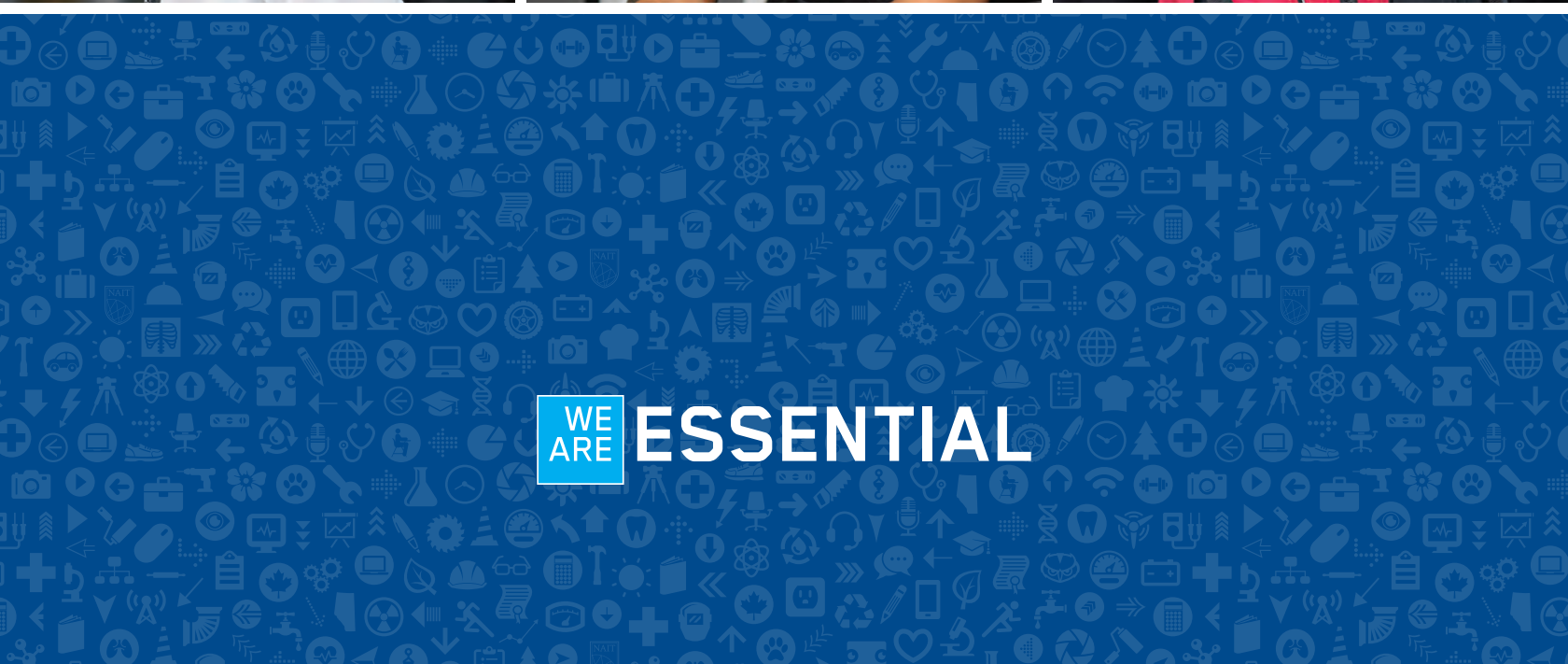




ANNUAL REPORT

2016/2017



WE
ARE

ESSENTIAL

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ACCOUNTABILITY STATEMENT

NAIT's Annual Report for the year ended June 30, 2017, was prepared under the Board's direction in accordance with the *Fiscal Planning and Transparency Act* and ministerial guidelines established pursuant to the *Post-secondary Learning Act*.

All material economic, environmental or fiscal implications of which we are aware have been considered in the preparation of this Report.

On behalf of the NAIT Board of Governors,

A handwritten signature in blue ink, reading "Ray Martin". The signature is fluid and cursive, with the first name "Ray" and last name "Martin" clearly distinguishable.

Ray Martin
Chair, NAIT Board of Governors
December 12, 2017

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The Northern Alberta Institute of Technology's (NAIT) management is responsible for the preparation, accuracy, objectivity and integrity of the information contained in the Annual Report including the financial statements, performance results and supporting management information. Systems of internal control are designed and maintained by management to produce reliable information to meet reporting requirements. The system is designed to provide management with reasonable assurance that transactions are properly authorized and executed in accordance with all relevant legislation, regulations and policies; reliable financial records are maintained; and assets are properly accounted for and safeguarded.

The Annual Report has been developed under the oversight of NAIT's Board of Governors' Finance and Audit Committees, as well as approved by the Board of Governors, and is prepared in accordance with the *Fiscal Planning and Transparency Act* and the *Post-secondary Learning Act*.

The Auditor General of Alberta, NAIT's external auditor appointed under the *Auditor General Act*, performs an annual independent audit of the consolidated financial statements, which are prepared in accordance with the Canadian Public Sector Accounting Standards.

On behalf of management,

A handwritten signature in blue ink, appearing to read 'Glenn Feltham'.

Glenn Feltham, PhD, MBA, LLB, FCPA, FCMA
President and CEO

A handwritten signature in blue ink, appearing to read 'Ray Block'.

Ray Block, PhD, CPA, CGA
Vice President Administration and CFO

MESSAGE FROM THE PRESIDENT AND CEO

This past year at NAIT was transformative. We moved into the Centre for Applied Technology (CAT) – the largest capital project in NAIT’s history. CAT supports the growth in hands-on, technology-based polytechnic education that is critical to our learners, industry and Alberta.

NAIT’s polytechnic education provides students with the foundation for an outstanding career. At the same time, industry, business, donors and government continue to be important partners in all that we do. They have been critical in supporting our growth and expansion.

Demand for polytechnic education continues to be very strong; it has more than doubled in recent years. In the fall of 2016, we received 5.7 applicants for every seat in credit programs.

CAT was recognized under the Leadership in Energy and Environmental Design (LEED) with gold status. The building was recognized for recycling or diverting more than 98 per cent of its construction waste, using water-saving fixtures and installing all LED lights. CAT is NAIT’s first gold certified LEED building.

Alberta needs the skilled workforce NAIT educates. With the extremely high number of qualified applicants, and our province’s labour market demand for polytechnic graduates, it is clear that NAIT needs to grow. And we are.

We are grateful for the support of our community. The largest fundraising campaign in our history, Essential: The NAIT Campaign, supports student success in the form of scholarships and bursaries, applied research and the Centre for Applied Technology. We received the largest donation ever from one of our alumni, a one million dollar gift from Ashif Mawji and his family. This donation will help to establish the Mawji Centre for New Venture and Student Entrepreneurship. This new centre will be a hub for entrepreneurship, innovation and new venture learning opportunities at NAIT. Thanks to the incredible generosity of donors and supporters like the Mawji family and many others, we are well on our way to meeting our 100 million dollar goal. The campaign will conclude in 2018.

