Athabasca University

Financial Statements

March 31, 2017

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Year ended March 31, 2017

Athabasca University

Statement of Management Responsibility

Year ended March 31, 2017

The financial statements of Athabasca University have been prepared by management in accordance with Canadian Public Sector Accounting Standards. The financial statements present fairly the financial position of the University as at March 31, 2017 and the results of its operations, remeasurement gains and losses, changes in net debt and cash flows for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of the financial statements.

The Board of Governors is responsible for reviewing and approving the financial statements, and overseeing management's performance of its financial reporting responsibilities.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. With the exception of the President, all members of the Audit Committee are not employees of the University. The Audit Committee meets with management and the external auditor to discuss the results of audit examinations and financial reporting matters. The external auditor has full access to the Audit Committee, with and without the presence of management.

These financial statements have been reported on by the Auditor General of Alberta, the auditor appointed under the *Post-secondary Learning Act*. The Independent Auditor's Report outlines the scope of the audit and provides the audit opinion on the fairness of presentation of the information in the financial statements.

Original signed by Dr. Neil Fassina

Dr. Neil Fassina, PhD, CPHR, ICD.D
President

Original signed by Estelle Lo

Estelle Lo, B. Comm., MBA, CPA, CMA
Vice-President, Finance and Administration

Independent Auditor’s Report

To the Governors of Athabasca University

Report on the Financial Statements

I have audited the accompanying financial statements of Athabasca University, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, change in net debt, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Athabasca University as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

May 26, 2017

Edmonton, Alberta

Athabasca University

Statement of Financial Position

As at March 31, 2017
(thousands of dollars)

	2017	2016
Financial assets excluding portfolio investments restricted for endowments		
Cash and cash equivalents (Note 3)	$ 5,255	$ 2,729
Portfolio investments - non-endowment (Note 4)	37,382	35,833
Accounts receivable	2,342	1,859
Inventory for resale	1,355	1,710
	46,334	42,131
Liabilities		
Accounts payable and accrued liabilities	9,713	10,030
Employee future benefit liabilities (Note 6)	19,856	21,095
Deferred revenue (Note 7)	23,857	23,441
	53,426	54,566
Net debt excluding portfolio investments restricted for endowments	(7,092)	(12,435)
Portfolio investments - restricted for endowments (Note 4)	3,839	3,417
Net debt	(3,253)	(9,018)
Non financial assets		
Tangible capital assets (Note 8)	52,710	56,948
Prepaid expenses	1,474	2,118
	54,184	59,066
Net assets before spent deferred capital contributions	50,931	50,048
Spent deferred capital contributions (Note 9)	40,315	43,218
Net assets	$ 10,616	$ 6,830
Net assets is comprised of:		
Accumulated surplus (Note 10)	$ 10,190	$ 6,442
Accumulated remeasurement gains	426	388
	$ 10,616	$ 6,830

Contingent liabilites and contractual obligations (Note 11 and 12)

Approved by the Board of Governors: (Note 18)

Original signed by Vivian Manasc
Vivian Manasc
Chair, Board of Governors

Original signed by McDonald Madamombe
McDonald Madamombe
Chair, Audit Committee

The accompanying notes are an integral part of these financial statements.

Athabasca University

Statement of Operations

Year ended March 31, 2017
(thousands of dollars)

	Budget 2017	Actual 2017	Actual 2016
	(Note 13)		
Revenue			
Government of Alberta grants (Note 14)	$ 46,429	$ 48,894	$ 46,424
Student tuition and fees	67,009	66,942	65,952
Sales of services and products	15,981	17,309	15,531
Federal and other government grants	1,865	1,811	1,943
Investment income	1,060	1,433	1,545
Donations and other grants	497	1,043	1,245
	132,841	137,432	132,640
Expense			
Instruction and non-sponsored research	77,074	74,093	74,771
Academic and student support	14,936	16,305	16,168
Institutional support	17,300	11,672	11,750
Sponsored research and special purpose	3,710	10,027	9,096
Computing and communication	8,740	8,788	8,944
Ancillary services	9,429	7,627	7,279
Facility operations and maintenance	4,906	5,324	5,199
	136,095	133,836	133,207
Annual operating surplus (deficit)	(3,254)	3,596	(567)
Endowment contributions and capitalized investment income (Note 10)	-	152	37
Annual surplus (deficit)	(3,254)	3,748	(530)
Accumulated surplus, beginning of year	6,442	6,442	6,972
Accumulated surplus, end of year	$ 3,188	$ 10,190	$ 6,442

The accompanying notes are an integral part of these financial statements.

