial activities	24,415	22,300	2,115
Specific projects	8,073	10,363	(2,290)
Strategic priorities	8,574	6,709	1,865
Operating budget carry-forwards	10,587	6,295	4,292
Scholarships, bursaries and other awards	2,582	2,697	(115)
Contract overhead	4,029	3,342	687
	<u>\$ 101,598</u>	<u>\$ 86,166</u>	<u>\$ 10,199</u>

When the year-end operating results were known with more certainty, senior management made some decisions to allocate a portion of the year end operating budget savings to various strategic areas. \$4.1 million was allocated to capital, \$1.8 million to risk related to the operating grant uncertainty, \$3.8 million to strategic priorities such as the fund raising campaign, and possible implementation costs out of the impending structural review, and \$0.6 million to specific projects such as staffing transitions. There were other changes throughout the year as previously set

## Appendix

aside amounts were used for the purpose intended and operating amounts such and overhead, carry-forwards and entrepreneurial amounts were restricted according to policy.

### Pension Plans

As disclosed in Note 25 of the University's financial statements, the University participates in two separate employee pension plans, the Public Service Superannuation plan and the Academic Pension Plan. The University's only obligation under these plans is to make contributions at specified rates as set out in applicable legislation or plan documents. These contribution rates are determined by each Plan's actuary.

#### *Public Service Superannuation Plan*

Staff at the University are members of this Plan which is sponsored and managed by the Government of New Brunswick. According to the regulations of the Public Service Superannuation Act, the University is only responsible to make current service contributions as determined by the plan actuary and is not liable for any deficit of the Plan. Accordingly, there is no liability amount reported in the financial statements related to this plan.

#### *Academic Pension Plan and Improvement Plan*

An updated valuation of the Academic Pension Plan was completed as at July 1, 2012. The previous valuation was completed as at July 1, 2011. The following table provides a summary of the results of the 2012 and 2011 valuations of the Academic Pension Plan:

	July 1 <u>2012</u>	July 1 <u>2011</u>
Actuarial value of assets	\$ 208,694	\$ 188,312
Actuarial liability	<u>289,315</u>	<u>262,811</u>
Unfunded actuarial liability	<u>\$ (80,621)</u>	<u>\$ (69,918)</u>
Percent funded	72.13%	71.65%
Required Member and University contribution rate *	13.15%	12.39%

\* Current actual Member and University contribution rate is 12.39% according to an agreement between the two contributing parties as they explore the possibility of converting the plan to a shared risk model. Up until October 26, 2012, contributions above the original contribution rate of 10.05% were paid out of the Rate Stabilization Account (RSA). However, the RSA was depleted in October and both parties started making contributions according to the July 1, 2011 valuation.

The AUNBT and the University continue to investigate the possibility of converting to a shared risk pension plan and have reached an agreement in principle to convert to a shared risk plan. However, work is still ongoing with the consulting actuaries to determine the actual structure and benefits under the plan.

At this point our understanding is that a new plan would continue to be accounted for as a defined

## Appendix

---

contribution plan as the University would have no liability beyond the current service contributions. However, a final determination cannot be made until a formal agreement is reached and plan documents are written and approved.

### *Improvement Plan*

In 2007, the University and the AUNBT entered into a six-year Program to Improve the Financial Status and Outlook of the Academic Pension Plan. Under the Improvement Program, the University made specified funding commitments over the six-year life of the Agreement. This included special lump sum payments on July 1, 2007 to establish a Rate Stabilization Account (RSA) within the Fund, additional contributions to the RSA in the amount of 0.5% of bi-weekly payroll over the six-year period, and a continuation of deficit amortization payments over the six-year period.

To reflect these commitments, the University's 2007 financial statements included deferred pension charges and a pension liability of \$19,490 thousand. The liability has been reduced in the 2013 financial statements by the amounts funded by the University from 2008 to 2013 inclusive for both the RSA and deficit amortization payments. A balance of \$828 thousand remains in deferred charges and will be completely amortized in the 2014 fiscal year.

### Non-Pension Employee Benefit Costs

The University operates a number of cost shared employee benefit plans including health & dental, group life family protection, and LTD benefits. The overall cost of these benefit plans is covered 50% by the University and 50% by covered employees. These plans are largely self-insured, but with risk management tools in place to limit the University's (and employees') exposure to adverse claims experience. These tools include the purchase of stop-loss insurance coverage on the health & dental plan whereby the Plan's exposure is capped at \$10,000 per individual claim, and similar insurance on the LTD Plan to limit the Plan's exposure to 5 years of cover age per individual claim.

All plans are operated in accordance with prudent actuarial principles with respect to setting of premium rates and maintenance of appropriate funded benefit reserves for each plan. In addition to these plan specific reserves, employer and employee rate stabilization reserves are maintained to help provide an additional measure of security for benefits, and to serve as a rate stabilization account. 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.

In 2013, overall results for these non-pension employee benefits reflected a deficit of \$494 thousand. The Group Life Family Protection Benefit plan had a deficit of \$883 thousand, and the combined result for the Extended Health, Drug and Dental Plan was a \$447 thousand deficit while the LTD plan showed a surplus of \$58 thousand. In accordance with the funding policy for these plans, 50% of the net deficit, was transferred from the employer rate stabilization account, and 50% was transferred from the employee rate stabilization account. All benefit reserves have been adjusted to the levels recommended by the University's benefits consultant.

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

## Appendix

---

dental benefits are offered in certain specific circumstances. The liabilities relative to these programs are detailed in note 13 to the financial statements. The unfunded liabilities related to all three of these benefits increased during 2013 – primarily due to changes in actuarial assumptions that are required under the accounting and actuarial standards. Specifically, the discount rates used to value the liabilities were decreased by .5 percentage points as per recommendations of the actuaries which resulted in increases to the liabilities.