This past year, in Spruce Grove, we opened a new campus that is now the home of our Crane and Hoisting programs. This state-of-the-art building elevates trades training, supports industry and responds to our province’s need for a highly skilled workforce.

The Productivity and Innovation Centre (PIC) is well under construction; this new building received \$34.9 million from the Government of Canada’s Post-Secondary Institutions Strategic Investment Fund. PIC will be the front door for industry and the place industry comes to find solutions and to succeed. It will focus on three of NAIT’s core strengths: productivity enhancement, applied research and innovation services focused on accelerating the growth of established companies through advanced prototyping and manufacturing.

As a polytechnic, we are not only contributing to creating a more innovative province but also giving back to our community. We provide warm clothing to Edmonton’s less fortunate through the Share the Warmth campaign. Club Culinaire, a NAIT student-managed group, provided a Thanksgiving meal to hundreds of our city’s most vulnerable.

We welcomed a new Chair of NAIT’s Board of Governors this year, Ray Martin, and many other new board members. Our board now has greater gender parity. I want to thank our past board members for their commitment to NAIT.

NAIT continues to have strong financial oversight and a strong balance sheet; however, the rapid growth we are experiencing is presenting challenges.

Our growth is essential to Alberta’s economy and industry’s needs. However, growth impacts our ability to maintain a balanced budget. We are continuing to control expenses and diversify our sources of revenue.

NAIT is an essential part of our city, province and country. We are ready to meet the demands of students, industry and our province for relevant and responsive polytechnic education, solution-focused applied research and productivity and innovation.

Sincerely,



Glenn Feltham, PhD, MBA, LLB, FCPA, FCMA
President and CEO

PUBLIC INTEREST DISCLOSURE (WHISTLEBLOWER PROTECTION) ACT

The *Public Interest Disclosure (Whistleblower Protection) Act* facilitates the disclosure and investigation of wrongdoing in the public sector and protects employees in the public sector from reprisal for making a disclosure of wrongdoing in good faith. During the 2016/17 year, NAIT's Designated Officer: (a) received no disclosures of wrongdoing, (b) did not act on any disclosures, (c) did not conduct any investigations as a result of disclosures and (d) made no findings of wrongdoing resulting from disclosures, pursuant to the polytechnic's Safe Disclosure Policy and Procedure developed in compliance with the *Public Interest Disclosure (Whistleblower Protection) Act*.

OPERATIONAL OVERVIEW

NAIT continues to play an essential role in our province by providing the hands-on, polytechnic education needed to meet current and future needs. We know that education, applied research and innovation will continue to be key drivers that will help Alberta position itself for growth and sustainability.

The demand for polytechnic education remains strong. Our programs are closely aligned to the changing labour market needs of Alberta. Our full-load equivalent (FLE) in credit programming increased by 500 compared to 15/16. As the economy recovers, employment opportunities for graduates remain strong with 86 per cent employment for diploma, degree and certificate students and 90 per cent employment for apprentices. This past year, we had one of the largest graduating classes in the history of NAIT with graduate counts up nearly six per cent over the previous year.

NAIT remains committed to helping our province to diversify its economy. Demand for programs like Alternative Energy is very strong as this industry expands and grows. In addition, we continue to support learners throughout their career and life; we offer a variety of options to meet all needs whether that is for a career change, a first career or enhancing existing skills for a current career.

Through our applied research, NAIT continues to play a role in helping industry to be innovative and to advance. A major initiative which will support the future growth of applied research and innovation is the Productivity and Innovation Centre (PIC). This new facility will be NAIT's front door for industry and provide services in the areas of productivity enhancement, acceleration and applied research. PIC will drive innovation and will work closely with industry to create solutions that will ultimately foster new opportunities and increase Alberta's capacity for continued economic growth and development.

Mental health remains a key focus at NAIT. Mental Health First Aid Training began in July 2014; since then, 608 staff members have been certified. This training is a huge benefit for our students, as staff are better able to identify issues and help students get the support they need.

As NAIT looks to meet the emerging and existing education needs of students with a focus of purposeful growth, we will be submitting a proposal for a post-diploma certificate in Advanced Accounting in 2017/18. The Chartered Professional Accountants have established their Advanced Certificate in Accounting and Finance with which our program aligns. Additional opportunities for advanced certificates continue to be explored with a focus on value to students.

NAIT will offer a new Baking and Pastry Arts diploma that will be open for students in the 2018/19 academic year. The alignment of Landscape Architecture offerings at all credential levels within Alberta has been a focus of our exploration of a bachelor degree in the Landscape Architecture program.

NAIT remains firmly committed to delivering polytechnic education, and applied research and innovation to serve Alberta, industry and students. We remain focused on achieving our vision of being the most relevant and responsive post-secondary institution in Canada and a world-leading polytechnic.

GOALS, PRIORITY INITIATIVES, EXPECTED OUTCOMES AND PERFORMANCE MEASURES

NAIT's vision is to be the most relevant and responsive post-secondary institution in Canada and a world-leading polytechnic. This vision was developed through a broad engagement process in 2011 and 2012 that resulted in a strategic, future-focused document entitled NAIT 2021 that includes fundamental promises to Alberta, students, industry and staff. The following section provides a summary of each promise and reports on performance measures outlined in our Comprehensive Institutional Plan.

Our four promises represent the broad goals we are striving to achieve. Our strategies represent the priority initiatives under each goal.

Except where noted, the metrics presented in each of the four promises are collected and reported from NAIT's internal financial and administration systems and through surveys conducted by NAIT's Department of Institutional Research.

PROMISE TO ALBERTA

NAIT meets the current and emerging needs for polytechnic education and applied research in Alberta. NAIT is relevant and responsive and provides outstanding technical education. While serving the needs of Alberta, NAIT is globally competitive and recognized.

SUMMARY OF PROGRESS

NAIT remains relevant and responsive to meet the needs of industry and our province while remaining focused on being financially sustainable. We continue to adapt to be able to accommodate growth. The opening of the Centre for Applied Technology last year has provided much needed additional capacity for students studying in the areas of health and life sciences, business, applied sciences and technology. The additional spaces we have gained recently have alleviated some of the stress on our physical footprint; however, space constraints continue to affect growth in a number of programs.

NAIT continues to provide an industry-leading quality education. Both apprentices and credential graduates continue to rate their programs highly. This is a true testament to NAIT's commitment to relevant and high quality educational programming. Work continues to develop growth plans with a focus on specific program expansion.

In keeping with our vision of being a world-leading polytechnic, we continue to evolve to ensure we are nimble and responsive to the needs of industry. The opening of the Productivity and Innovation Centre will be a catalyst for expanding our view of how to best meet the needs of industry – beyond producing the skilled graduates Alberta needs. Our enhanced industry services model is in the early stages of development and will be implemented using a phased-in approach once the Productivity and Innovation Centre is open in fall 2018.