Athabasca University

Statement of Change in Net Debt

Year ended March 31, 2017
(thousands of dollars)

	Budget 2017	Actual 2017	Actual 2016
Annual surplus (deficit)	$ (3,254)	$ 3,748	$ (530)
Acquisition of tangible capital assets	(4,229)	(3,549)	(4,274)
Proceeds from sale of tangible capital assets	-	-	3
Amortization of tangible capital assets	6,178	6,805	6,148
Loss (gain) on disposal of tangible capital assets	-	982	(3)
Change in prepaid expenses	534	644	(449)
Change in spent deferred capital contributions	(2,073)	(2,903)	(1,545)
Net accumulated remeasurement gains (losses)	-	38	(1,321)
Decrease (increase) in net debt	(2,844)	5,765	(1,971)
Net debt, beginning of year	(9,018)	(9,018)	(7,047)
Net debt, end of year	$ (11,862)	$ (3,253)	$ (9,018)

The accompanying notes are an integral part of these financial statements.

Athabasca University

Statement of Remeasurement Gains and Losses

Year ended March 31, 2017
(thousands of dollars)

	2017	2016
Accumulated remeasurement gains, beginning of year	$ 388	$ 1,709
Unrealized gains (losses) attributable to:		
Portfolio investemnts - non endowment	137	(1,337)
Amounts reclassified to the statement of operations:		
Portfolio investments - non endowment	(99)	16
	38	(1,321)
Accumulated remeasurement gains, end of year	$ 426	$ 388
Accumulated remeasurement gains is comprised of:		
Portfolio investments - non endowment	$ 426	$ 388

The accompanying notes are an integral part of these financial statements.

Athabasca University

Statement of Cash Flows

Year ended March 31, 2017
(thousands of dollars)

	2017	2016
Operating transactions		
Annual surplus (deficit)	$ 3,748	$ (530)
Add (deduct) non-cash items:		
Amortization of tangible capital assets	6,805	6,148
Expended capital recognized as revenue	(4,149)	(3,607)
Loss (gain) on disposal of tangible capital assets, net	982	(3)
Decrease in employee future benefit liabilities	(1,239)	(29)
Change in non-cash items	2,399	2,509
(Increase) decrease in accounts receivable	(483)	1,124
Decrease in inventory for resale	355	276
(Decrease) increase in accounts payable and accrued liabilities	(317)	235
Increase (decrease) in deferred revenue	147	(304)
Increase in spent deferred capital contribution, less expended capital recognized as revenue	1,246	2,062
Decrease (increase) in prepaid expenses	644	(449)
Cash provided by operating transactions	7,739	4,923
Capital transactions		
Acquisition of tangible capital assets	(3,549)	(4,274)
Proceeds on sale of tangible capital assets	-	3
Cash applied to capital transactions	(3,549)	(4,271)
Investing transactions		
Purchases of investments	(1,664)	(1,800)
Cash used in investing transactions	(1,664)	(1,800)
Increase (decrease) in cash and cash equivalents	2,526	(1,148)
Cash and cash equivalents, beginning of year	2,729	3,877
Cash and cash equivalents, end of year	$ 5,255	$ 2,729

The accompanying notes are an integral part of these financial statements.

1 Authority and Purpose

The Governors of Athabasca University is a corporation which manages and operates Athabasca University ("the University") under the *Post-secondary Learning Act* (Alberta), and the Athabasca University Regulation (Alberta Regulation 50/2004). All members of the Board of Governors are appointed by either the Lieutenant Governor in Council or the Minister of Advanced Education, with the exception of the President, who is an *ex officio* member. Under the *Post-secondary Learning Act*, Campus Alberta Sector Regulation, the University is a comprehensive academic and research institution offering undergraduate and graduate degree programs through distance education. The University is a registered charity, and under section 149 of the *Income Tax Act* (Canada), is exempt from the payment of income tax.

2 Summary of Significant Accounting Policies and Reporting Practices

(a) General - Canadian Public Sector Accounting Standards (PSAS) and Use of Estimates

These financial statements have been prepared in accordance with Canadian public sector accounting standards.

The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. University administration uses judgment to determine such estimates. Employee future benefit liabilities, amortization of tangible capital assets, and the revenue recognition for expended capital are the most significant items based on estimates. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) Valuation of Financial Assets and Liabilities

The University's financial assets and liabilities are generally measured as follows:

Financial Statement Component	Measurement
Cash and cash equivalents	Amortized Cost
Portfolio investments	Fair value
Account receivable	Amortized cost
Inventory for resale	Lower of cost or net realizable value
Accounts payable and accrued liabilities	Amortized cost

Unrealized gains and losses from changes in the fair value of unrestricted financial assets and liabilities are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations.

When the restricted nature of a financial instrument and any related changes in fair value create a liability, unrealized gains and losses are recognized as deferred revenue.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Financial Assets and Liabilities (continued)

For financial assets and liabilities measured at amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured using cost or amortized cost. Transaction costs for financial instruments measured at fair value are expensed as incurred. The purchase and sale of cash and cash equivalents and portfolio investments are accounted for using trade-date accounting.

The University does not use foreign currency contracts or any other type of derivative financial instruments for trading or speculative purposes.

University administration evaluates contractual obligations for the existence of embedded derivatives and elects to either measure the entire contract at fair value or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the University's normal purchase, sale or usage requirements are not recognized as financial assets or financial liabilities. The University does not have any embedded derivatives.

(c) Revenue Recognition

All revenue is reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

Government grants, non-government grants and donations
Government transfers are referred to as government grants.

Restricted grants and donations are recognized as deferred revenue if the terms for the use, or the terms along with the University's actions and communications as to the use, create a liability. These grants and donations are recognized as revenue as the terms are met. If the grants and donations are used to acquire or construct tangible capital assets revenue will be recognized over the useful life of the tangible capital assets.

Government grants without terms for the use of the grant are recorded as revenue when the University is eligible to receive the funds. Unrestricted non-government grants and donations are recognized as revenue in the year received or in the year the funds are committed to the University if the amount can be reasonably estimated and collection is reasonably assured.

In kind donations of services, materials or tangible capital assets are recorded at fair value when a fair value can reasonably be determined. Transfers of tangible capital assets from related parties are recorded at the carrying value. While volunteers as well as staff members of the University contribute a significant amount of time each year to assist the University in carrying out its mission, the value of their services is not recognized in the financial statements because fair value cannot be reasonably determined.

Grants and donations related to land
Grants and donations for the purchase of land are recognized as deferred revenue when received, and recognized as revenue when the land is purchased. An in-kind contribution of land is recognized as revenue at the fair value of the land when a fair value can be reasonably determined. When the fair value cannot be reasonably determined the in-kind contribution is recorded at nominal value.

2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(c) Revenue Recognition (continued)

Endowments donations

Endowment donations are recognized as revenue in the statement of operations in the year they are received, and are required by donors to be maintained intact in perpetuity.

Investment Income

Investment income includes dividend and interest income, and realized gains or losses on the sale of portfolio investments.

Realized investment income on portfolio investments from restricted grants and donations is recognized as deferred revenue when the terms for use create a liability, and is recognized as revenue in the statement of operations when the terms of the grant or donation are met.

Realized investment income allocated to endowment balances for the preservation of endowment capital purchasing power is recognized in the statement of operations as a component of endowment contributions and capitalized investment income.

Unrealized gains and losses on portfolio investments from unrestricted grants and donations are recognized in the statement of remeasurement gains and losses until the related investments are sold. Once realized, these gains or losses are recognized as revenue or expense in the statement of operations. Unrealized gains and losses on portfolio investments from restricted grants and donations are recognized in deferred revenue until the related investments are sold.

Endowments

Endowments consist of

- externally restricted donations received by the University, the principal of which is required to be maintained intact in perpetuity.
- capitalized investment income that has been allocated for annual inflation.

Investment income earned on endowments must be used in accordance with the various purposes established by the donors. Benefactors as well as University policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended.

Under the *Post-secondary Learning Act*, the University has the authority to alter the terms and conditions of endowments to enable:

- income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.
- encroachment on the capital of the endowment to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment if, in the opinion of the Board of Governors, the encroachment benefits the University and does not impair the long-term value of the fund.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is adjusted and the donors are notified, where appropriate.

2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(c) Revenue Recognition (continued)

Endowments (continued)

Endowment contributions, and associated capitalized investment income allocated for the preservation of endowment capital purchasing power, are recognized in the statement of operations in the period they are received.

(d) Inventory

Inventory held for resale is valued at the lower of cost and expected net realizable value and are determined using the weighted average method.

(e) Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets, and costs associated with asset retirement obligations. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

Work in progress, which includes facilities and improvement projects and development of information systems, is not amortized until after the project is complete and the asset is in service.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over the estimated useful lives as follows:

Buildings	40 years
Site improvements	10 - 25 years
Computer hardware and software	3 - 10 years
Furniture and equipment	5 - 20 years
Leasehold improvements	lesser of 5 years or lease term
Library resources	10 years

Tangible capital asset write downs are recorded when conditions indicate that they no longer contribute to the University's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are recognized as an expense in the statement of operations.

Works of art, cultural and historical properties, and archival materials are expensed when acquired and not recognized as tangible capital assets.

(f) Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities and non-monetary items included in the fair value category reflect the exchange rates at the statement of financial position date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses.

2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Foreign Currency Translation (continued)

In the period of settlement, foreign exchange gains and losses are reclassified to the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

(g) Employee Future Benefits

Pension

The University participates with other employers in the Public Service Pension Plan (PSPP) and the Universities Academic Pension Plan (UAPP). These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings.

Pension expense for the UAPP is actuarially determined using the projected benefit method prorated on service and is allocated to each participant based on their respective percentage of employer contributions. Actuarial gains or losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

The University does not have sufficient plan information on the PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the PSPP is comprised of employer contributions to the plan that are required for its employees during the year; which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits.

Administrative Leave

For the Administrative Leave Plan, the cost of benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of valuation assumptions. Net actuarial gains (losses) are recognized immediately in the statement of operations.