PERFORMANCE MEASURES

OUTCOME 1: Our growth meets and anticipates the emergent polytechnic needs of Alberta.

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION
STRATEGY 1.1	Align programs to the changing labour market needs of Alberta.		
STRATEGY 1.2	Optimize NAIT's physical, technological and human resource capacity to accommodate growth.		
STRATEGY 1.3	Ensure business processes are nimble and responsive.		

TOTAL CREDIT FLE: The total number of full-load equivalent (FLE) students in credit programming attending NAIT during the academic year, validated by Alberta Advanced Education.

The growth in FLE for 2016/17 has continued to be strong. Despite a decrease in apprentice FLE, non-apprentice FLE has surpassed the 2016/17 target by a considerable margin, demonstrating the strength of the structures put in place in previous years to support growth towards NAIT 2021.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
12,675	13,808	14,208*	14,111
		Non-apprentice: 10,746	Non-apprentice: 10,268
		Apprentice: 3,462	Apprentice: 3,843

*Subject to Government of Alberta validation

FACILITIES CONDITION INDEX: The ratio of the cost to address accumulated maintenance and renewal needs relative to the replacement value of the facility.

The Facilities Condition Index is an aggregate measure of the condition of buildings at NAIT and is on target for 2016/17. As infrastructure at NAIT ages, it is a growing challenge to keep up with maintenance and repairs. However, NAIT is committed to maintaining student and staff spaces at the highest level possible.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
n/a	Rating of Good: 64% Rating of Fair: 36% Rating of Poor: 0%	Rating of Good: 63% Rating of Fair: 37% Rating of Poor: 0%	Rating of Good: 63% Rating of Fair: 37% Rating of Poor: 0%

SATISFACTION WITH IMPROVED EMPLOYMENT OPPORTUNITIES: Percentage of graduates and final period apprentice completers satisfied with improved employment opportunities.

Perception of employment opportunities for graduates is still strong, but lagging historic highs. Given the challenging economic conditions in recent years, this was anticipated. The continued strong perception from apprentices is likely related to existing employment relationships.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
Graduates: 90% Apprentices: 93%	Graduates: 85% Apprentices: 91%	Graduates: 84% Apprentices: 90%	Graduates: 92% Apprentices: 92%

OUTCOME 2: There are lifelong learning pathways and connections.

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION
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STRATEGY 2.1 Enhance barrier-free learner pathways into NAIT, within NAIT and beyond NAIT in support of lifelong education.

TOTAL NUMBER OF PROGRAM DIPLOMA, DEGREE AND CERTIFICATE GRADUATES (DDCP): Annual count of students who have met all requirements for completion of a credit program and have been conferred a parchment.

Though below target, graduate counts are up nearly 6 per cent over the previous year, in line with the strong growth in full-load equivalent (FLE).

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
3,648	3,891	4,166	4,456

TOTAL NUMBER OF APPRENTICE COMPLETERS: Count of all apprentices who complete their final period of apprenticeship training at NAIT.

The small reduction in final period apprentices over 15/16 is indicative of dropping apprentice enrolments overall. As the number of early period seats declines, the number of final period completers will also decline.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
3,231	3,746	3,593	3,884

TOTAL NON-CREDIT REGISTRATIONS: Total number of registrations to professional development, career and recreational courses provided on a non-credit basis.

Non-credit registrations were strong in 16/17, though below target. As economic conditions improve, spending on non-credit educational options is anticipated to increase.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
35,770	38,000	38,922	41,898

OUTCOME 3: There is demonstrable pride in the unique polytechnic advantage.

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

STRATEGY 3.1 Build knowledge and understanding of polytechnics and the value proposition of applied, hands-on, technology-based education and applied research and innovation.

STRATEGY 3.2 Embrace alumni as ambassadors and forever learners and givers within the NAIT family.

RECOMMENDING PROGRAM TO OTHERS: Percentage of graduates and final period apprentice completers who would recommend their program to others.

Both apprentices and credential graduates continue to rate their programs highly. This is a testament to NAIT's commitment to relevant and high quality educational programming.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
DDCP Grad: 90% Apprentice: 92%	DDCP Grad: 89% Apprentice: 92%	DDCP Grad: 88% Apprentice: 93%	DDCP Grad: 92% Apprentice: 92%

OUTCOME 4: We are financially sustainable.

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

STRATEGY 4.1 Develop and implement short- and long-term financial strategies.

NET INCOME PERCENTAGE: A measure of the ability of NAIT to operate within its means based on its yearly operating surplus, adjusted for one-time strategic expenditures, as compared to its annual expenditures.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
n/a	2.20%	(0.96%)	5%

DEBT LEVEL PERCENTAGE (DEBT LIMIT THRESHOLD): A measure of the affordability of NAIT’s debt levels. It provides the level of debt as a percentage of total revenues, excluding government grants and donations.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
n/a	118.30%	117.40%	120%



ALBERTA’S TRADES OLYMPIANS

Whenever the biennial WorldSkills Competition – the ‘Olympics of the trades’ – are convened, NAIT participates in several capacities. Students and graduates of the School of Skilled Trades who succeed in provincial and national competitions secure a place on the Skills Canada team, while staff and faculty serve as coaches, support staff and volunteers.

The School of Skilled Trades offers more than 40 programs leading to journeyperson certification, pre-employment certificates and diplomas. As learning opportunities span the majority of certified trades in Alberta, graduates play essential roles in the provincial economy.

Brian Pardell, Associate Vice-President of Continuing Education and Workforce Development at NAIT, is a long-time volunteer at WorldSkills. Like many staff members who volunteer at WorldSkills and other competitions, his volunteerism reflects NAIT values and supports our promise to Alberta’s industry.

“Giving back is important. Supporting initiatives that encourage youth to make informed career choices helps support Alberta’s economy to become more efficient and globally competitive,” he says.

Volunteers serving at provincial, national and international competitions have earned NAIT instructors a reputation “as truly being world-class in their knowledge of their programs and their desire to promote excellence,” he says.

NAIT Automotive Body Technician instructor Cecile Buckmeier, who won provincial and gold medals for car painting in 2013, has been a dedicated volunteer ever since. A champion for women in the trades, Cecile was the first woman on the national car painting committee and was awarded the Alumni of the Year for Skills Canada Alberta.

“Raising awareness and showing young adults the different career possibilities within the trades will help to increase the interest of women in non-traditional careers,” she says.

PROMISE TO STUDENTS

NAIT provides a positive student experience that encompasses students' mental, emotional and physical well-being and defines success broadly. NAIT prepares students to succeed in meaningful careers, find employment in their chosen field and possess the skills necessary to have an immediate impact.

SUMMARY OF PROGRESS

A number of initiatives have contributed to the delivery of NAIT's Promise to Students including the Student Resolution Office, the Student Services Centre and work done to address the needs of newcomer students.

- Student Resolution Office - This new office is a result of the revisions to the NAIT Student Rights and Responsibilities policy to provide a stronger framework to address issues of non-academic student misconduct. This office is also the point of contact to support the new Sexual Violence Prevention and Response policy and procedure that provides a mechanism to respond effectively to issues of sexual violence on campus.
- Student Service Centre (SSC) - Opened in August 2016, the SSC reflects a balance of transactional and support services from a student-centred lens. The SSC forms a single location advising "hub" at NAIT, with a broad scope of advising that connects with each "spoke" including the four schools and various support areas to provide a comprehensive network to support student success.
- Newcomer Needs Assessment - With 3,800 newcomer students enrolled at NAIT in 2016/17, NAIT International used this data to invite permanent resident and refugee students to key events, such as graduation receptions and orientations. NAIT International has met with many of Edmonton's settlement agencies to identify gaps and areas of potential collaboration to further support newcomers at NAIT.

PERFORMANCE MEASURES

OUTCOME 5: Polytechnic education that enables transformative careers.

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

- STRATEGY 5.1** Deliver programs that incorporate leading practices and are hands-on, relevant and applied.
- STRATEGY 5.2** Integrate quality and continuous improvement processes.
- STRATEGY 5.3** Ensure that learners have the enabling skills (in addition to the technical skills) that provide the foundation for a meaningful career.

SATISFACTION WITH RELEVANCE OF SKILLS ACQUIRED: Percentage of NAIT graduates and final period apprentice completers satisfied with the workplace relevance of the skills they learned at NAIT.

NAIT's commitment to and focus on industry needs in program curricula are evident in the exceptionally high ratings for the relevance of both the skills and knowledge graduates gained at NAIT.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
*DDCP Grad: 96% Apprentice: 96%	DDCP Grad: 95% Apprentice: 96%	DDCP Grad: 96% Apprentice: 96%	DDCP Grad: 97% Apprentice: 96%

*DDCP - Degree, diploma and certificate graduates

SATISFACTION WITH RELEVANCE OF KNOWLEDGE ACQUIRED: Percentage of NAIT graduates and final period apprentice completers satisfied with the workplace relevance of the knowledge they acquired at NAIT.

NAIT’s commitment to and focus on industry needs in program curricula are evident in the exceptionally high ratings for the relevance of both the skills and knowledge graduates gained at NAIT.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
*DDCP Grad: 97% Apprentice: 98%	DDCP Grad: 96% Apprentice: 98%	DDCP Grad: 96% Apprentice: 98%	DDCP Grad: 98% Apprentice: 98%

*DDCP - Degree, diploma and certificate graduates

OUTCOME 6: A student-centred experience beyond the classroom that supports and inspires lifelong success.

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION
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STRATEGY 6.1 Provide support structures and opportunities that enable student success.

SATISFACTION WITH QUALITY OF STUDENT SUPPORT SERVICES: Percentage of NAIT students satisfied with the overall quality of student services at NAIT.

NAIT’s commitment to high quality services for students is evident in the steadily improving ratings given by current students.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
85%	86%	88%	90%

PROMISE TO INDUSTRY

NAIT produces an exceptionally skilled workforce, aligned directly to industry needs. Our programs are developed with industry’s input, and our research is industry-driven to create enterprises that are globally competitive.

SUMMARY OF PROGRESS

A major new initiative to support the future growth of research and innovation at NAIT is the development of the Productivity and Innovation Centre (PIC). PIC will provide industry with a central place for engaging with NAIT to seek services and professional education related to innovation, applied research and productivity. This new state-of-the-art facility will contain the space and equipment required to support new applied research centres, in addition to NAIT’s productivity enhancement services. Combining existing NAIT applied research and innovation services, productivity enhancement capabilities and accelerator services within the same building will enable companies to work more seamlessly with NAIT.

NAIT’s opportunity to expand delivery of relevant solutions to industry’s challenges is immense. NAIT is committed to satisfying the needs of industry through professional education, applied research and innovation services.

PERFORMANCE MEASURES

OUTCOME 7: We help industry increase its productivity and competitiveness.

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

STRATEGY 7.1 Expand NAIT’s capacity, delivery models and scope to support Alberta’s economic growth, especially in the areas of productivity improvement and technological competitiveness.

PROPORTION OF APPLIED RESEARCH PROJECTS WITH EXTERNAL PARTNERS: Count of active applied research projects with identified external partners as a ratio of all active applied research projects, expressed as a percentage.

The very high percentage of applied research projects with external partners is consistent with NAIT’s applied research mandate and promise to support industry and Alberta.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
90%	97%	94%	90%

NUMBER OF APPLIED RESEARCH PROJECTS ACTIVE DURING THE YEAR: Count of applied research projects active within the academic year.

The number of applied research projects continues to move closer to target in 16/17, highlighting a commitment to fewer, higher value projects with industry, generating greater economic impact and potential for industry partners.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
109	60	47	40

OUTCOME 8: We are a leader in bridging applied research, innovation and commercialization of new ventures.

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

STRATEGY 8.1 Develop leading-edge applied research and innovation through close industry connections.

APPLIED RESEARCH PORTFOLIO ALIGNMENT: Demonstration of the degree of alignment of NAIT's applied research initiatives with NAIT's strategic objectives.

NAIT's applied research program continues to be highly aligned to supporting NAIT's strategic objectives.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
n/a	4.5	4.5	4.0/5

PROMISE TO STAFF

NAIT will continue to be one of Canada’s outstanding places to work, which follows from a culture of how we work together. NAIT’s culture reflects the values of respect, collaboration, celebration, support and accountability.

SUMMARY OF PROGRESS

NAIT continues to be recognized as an exceptional workplace and, for the sixth consecutive year, earned a place on Alberta’s Top 70 Employers list. The polytechnic also earned one of the top awards in the Alberta’s Best Workplaces competition, with judges noting the significant commitment to improving mental health in the workplace.

Staff commitment to mental health at NAIT continues to be demonstrated by participation in the Mental Health First Aid Training. By the end of the academic year, a total of 608 staff members have been certified. New initiatives to enhance employee wellness included a day-long staff Well-being Day and the introduction of flexible work arrangements to support better work/life balance.

NAIT has adopted an engagement framework based on the International Association for Public Participation (IAP2). This framework is designed to help build a culture and shared vision around engagement at NAIT.

Health and safety programs continue to focus on best practice. This past year, NAIT introduced a new health and safety inspection procedure, an updated emergency warden program and an electronic tool to track hazardous chemicals.

NAIT continues to offer outstanding opportunities for employees to grow their careers. Through the NAIT Tuition Benefit program, staff now have improved access to take NAIT courses that will enhance their roles. A new Performance Enhancement Process was introduced to provide academic staff with tools that support their growth, development and continuous improvement.

PERFORMANCE MEASURES

OUTCOME 9: We will grow our own talent while practicing the values of the NAIT Way.