Life Insurance, Short Term Disability, and Long Term Disability

For the Life and Dependent Life Insurance, Weekly Indemnity (Short Term Disability) and Long Term Disability Plans, the cost of the employee future benefit, if any, is not recognized as a liability. The cost of providing non-vesting and non-accumulating benefits under these plans is expensed in full when the event occurs that obligates the University to provide the benefit. Future premium rates are negotiated annually. Rate adjustments are determined based on a combination of the insurer's manual rate and the University's actual claims experience over the past five years. Any plan assets resulting from the surplus or deficit of the plans are attributed to the insurer.

Extended Health and Dental Care

For the Extended Health and Dental Care Plans, the costs of benefits earned by employees are the actual claims paid during the period, the insurer's cost of administration (net of interest), plus the year-over-year change in the estimate for any claims that may have occurred but have not been paid. The net change is recorded as an expense or recovery in the statement of operations. Employees on administrative leave or disability (short or long-term) leave are also eligible for this benefit.

2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(h) Expense by function

The University uses the following function categories on its statement of operations

Instruction and non-sponsored research
Expenses relating to the academic activities supporting innovative learning, programming, and teaching. This function also includes expenses incurred by faculty and within academic departments for their scholarly and non-sponsored research activities.

Academic and student support
Expenses relating to activities directly supporting the academic functions and support of the student body. Includes expenses incurred by the library and centralized administrative activities supporting students such as registry, counseling services and scholarship awards.

Institutional support
Expenses relating to administration, governance, public relations and marketing, alumni relations, fund development, finance, human resources and any other centralized university-wide administrative services.

Ancillary services
Expenses relating to the provision of course materials to students, including textbooks (print or electronic) and other learning resources, print production materials, shipping and handling.

Computing and communication
Expenses relating to the delivery and support of centralized core computing, networks, data communication, and other information technology activities. Includes operations, maintenance, and amortization of information technology systems.

Facility operations and maintenance
Expenses relating to the operation and maintenance of all University facilities (owned or leased) that house the teaching, research and administrative activities. Includes utilities, rental costs, facilities administration, building maintenance, custodial services, grounds keeping, major repairs and renovations, and amortization of building and facility related equipment.

Sponsored research and special purpose
Expenses specifically funded by externally restricted grants and donations; sponsored research activities and expenses for student scholarships, bursaries, and other initiatives involving teaching and learning, and community service.

(i) Future Accounting Changes

In March 2015 the Public Sector Accounting Board issued the following two accounting standards that are effective for fiscal years starting on or after April 1, 2017.

- PS2200 - Related Party Disclosures: defines a related party and identifies disclosures for related parties and related party transactions, including key management personnel and close family members.
- PS3420 - Inter-entity Transactions: establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

(thousands of dollars)

2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(i) Future Accounting Changes (continued)

In June 2015 the Public Sector Accounting Board issued the following three accounting standards that are effective for fiscal years starting on or after April 1, 2017.

- PS3210 - Assets: provides guidance for applying the definition of assets set out in PS1000, Financial statement concepts, and establishes general disclosure standards for assets.
- PS3320 - Contingent Assets: defines and establishes disclosure standards for contingent assets.
- PS3380 - Contractual Rights: defines and establishes disclosure standards on contractual rights.

In June 2015 the Public Sector Accounting Board issued the following accounting standard that is effective for fiscal years starting on or after April 1, 2018.

- PS3430 - Restructuring Transactions: defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction.

University administration is currently assessing the impact of these new standards on the financial statements. The University discloses transactions and balances related to the Government of Alberta in Note 14.

3 Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on deposit, money market funds and short-term investments with a maturity less than three months from the date of acquisition.

4 Portfolio Investments

	2017	2016
Portfolio investments - non-endowment	$ 37,382	$ 35,833
Portfolio investments - restricted for endowments	3,839	3,417
	$ 41,221	$ 39,250

All of the University’s investments are in units of pooled investment funds and are valued based upon quoted prices in active markets for identical investments. The composition of portfolio investments measured at fair value is as follows:

(thousands of dollars)

4 Portfolio Investments (continued)

	2017			
	Level 1	Level 2	Level 3	Total
Pooled Investment Funds				
Bonds listed in active market	$ 31,704	-	-	$ 31,704
Equities listed in active market	6,987	-	-	6,987
Money Market Funds	2,530	-	-	2,530
Total Investments	$ 41,221	-	-	$ 41,221

	2016			
	Level 1	Level 2	Level 3	Total
Pooled Investment Funds				
Bonds listed in active market	$ 30,355	-	-	$ 30,355
Equities listed in active market	6,470	-	-	6,470
Money Market Funds	2,425	-	-	2,425
Total Investments	$ 39,250	-	-	$ 39,250

The fair value measurements are derived from:

Level 1: Quoted prices in active markets for identical assets.