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION
STRATEGY 9.1	Advocate and encourage staff involvement in personal and professional development programs.		
STRATEGY 9.2	Ensure decision-making, actions and behaviours are guided by the NAIT Way values.		
STRATEGY 9.3	Support all staff in their instructional, administrative, applied research and/or student services’ activities.		

NAIT continues to be fully committed to supporting and engaging its staff. The consistently high ratings provided by staff of professional development and workplace opportunities illustrate this commitment but also highlight room for continued improvement.

AWARENESS OF THE NAIT WAY VALUES: The percentage of staff aware of NAIT’s values of respect, collaboration, celebration, support and accountability.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
86%	86%	85%	88%

STAFF PERSONAL AND PROFESSIONAL DEVELOPMENT: The percentage of staff who agree that NAIT supports work-related learning and development.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
70%	68%	68%	85%

OUTCOME 10: We will become one of the healthiest workplaces in Alberta.

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

STRATEGY 10.1

Embed health and safety across NAIT that focuses on best practices.

STRATEGY 10.2

Expand well-being supports to all staff.

WORKPLACE SATISFACTION: The percentage of staff who recommend NAIT as a place to work.

2014/15	2015/16	2016/17 ACTUAL	TARGET 2016/17
86%	80%	80%	83%

ACCESS AND QUALITY

Our 2016/17 to 2018/19 Comprehensive Institutional Plan (CIP) was aligned with the vision of NAIT 2021 and the institution's strategic and academic plans. NAIT is committed to fulfilling its promises to Alberta, our students, industry and our staff. Fundamental in these promises is our commitment to accessibility and quality.

Our history of quality was enhanced with an expanded program review and quality assurance process. NAIT continues the work started in 2009 to fully move to an outcomes-based institution. As a world-leading polytechnic institution, we want to lead efforts in this field.

Through the 2016/17 academic year, we engaged with stakeholders in helping to achieve access and enrolment strategies. With the dramatic economic changes experienced in the petroleum sector of the economy, student perception and industry needs are changing. NAIT continues to monitor these external conditions.

Strategic investment in alternative delivery methods supported continued full-load equivalent (FLE) growth and continued increased access through flexible pathways. Growth in open studies and academic upgrading has demonstrated efforts to enhance pathways through access. Investments also allowed NAIT to continue to press forward with enhanced inclusiveness and removal of barriers to success.

As NAIT looks to meet the emerging and existing educational needs of students, with a focus on purposeful growth, we will be moving forward with the submission of a proposal for a post-diploma certificate in Advanced Accounting. The Chartered Professional Accountants have established their Advanced Certificate in Accounting and Finance with which our program aligns. Additional opportunities for advanced certificates continue to be explored with a focus on value to students.

NAIT is pleased to provide northern Alberta with our new Baking and Pastry Arts diploma that will be opening for students in the 2018/19 academic year. The alignment of Landscape Architecture offerings at all credential levels within Alberta has been the focus of our exploration of a bachelor degree in Landscape Architecture.

ENROLMENT PLAN

In keeping with our promises, NAIT has been intentionally expanding access to credit programs. This is evidenced in the following FLE enrolment numbers. NAIT's achievement of purposeful growth has outpaced our plan. Despite this, NAIT continues to recognize the need to grow as seen in the projected incremental increases. It is important to recognize that external changes can cause dramatic, unexpected change in demand.

2016/17 FLE ENROLMENT BY CREDENTIAL

	PROJECTED 2016/17	ACTUAL 2016/17		PROJECTED 2016/17	ACTUAL 2016/17
Non-credential	815	926	Apprentice	3,842	3,462
Certificate	712	780	TOTAL	3,842	3,462
Diploma	7,383	7,786			
Degree	1,358	1,254			
TOTAL	10,268	10,746			

2016/17 FLE ENROLMENT BY PROGRAM

	PROJECTED 2016/17	ACTUAL 2016/17	SIGNIFICANT VARIANCE	VARIANCE EXPLANATION
CERTIFICATE	712	780	68	
Applied Banking and Business	21	33	12	Purposeful growth
Baking Certificate	24	25	-	
CNC Machinist Technician	40	37	-	
Computer Network Administrator	32	44	12	Purposeful growth
Culinary Arts Certificate	40	92	52	Early exit from diploma program
Emergency Management Certificate	6	1	(5)	Interest has increased in diploma completion
Emergency Medical Technician - Ambulance (Edmonton & Lethbridge)	59	65	6	Purposeful growth
Graphic Communications	38	39	-	
HVAC Specialist	60	38	(22)	Decrease in student demand
Magnetic Resonance Imaging - Second Discipline	23	22	-	
Medical Laboratory Assisting	50	35	(15)	Limitation of clinical placements
Medical Transcription	28	31	-	
Millwork & Carpentry	60	59	-	
New certificates in development	-	0	-	
Optical Sciences - Contact Lenses	60	69	9	Purposeful growth
Power Engineering Certificate	30	30	-	
Pre-Employment - Autobody & Automotive	42	41	-	
Professional Meat Cutting and Merchandising	20	20	-	
Veterinary Medical Assistant	25	29	-	
Water & Wastewater Technician	54	70	16	Purposeful growth
DIPLOMA	7,383	7,785	260	
Alternative Energy Technology	41	46	5	Purposeful growth
Animal Health Technology	65	63	-	
Architectural Technology	160	179	19	Purposeful growth
Biological Sciences Technology - Environmental Sciences	40	34	(6)	Decrease in student demand
Biological Sciences Technology - Laboratory & Research	40	39	-	
Biological Sciences Technology - Renewable Resources	40	37	-	
Biomedical Engineering Technology	36	34	-	
Biomedical Engineering Technology Co-op	4	7	-	
Building Environmental Systems Technology	20	20	-	
Business Administration Diplomas	1960	2038	78	Purposeful growth