Level 2: Inputs other than quoted prices included with level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

The average effective yields and the terms to maturity are as follows:

- Money Market pooled funds: 1.64%; term to maturity: less than one year.
- Pooled funds of government and corporate bonds: 2.82%; terms to maturity: range from less than one year to more than 10 years.

In addition to recognizing the realized gains and losses on the sale of portfolio investments in the statement of operations, the University reports unrealized gains and losses on portfolio investments as follows:

(thousands of dollars)

4 Portfolio Investments (continued)

	2017			2016
	Deferred revenue endowments (Note 7)	Accumulated remeasurement gains and losses	Total	Total
Net unrealized gains, beginning of year	$ 221	$ 388	$ 609	$ 2,208
Unrealized gains (losses) attributable to portfolio investments	269	137	406	(1,615)
Amounts reclassified to statement of operations	-	(99)	(99)	16
Net unrealized gains, end of year	$ 490	$ 426	$ 916	$ 609

5 Financial Risk Management

The University is exposed to the following risks:

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or general market factors affecting all securities. To manage this risk, the University has established an investment policy with a target asset mix that is diversified by asset class with individual issuer limits and is designed to achieve a long-term rate of return within specific risk tolerances.

The University assesses its portfolio sensitivity to a percentage increase or decrease in market prices. At March 31, 2017, if market prices had a 5% (2016 - 5%) increase or decrease with all other variables held constant, the increase or decrease in accumulated remeasurement gains and losses and deferred revenue for the year would have been a total of $2,061 (2016 - $1,963).

Credit Risk

Credit risk on portfolio investments arise from the potential failure of a counterparty, debtor or issuer to honor its contractual obligations. To manage this risk the University has established an investment policy with required minimum credit quality standards and issuer limits. The credit risk from accounts receivable is low as the majority of balances are due from government agencies and corporate sponsors.

The University has indirectly invested in debt securities with the following credit ratings and percentages of the total pooled investment funds:

	2017	2016
Credit rating		
AAA	39 %	43 %
AA	13 %	5 %
A	23 %	27 %
BBB	8 %	9 %
	83 %	84 %

(thousands of dollars)

5 Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk of encountering difficulty in meeting short-term financial obligations that require cash settlement. The University manages this risk by maintaining a portfolio of short-term investments with rolling maturity dates.

Interest rate risk

Interest rate risk is the risk that future cash flows or fair values will fluctuate from the degree of volatility of interest rates. The University invests in units of pooled investment funds. Indirectly the University is exposed to risks associated with interest rate fluctuation and volatility. This risk is managed by managing the term to maturity of certain fixed income securities that the University holds.

The maturity of the interest bearing investments held in pooled funds are as follows:

	Less than 1 year	1 to 5 years	Greater than 5 years
Money Market Funds	$ 2,530	$ -	$ -
Bonds listed in active market	$ 218	$ 14,683	$ 16,803

The impact on the statement of remeasurement gains and losses of a change in interest rates on those pooled investment funds that are primarily invested in fixed income debt instruments is as follows:

	0.50% decrease	0.25% decrease	0.25% increase	0.50% increase
Dollar value change	$ 880	$ 440	$ (440)	$ (880)

Foreign currency risk

Foreign currency risk on investments is the risk that the value of a financial instrument will fluctuate as a result of changes in foreign currency. The University invests primarily in Canadian dollar denominated securities and therefore has minimal exposure to currency risk. The University's exposure to foreign exchange risk is very low due to minimal business activity conducted in foreign currency.

6 Employee Future Benefit Liabilities

Employee future benefit liabilities are comprised of the following:

	2017	2016
Universities Academic Pension Plan (UAPP)	$ 17,702	$ 19,110
Administrative Leave Plan	2,154	1,985
	$ 19,856	$ 21,095

(a) Defined Benefit Plans accounted for on a defined benefit basis

Universities Academic Pension Plan (UAPP)

The UAPP is a multi-employer contributory joint defined benefit pension plan for academic and professional staff members. An actuarial valuation of the UAPP was carried out as at December 31, 2014. This was then extrapolated to the plan's year end of March 31, 2017. The University's portion of the UAPP deficit has been

(thousands of dollars)

6 Employee Future Benefit Liabilities (continued)

(a) Defined Benefit Plans accounted for on a defined benefit basis (continued)
allocated based on its percentage of the plan's total employer contributions for the year.

The UAPP unfunded deficit for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2016 - 1.25%) of total salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 3.54% (2016 – 3.54%) of total salaries required to eliminate the unfunded deficit by December 31, 2043. The Government of Alberta's obligation for the future additional contributions was $293,557 at March 31, 2017 (2016 – $280,477).

Administrative Leave Plan
The University's Administrative Leave Plan has no plan assets. The University has provided for the plan by accruing a benefit obligation of $2,154 (2016 - $1,985) in employee future benefit liabilities. An actuarial valuation of these benefits was carried out as at March 31, 2017. The University plans to use its working capital to finance these future obligations.