	PROJECTED 2016/17	ACTUAL 2016/17	SIGNIFICANT VARIANCE	VARIANCE EXPLANATION
Captioning and Court Reporting	46	46	-	
Chemical Engineering Technology	120	119	-	
Chemical Technology	96	91	(5)	Decrease in student demand
Civil Engineering Technology	240	218	(22)	Decrease in student demand
Civil Engineering Technology Co-op	30	40	10	Purposeful growth
Computer Engineering Technology	103	115	12	Purposeful growth
Computer Engineering Technology Co-op	9	2	(7)	Decrease in student demand
Construction Engineering Technology	180	163	(17)	Decrease in student demand
Culinary Arts Diploma	150	70	(80)	Impact of early exit with certificate
Cytotechnology	6	8	-	
Dental Assisting Technology	71	68	-	
Dental Technology	34	33	-	
Denturist Technology	48	43	(5)	Decrease in student demand
Diagnostic Medical Sonography	73	76	-	
Digital Media and IT	675	722	47	Purposeful growth
Digital Media and IT Co-op	6	7	-	
Electrical Engineering Technology	127	140	13	Purposeful growth
Electronics Engineering Technology	40	59	19	Purposeful growth
Electronics Engineering Technology Co-op	12	5	(7)	Decrease in student demand
Emergency Management Diploma	50	68	18	Purposeful growth
Emergency Medical Technology - Paramedic	50	36	(14)	Decrease in student demand
Engineering Design and Drafting Technology	110	111	-	
Forest Technology	70	85	15	Purposeful growth
Geological Technology	80	75	(5)	Decrease in student demand
Geomatics Engineering Technology	60	59	-	
Hospitality Management	108	79	(29)	Decrease in student demand
Industrial Heavy Equipment Technology	91	74	(17)	Decrease in student demand
Instrumentation Engineering Technology	273	297	24	Purposeful growth
Interior Design Technology	120	110	(10)	Decrease in student demand
Laboratory and X-Ray Technology Combined	78	84	6	Purposeful growth
Landscape Architectural Technology	60	54	(6)	Decrease in student demand
Magnetic Resonance First Discipline	34	32	-	
Materials Engineering Technology	52	46	(6)	Decrease in student demand
Mechanical Engineering Technology	182	163	(19)	Decrease in student demand
Medical Laboratory Technology	64	64	-	
Medical Radiologic Technology	99	98	-	

	PROJECTED 2016/17	ACTUAL 2016/17	SIGNIFICANT VARIANCE	VARIANCE EXPLANATION
Nanotechnology Systems	35	45	10	Purposeful growth
Network Engineering Technology	35	38	-	
Network Engineering Technology Co-op	5	4	-	
Occupational Health and Safety	70	66	-	
Optical Sciences - Eyeglasses	300	435	135	Response to specific industry request
Personal Fitness Trainer	212	251	39	Purposeful growth
Petroleum Engineering Technology	150	145	(5)	Decrease in student demand
Photographic Technology	46	47	-	
Power Engineering Technology	180	194	14	Practicum completion impacts
Radio and Television	108	99	(9)	Decrease in student demand
Respiratory Therapy	140	131	(9)	Decrease in student demand
Wireless Systems Engineering Technology	49	52	-	
DEGREE	1,358	1,254	39	
Bachelor of Applied Business Administration - Accounting	25	54	29	Purposeful growth
Bachelor of Applied Business Administration - Finance	25	29	-	
Bachelor of Applied Information Systems Technology	92	127	35	Purposeful growth
Bachelor of Business Administration	990	987	-	
Bachelor of Technology in Construction Management	56	62	6	Purposeful growth
Bachelor of Technology in Technology Management	170	205	35	Purposeful growth
NON-CREDENTIAL	815	926	111	
Academic Upgrading	425	450	25	Purposeful growth
Open Studies	390	476	86	Purposeful growth

The volume of apprenticeship training offered is based on requests by Apprenticeship and Industry Training (AIT) branch of Alberta Advanced Education. NAIT's peak enrolment for apprenticeship education was in 2015/16 when the number of requested seats reached 15,404. Subsequently, enrolment has been dropping.

Given the economic changes within the province and the shifting focus of Alberta's energy production, requests for seats have been scaled back significantly as has the interest for seats by students. These pressures are expected to impact the near-term outcomes for seats at NAIT.

SCHEDULED SEATS 2015 - 2018

	2015/16	2016/17	2017/18
Trade Commitment Seats	8,902	8,902	8,902
Scheduled Seats	15,404	15,141	12,055

2016/17 SEATS BY PROGRAM

	PROJECTED 2016/17	ACTUAL 2016/17	TRADE COMMITMENT LEVEL	REQUEST TO COMMITMENT LEVEL
APPRENTICESHIP	15,141	12,560	8,902	+6,323
Auto Body Technician	163	145	240	-77
Automotive Service Technician	689	666	630	59
Baker	36	27	96	-60
Boilermaker	288	219	108	180
Cabinetmaker	72	56	150	-78
Carpenter	810	771	500	310
Communication Technician	64	42	96	-32
Cook	132	100	230	-98
Crane & Hoisting Equipment Operator - Boom Truck	132	101	96	36
Crane & Hoisting Equipment Operator - Mobile Crane	107	99	108	-1
Electrician	3,377	2,949	1,050	2,327
Floorcovering Installer	24	11	48	-24
Gasfitter	96	86	72	24
Heavy Equipment Technician	1,248	1,082	600	648
Instrument Technician	608	434	450	158
Insulator	288	278	144	144
Ironworker	305	286	216	89
Lather - Interior Systems Mechanic	72	48	60	12
Machinist	320	192	330	-10
Millwright	820	633	420	400
Outdoor Power Equipment Technician	36	31	0	36
Painter & Decorator	36	25	48	-12
Parts Technician	288	197	170	118
Plumber	1,104	976	600	504
Power Lineman Technician	480	400	70	410
Power Systems Electrician	120	46	28	92
Refrigeration and Air Conditioning Mechanic	240	215	140	100
Rig Technician	48	18	0	48
Roofer	120	112	60	60
Sheet Metal Worker	336	284	232	104
Steamfitter-Pipefitter	960	791	320	640
Structural Steel & Plate Fitter (Steel Fabricator)	72	53	96	-24
Welder	1650	1187	1410	240



MAWJI CENTRE FOR NEW VENTURE AND STUDENT ENTREPRENEURSHIP

The entrepreneurial spirit nurtured by a NAIT education can be manifested in many ways. No one knows this better than alumnus Ashif Mawji. Since graduating in 1992 with a diploma in Computer Systems Technology, this successful Alberta entrepreneur has served on the NAIT Board of Governors, received the Alumni Award of Distinction in 2003 and was named one of the polytechnic's Top 50 alumni in 2012.

The recipient of an honorary Bachelor of Business Administration at the 2017 convocation, Mawji made more NAIT history with the launch of the Mawji Centre for New Venture and Student Entrepreneurship on May 12, 2017. With his family at his side, Mawji announced a one million-dollar donation – the largest gift ever made by an alumnus – to establish the Centre.

Located within the JR Shaw School of Business at NAIT's new Centre for Applied Technology on Main Campus, the Mawji Centre provides students with an applied learning setting to learn about entrepreneurship. JR Shaw School of Business Dean Tracey Scarlett says students "will have an opportunity to solve real-world challenges with experienced entrepreneurial mentorship."

For Mawji, this new venture "gives students in Alberta a leg up to provide them with mentorship and help them be successful."

Noting that entrepreneurship has a natural place in polytechnics, President and CEO Dr. Glenn Feltham said the Mawji family donation "will allow us to support aspiring student entrepreneurs across NAIT."

Designed as a hub for entrepreneurship, innovation and new venture learning for students, the Mawji Centre will also benefit NAIT faculty and staff when it opens in fall 2017.

RESEARCH, APPLIED RESEARCH AND SCHOLARLY ACTIVITY

SCHOLARLY ACTIVITY

Since the 2015 Campus Alberta Quality Council endorsement of the framework for scholarly activity within a polytechnic, NAIT has turned its attention to supporting instructors in recognizing the variety of ways of engaging in scholarly activity.