The University's expense and financial position of these defined benefit plans is as follows:

	2017		2016	
	UAPP	Administrative Leave	UAPP	Administrative Leave
Financial Operations				
Expense				
Current service cost	$ 4,533	$ 420	$ 4,469	$ 384
Interest cost	994	49	1,401	82
Amortization of net actuarial (gain) loss	(350)	(124)	223	(54)
Total Expense	$ 5,177	$ 345	$ 6,093	$ 412
Financial Position				
Accrued benefit obligation:				
Balance, beginning of year	$ 115,336	$ 1,985	$ 115,147	$ 1,945
Current service cost	4,533	420	4,469	384
Interest cost	7,043	49	7,138	82
Benefits paid	(4,963)	(176)	(5,184)	(372)
Actuarial gain	(3,960)	(124)	(6,234)	(54)
Balance, end of year	117,989	2,154	115,336	1,985
Plan assets	(105,978)	-	(100,005)	-
Plan deficit	12,011	2,154	15,331	1,985
Unamortized net actuarial gain	5,691	-	3,779	-
Accrued benefit liability	$ 17,702	$ 2,154	$ 19,110	$ 1,985

(thousands of dollars)

6 Employee Future Benefit Liabilities (continued)

(a) Defined Benefit Plans accounted for on a defined benefit basis (continued)

The significant actuarial assumptions used to measure the accrued benefit obligation are as follows:

	2017		2016	
	UAPP	Administrative Leave	UAPP	Administrative Leave
Accrued benefit obligation:				
Discount rate	6.00%	2.56%	6.00%	2.11%
Long-term average compensation increase	3.00%	2.00%	3.00%	2.00%
Benefit cost:				
Discount rate	6.00%		6.00%	
Long-term average compensation increase	3.00%	2.00%	3.00%	2.00%
Alberta inflation (long term)	2.00%		2.00%	
Estimate average remaining service life:	10.8 years	5.0 years	10.8 years	6.0 years
Retirement age	65	65	65	65

(b) Defined Benefit Plan accounted for on a defined contribution basis

Public Service Pension Plan (PSPP)
The PSPP is a multi-employer contributory defined benefit pension plan for support staff members. As the University does not have sufficient information to follow the accounting standards for defined benefit plans, it is accounted for on a defined contribution basis. The pension expense recorded in these financial statements is $1,583 for 2017 (2016 - $1,505).

An actuarial extrapolation of the PSPP was carried out as at December 31, 2016 from the actuarial valuation as at December 31, 2014 with the updated assumptions. At December 31, 2016, the PSPP financial statements reported an actuarial surplus of $302,975 (2015 - deficit of $133,188). For the year ended December 31, 2016, PSPP reported employer contributions of $347,860 (2015 - $347,759). For the 2016 calendar year, the University's employer contributions were $1,567 (2015 – calendar year - $1,401) The PSPP's deficit is being discharged through additional contributions from both employees and employers until 2026. Other than the requirement to make all additional contributions, the University does not bear any risks related to the PSPP deficit.

(thousands of dollars)

7 Deferred Revenue

	2017			2016
	Unspent externally restricted grants and donations	Tuition and other fees	Total	Total
Balance, beginning of year	$ 8,525	$ 14,916	$ 23,441	$ 24,024
Grants, tuition and donations	6,104	51,575	57,679	57,048
Investment income	136	-	136	147
Unrealized gain (loss) (Note 4)	269	-	269	(278)
Transfers to spent deferred capital contributions (Note 9)	(1,246)	-	(1,246)	(2,062)
Recognized as revenue	(4,940)	(51,482)	(56,422)	(55,438)
Balance, end of year	$ 8,848	$ 15,009	$ 23,857	$ 23,441

8 Tangible Capital Assets

	2017						2016
	Land	Buildings and site improvements	Computer hardware and software	Furniture and equipment	Leasehold improvements and library resources	Total	Total
Cost							
Beginning of year	$ 1,565	61,958	39,329	7,993	7,616	$ 118,461	$ 114,550
Acquisitions	740	-	2,753	6	50	3,549	4,274
Disposals, including write-downs	(51)	-	(2,083)	(2)	(52)	(2,188)	(363)
	$ 2,254	61,958	39,999	7,997	7,614	$ 119,822	$ 118,461
Accumulated amortization							
Beginning of year	$ -	25,446	23,616	5,790	6,661	$ 61,513	$ 55,728
Amortization expense	-	1,609	4,521	431	244	6,805	6,148
Effects on disposals, including write-downs	-	-	(1,152)	(2)	(52)	(1,206)	(363)
	$ -	27,055	26,985	6,219	6,853	$ 67,112	$ 61,513
Net book value at March 31, 2017	$ 2,254	34,903	13,014	1,778	761	$ 52,710	
Net book value at March 31, 2016	$ 1,565	36,512	15,713	2,203	955		$ 56,948

Included in computer hardware and software is $0 (2016 - $6,801) work in progress, that is not amortized as the assets are not yet available for use.

No interest was capitalized by the University for the year ended March 31, 2017. Write-downs in the amount of $1,544 (2016 - $0) are included within the disposals amounts.

The University holds a number of works of art, cultural and historical properties, and archival materials. These items are expensed when acquired and therefore not included in tangible capital assets.

(thousands of dollars)

9 Spent Deferred Capital Contributions

Spent deferred capital contributions is comprised of externally restricted grants and donations spent on tangible capital assets, less amortization recognized as revenue.

	2017	2016
Balance, beginning of year	$ 43,218	$ 44,763
Transfers from restricted grants and donations	1,246	2,062
Expended capital recognized as revenue	(4,149)	(3,607)
Balance, end of year	$ 40,315	$ 43,218

10 Net Assets

	Accumulated deficit from operations	Investment in tangible capital assets	Endowments	Total
Balance as at March 31, 2015	$ (8,538)	$ 14,059	$ 3,160	$ 8,681
Annual operating deficit	(530)	-	-	(530)
Endowments				
New donations	(2)	-	2	-
Capitalized investment income	(35)	-	35	-
Tangible capital assets				
Acquisition of tangible capital assets	(2,212)	2,212	-	-
Amortization of tangible capital assets	2,541	(2,541)	-	-
Change in accumulated remeasurement gains	(1,321)	-	-	(1,321)
Balance as at March 31, 2016	(10,097)	13,730	3,197	6,830
Annual operating surplus	3,748	-	-	3,748
Endowments				
New donations	(117)	-	117	-
Capitalized investment income	(35)	-	35	-
Tangible capital assets				
Acquisition of tangible capital assets	(2,303)	2,303	-	-
Amortization of tangible capital assets	2,656	(2,656)	-	-
Net book value of tangible capital asset disposals	982	(982)	-	-
Change in accumulated remeasurement gains	38	-	-	38
Balance as at March 31, 2017	$ (5,128)	$ 12,395	$ 3,349	$ 10,616
Net assets is comprised of:				
Accumulated surplus	$ (5,554)	$ 12,395	$ 3,349	$ 10,190
Accumulated remeasurement gains	426	-	-	426
	$ (5,128)	$ 12,395	$ 3,349	$ 10,616

(thousands of dollars)

11 Contingent Liabilities

The University has no legal claims as at March 31, 2017 that administration believes would have a material adverse effect on the financial position or the results of operations of the University.

12 Contractual Obligations

The University has contractual obligations that will become liabilities in the future when the terms of the contracts or agreements are met.

The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Service Contracts	Capital Projects	Information Systems and Technology	Long-term Leases	Total
2018	$ 8,521	$ -	$ 939	$ 737	$ 10,197
2019	645	-	26	746	1,417
2020	34	-	-	743	777
2021	5	-	-	61	66
2022	-	-	-	-	-
Thereafter	-	-	-	-	-
	$ 9,205	$ -	$ 965	$ 2,287	$ 12,457

13 Budget Figures

The University's 2016-2017 budget figures have been provided for comparison purposes. The amounts have been approved by the Board of Governors and were presented to the Minister of Advanced Education as part of the University's 2016-2019 Comprehensive Institutional Plan.

The following table provides the amounts derived from the 2016-2017 budget, expense by object and expense by function:

Function	Instruction and non-sponsored research	Academic and student support	Institutional support	Ancillary services	Computing and communication	Facility operations and maintenance	Sponsored research and special purpose	Total
Salaries	$ 52,374	$ 9,258	$ 7,131	$ 406	$ 3,594	$ 1,137	$ 1,501	$ 75,401
Employee benefits	10,490	2,587	1,756	100	896	269	236	16,334
Fees and purchased services	8,396	1,586	3,866	953	1,896	936	496	18,129
Cost of goods sold	1,244	-	-	7,943	-	-	-	9,187
Materials and supplies	1,686	966	379	-	408	72	125	3,636
Communication and travel	2,446	217	367	27	31	18	139	3,245
Rental, insurance and utilities	433	137	30	-	-	2,165	-	2,765
Amortization of capital assets	-	185	3,769	-	1,915	309	-	6,178
Scholarships and bursaries	5	-	2	-	-	-	1,213	1,220
Expense Budget Total	$ 77,074	$ 14,936	$ 17,300	$ 9,429	$ 8,740	$ 4,906	$ 3,710	$ 136,095

(thousands of dollars)

14 Government of Alberta Transactions and Balances

The University operates under the authority and statutes of the Province of Alberta. Transactions and balances between the University and the Government of Alberta (GOA) are measured at the exchange amount and summarized below.