Instructor's sharing of their explorations back with the community through appropriate forms of polytechnic peer review is considered scholarly activity. Traditional academic forms of peer review include things like publishing in journals and presenting at conferences. As a polytechnic, peer review can include these things, and it can also include things such as presenting to Program Advisory Committees or industry groups, presenting at an industry conference or publishing in trades journals. At NAIT, we use the term "polytechnic peer review" because in our sector, review by industry is equally valid as review by academics.

NAIT's program quality assurance process includes both annual reflections and comprehensive reviews as well as formal tracking and reporting of scholarly activity.

APPLIED RESEARCH

NAIT is closely engaged with the Government of Alberta's Ministry of Economic Development and Trade and Alberta Innovates to ensure our applied research priorities are aligned to the priorities, strategies and outcomes of the Alberta Research and Innovation Plan and recent governmental frameworks targeting effective resource management, environmental stewardship and a strong economy.

Applied research at NAIT is concentrated primarily in applied research centres affiliated with the polytechnic's four schools. With industrial partners such as Shell Canada, PennWest Petroleum, Daishowa-Marubeni and ConocoPhillips Canada, the Boreal Research Institute is an essential partner for advancing research in boreal reclamation, reforestation and peatland restoration in Alberta's boreal forest region. NAIT's Centre for Oil Sands Sustainability carries out applied research, pilot testing and technology development designed to meet the needs of Alberta's oil sands industry. The Centre for Sensors and System Integration, funded by the Natural Sciences and Engineering Research Council of Canada (NSERC), is a technology access centre that partners with small and medium enterprises to develop prototype devices to address sensor-based challenges in resource extraction, agriculture, biomedical, and advanced technology enterprises. Launched in spring 2017, the NSERC-supported Centre for Innovative Media works with industry to integrate, develop, and test prototypes across media platforms to develop commercial products including software, applications, movies, animation, games, data visualization and simulations.

NAIT structures its applied research capabilities and industry-focused innovation services to align with the industrial value chains of Alberta and of western Canada. For example, NAIT is an institutional partner in the \$75 million Future Energy Systems initiative supported by the Canada First Research Excellence Fund. NAIT, along with our industrial collaborators, is developing, validating and deploying transformative technologies in solar, wind, geothermal and biomass power systems; distributed-power generation and transmission, smartgrids and sustainable energy infrastructure; reduction of environmental impacts of hydrocarbon resource development; and societal aspects and life-cycle analysis of future energy systems. In one project, led by NAIT's Applied Bio/Nanotechnology Industrial Research Chair, industry partners work together to develop and prototype technologies that improve operational efficiencies, reduce emissions and accelerate environmental remediation. Through our numerous collaborations, NAIT is an effective contributor and partner within the province's public innovation system.

In summer 2016, NAIT secured a \$34.9 million commitment from the Government of Canada's Post-Secondary Institutions Strategic Investment Fund for the development of the \$85.5 million Productivity and Innovation Centre (PIC). This centre will be the place industry comes for solutions and to succeed. It will focus on three of NAIT's core strengths: productivity enhancement, applied research and innovation services focused on accelerating the growth of established companies through advanced prototyping and manufacturing. This new facility will provide the additional space and equipment required to operate new applied research centres and enhance the professional education NAIT provides directly to industry.

In the increasingly competitive local and global environment, firms of all sizes across Alberta's major sectors face increased globalization, stronger competition and a higher pace of technological change. NAIT's integrated approach to applied research, innovation and related industrial services benefits Alberta by supporting the economic competitiveness of our region's key industrial sectors.



HEALTHY ENVIRONMENT

Collaborating with industry to restore contaminated soil is among the diverse applied research initiatives NAIT undertakes which reflect the polytechnic's unwavering commitment to Alberta.

Reclaiming soil around land once occupied by gas stations is the goal of a project involving NAIT's Applied Bio/Nanotechnology Industrial Research Chair Dr. Paolo Mussone, together with Federated Cooperatives Ltd. (FCL), NAIT's Centre for Sensors and System Integration and other partners. The project measures indicators of bacterial activity such as soil temperature and pH levels. "The quicker we can get these sites back into productive use the more we can prevent urban sprawl ... and minimize our larger effect on the environment," says Kris Bradshaw, FCL impact sites manager.

ConocoPhillips Canada is working with NAIT's Boreal Research Institute in Peace River to explore options for maintaining soil stockpiled to accommodate oil extraction. The project is creating conditions similar to a natural forest. "We are doing a better job of managing stockpiled material that is going to be the foundation for all of the reclamation work in the future," says Dr. Amanda Schoonmaker, Natural Sciences and Engineering Research Council of Canada (NSERC) Industrial Research Chair for Colleges in Boreal Reclamation and Reforestation.

COMMUNITY

OVERVIEW

NAIT presents a strong focus on community through outreach and service provisions to underrepresented learner communities in our region. NAIT must ensure it is relevant to learners across the spectrum of ability and need. We strive to develop and deliver accessible and flexible programming which meets the needs of learners who may not normally have easy access to post-secondary education. These learners include newcomers to Canada for whom English is a second language, adults seeking career progression and skills development to align with a rapidly changing economy, and remote rural and Aboriginal populations (whether urban or rural) where very limited access to education is a stark reality. NAIT believes that access to education is critical. As we continue to grow to ensure available seats for all learners, we also recognize that strong supports for underrepresented populations is critical. It is our duty to develop the potential in our population and strive to support learners from all backgrounds while maintaining the principle of accessibility that is a cornerstone of publicly funded education.

LEARNER PATHWAYS

Seamless pathways into post-secondary education and after graduation are a central theme in NAIT's community-centric focus. NAIT has enhanced access to and awareness of post-secondary options by placing strategic importance on engaging secondary school students in NAIT programming prior to their completing high school studies. We have established a partnership with the Alberta Distance Learning Centre (ADLC) to promote and administer access to NAIT dual-credit programming opportunities offered at a distance and available across the province regardless of location. Students will begin registering through ADLC for NAIT dual-credit offerings in January 2018.

In the summer of 2017, NAIT piloted several new summer camp experiences for youth, centred on introducing young learners to technology and trades-based educational opportunities. These camps were very well attended, and NAIT will expand its offerings in 2018.

NAIT continues to strive toward the elimination of barriers for students within the polytechnic seeking enhanced mobility between program areas. Progress is being made toward establishing formalized pathways between non-credit and credit programming and recognizing prior learning and demonstration of competency. The polytechnic is reviewing its policies around how students in Academic Upgrading are admitted, with the aim of enhancing access to full-time diploma and degree programming and improving conversion rates.