	2017	2016
Grants from Government of Alberta		
Advanced Education:		
Operating	$ 42,145	$ 40,525
Infrastructure Maintenance Program	1,793	1,793
Other	793	551
Total Advanced Education	44,731	42,869
Other Government of Alberta departments and agencies:		
Health	1,338	846
Economic Development and Trade	705	665
Treasury Board and Finance	-	404
Culture and Tourism	75	75
Labour	42	-
Justice & Solicitor General	2	-
Total other Government of Alberta departments and agencies	2,162	1,990
Total grants received	46,893	44,859
Expended capital recognized as revenue	3,696	2,796
Less deferred revenue	(1,695)	(1,231)
Total grants from Government of Alberta	$ 48,894	$ 46,424
Accounts receivable		
Other Government of Alberta departments and agencies	$ 26	$ 36
Other post-secondary institutions	10	-
	$ 36	$ 36
Accounts payable		
Advanced Education	$ 5	$ 5
Other Government of Alberta departments and agencies	15	15
Other post-secondary institutions	-	93
	$ 20	$ 113

In addition to the grants listed above, the University received $201 (2016 - $248) from the Ministry of Culture and Tourism, included in sales of services and products, for a service agreement to assist with the delivery of a specific program.

The University has $64 (2016 - $12) of contractual obligations with other post-secondary institutions for service and lease agreements that will become liabilities in the future when the terms of the agreements are met.

(thousands of dollars)

15 Expense by Object

	2017 Budget (Note 13)	2017 Actual	2016 Actual
Salaries[1]	$ 75,401	$ 75,646	$ 75,625
Employee benefits	16,334	14,527	15,443
Fees and purchased services	18,129	17,145	17,692
Cost of goods sold	9,187	7,875	7,718
Materials and supplies	3,636	5,136	3,839
Communication and travel	3,245	2,921	3,238
Rental, insurance and utilities	2,765	2,605	2,387
Amortization of capital assets	6,178	6,805	6,148
Scholarships and bursaries	1,220	1,176	1,117
	$ 136,095	$ 133,836	$ 133,207

(1) Includes $323 (2016 - $310) termination benefits as defined under PSA Handbook section 3255.

16 Salary and Employee Benefits

	2017				2016
	Base Salary[5]	Cash Benefits[6]	Non-cash Benefits[7]	Total	Total
Governance[1]					
Chair of the Board of Governors	$ -	$ -	$ -	$ -	$ -
Members of the Board of Governors	-	-	-	-	-
Executive Officers					
President[2]	371	32	110	513	377
Vice-Presidents:					
Vice-President Academic	250	1	89	340	337
Vice-President Advancement[3]	232	13	39	284	311
Vice-President Finance and Administration	248	17	89	354	351
Vice-President Information Technology and CIO[4]	222	8	34	264	253

(1) The Chair and the Members of the Board of Governors receive no remuneration for participation on the Board.

(2) In 2017, two individuals held this position; the past interim incumbent for 6.36 months and the current incumbent for 5.64 months. The past interim incumbent did not accrue administrative leave benefits.

(3) In 2017, two individuals held this position; the past incumbent for 9 months, then commenced administrative leave, and the current interim incumbent for 3 months. The current interim incumbent does not accrue administrative leave benefits.

(thousands of dollars)

16 Salary and Employee Benefits (continued)

(4) In 2017, two individuals held this position; the past incumbent for 6 months, then commenced administrative leave, and the current interim incumbent for 6 months. The current interim incumbent does not accrue administrative leave benefits.

(5) Base salary is pensionable and includes pay for vacation time taken.

(6) Cash benefits include, if applicable, earnings such as vacation payouts, amounts to compensate for the UAPP salary cap, expense allowance (president position), and other nonpensionable direct cash payments including severance. No bonuses were paid during the year.

(7) Non cash benefits include the employer's share of all employee benefits and contribution payments made on behalf of employees for pension, extended health care, dental, vision, group life insurance, accidental death and dismemberment insurance, and long and short-term disability plans. Non cash benefits for some of the executive include the employer's current year expense (current service cost, the related net actuarial gains or losses and adjustments for past service accrued at current salary rates) for the Administrative Leave Plan.

The current service cost and accrued obligation for each executive officer under the Administrative Leave Plan is as follows:

	Accrued Obligation March 31, 2016	Service Costs	Interest and other costs	Payments	Actuarial loss (gain)	Accrued Obligation[8] March 31, 2017
President	$ -	$ 68	$ 1	$ -	$ (2)	$ 67
Vice-Presidents:						
Vice-President Academic	222	48	6	-	(2)	274
Vice-President Advancement[3]	255	32	5	(61)	(19)	212
Vice-President Finance and Administration	235	50	6	-	(2)	289
Vice-President Information Technology and CIO[4]	31	22	-	(114)	66	5

(8) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in Note 6.

17 Comparative Figures

Certain 2016 figures have been reclassified to conform to the presentation in the 2017 financial statements.

18 Approval of Financial Statements

The financial statements were approved by the Board of Governors of Athabasca University.