INDIGENIZATION

NAIT values Aboriginal people and strives to serve the Aboriginal community through education, community and industry partnerships. We are in the final stages of developing an Aboriginal Strategy that honours traditional Aboriginal ways of knowing and incorporates recommendations from the Truth and Reconciliation Commission (TRC). Key to our strategy is the desire to empower everyone at NAIT to develop a respectful community that supports Aboriginal learners so they can be successful in their educational pursuits.

Work continues within Aboriginal communities and with industry partners to build capacity specific to trades and technology within the communities. The aim is to ensure local communities benefit from economic development while supporting industry's need for local skilled employees.



MENTAL HEALTH TRAINING AND SERVICES

NAIT continues to deepen awareness about mental health through new and expanded training and support services for staff and students.

A new service for staff members and their families affected by post-traumatic stress was introduced through the Employee and Family Assistance Program. Morneau Shepell's Trauma Assist Program focuses on early intervention.

Staff in the School of Skilled Trades were trained to teach a new seminar addressing stress issues common to tradespeople. Provided in collaboration with the Grande Prairie-based Suicide Prevention Resource Centre, 'Tough Enough to Talk About It' is designed to help students and future tradespeople be more comfortable talking about mental health. The seminar becomes mandatory for full-time credit students and second-year apprentices in 2017/18.

"We are trying to get ahead of the conditions that can cause mental health problems and suicidal tendencies," says School of Skilled Trades Associate Dean Don Boomer.

As mental health awareness becomes an increasing part of fulfilling NAIT's promise to staff, the polytechnic was named Best Overall Workplace with more than 750 employees at the Alberta's Best Workplaces awards. Administered by Alberta Venture magazine, the competition recognizes organizations with innovative ways to attract and retain staff. "What really stood out for the judges was NAIT's commitment to the mental health of its staff and students," says Alberta Venture editor Michael Ganley.

On-campus amenities including a reflection room for meditation and religious observance and a strong focus on personal wellness were among the reasons Mediagroup Canada Inc. judges named NAIT one of Alberta's Top Employers – for the sixth consecutive year.

FINANCIAL AND BUDGET INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(financial data expressed in thousands unless otherwise noted)

This Management Discussion and Analysis (MD&A) should be read in conjunction with the Northern Alberta Institute of Technology (NAIT) consolidated financial statements and accompanying notes. The MD&A and audited financial statements are reviewed and approved by NAIT's Board of Governors on the recommendation of NAIT's Finance and Audit Committees. NAIT's consolidated financial statements have been prepared in accordance with Public Sector Accounting Standards.

The following is an overview of the consolidated financial results achieved in the fiscal year ended June 30, 2017, of NAIT and the NAIT Foundation. It provides a discussion and analysis of the following:

1. Operating Environment and Overview
2. Financial Health Indicators
3. Significant Financial Risks
4. Detailed Financial Results

OPERATING ENVIRONMENT AND OVERVIEW

NAIT's financial position remains reasonably healthy with a strong balance sheet. However, revenues are not rising at the pace of expenditures. In 2016/17, NAIT recorded its first deficit in many years. Part of the reason for a deficit position relates to some one-time unanticipated costs. The demand for polytechnic education is strong, and the number of students choosing a NAIT education is increasing. Funding from the Government of Alberta and tuition has not kept pace with growth and inflation. This has resulted in additional financial pressures for the institution. NAIT has continued to focus on growth despite increased financial strain for three reasons:

- Alberta needs more NAIT graduates. Our graduates are in high demand, and many students who want to come to NAIT cannot, due to space constraints. The lack of polytechnic graduates hinders Alberta's ability to be competitive in an increasingly global environment.
- NAIT has had the financial strength (from previous surplus positions and a strong balance sheet) to accommodate growth.
- The Government of Alberta is currently finalizing major reviews of both grant funding and tuition funding models, with some of the goals addressing growth in institutions and making institutions financially sustainable.

PURPOSEFUL GROWTH

NAIT is on a path of growth to meet the needs of Alberta as presented in its vision, NAIT 2021. Underlying this vision are demographics that point to the careers that will be needed to fuel Alberta's future growth. NAIT's vision of growth is tied squarely to the Government of Alberta's projections for graduates in all four of NAIT's pillars of technology-based education: business; health and life sciences; trades; science, technology and the environment. NAIT grew by 799 full-load equivalent (FLEs) in degree, diploma and certificate programs in 2016/17.

Alberta's grant funding and tuition models are currently under review. As an institution, we recognize the current financial situation of the government and understand change is on the horizon. NAIT plays an essential role in our province's economy; we have continued to move forward with purposeful growth in areas that are needed to meet future demand.

In addition, NAIT is growing its capacity to carry out applied research. NAIT's growth is essential to our province's economy, ensuring Alberta has a skilled workforce to support both traditional industries and new industries, ultimately helping to diversify the economy.

NAIT will plan its next steps around purposeful growth with a view to continued financial strength once the funding and tuition reviews are complete.

NAIT's annual operating deficit in 2016/17 was (\$6.1) million, or 1.6% of operating budget, down from the previous year's surplus of \$5.6 million. NAIT's preparations for growth have led to higher costs in the areas of staffing and capital, resulting in the current deficit.

With the opening of the Centre for Applied Technology (CAT) in September 2016, NAIT is better able to accommodate the growth it has encountered and expects to continue. NAIT also opened Spruce Grove Campus in September 2016. This campus is home to Crane and Hoisting education, but it will also accommodate future growth in other programs better delivered outside of Main Campus that may require large areas of land.

NAIT received approval in August 2016 to build the Productivity and Innovation Centre (PIC). This new facility will be the place industry comes for solutions and to succeed. It will focus on providing industry with education, applied research and access to space, equipment and expertise. This facility, budgeted at \$85.5 million, is being funded partially from \$34.9 million from the Government of Canada's Post-Secondary Institutions Strategic Investment Fund. The remaining amount will be funded by NAIT from revenues generated from the facility. PIC construction is proceeding on time and on budget, and the doors are expected to be open for business by the fall of 2018.

REVENUE STREAMS

NAIT continues to focus on developing its revenue streams to diversify our funding reliance on government grants and tuitions. NAIT is strengthening its industry model to provide a wider range of integrated services to industry to help them become more competitive. The building of the Productivity and Innovation Centre will provide a dedicated space for Industry Services. The service areas are as follows:

1. Education for Productivity
2. Productivity Services
3. Business Innovation Services
4. Product Development Services
5. Industry-Driven Research

While NAIT's continuing education revenues were down in 2016/17, NAIT's corporate training numbers were up from last year but not as high as originally planned due to the slow recovery of Alberta's economy. NAIT's applied research revenues increased last year and, in line with the vision, the revenues covered a greater amount of the associated expenses. As the economy improves, and as NAIT plans the opening of the Productivity and Innovation Centre, we will be well-positioned to support industry's growing needs.

Through sound fiscal management, NAIT has accumulated a sizeable investment portfolio that helps to provide operational funding. At June 30, 2017, NAIT had cash and net investments totaling \$186 million, excluding investments offset by debt or reserved for endowments, which is up from the balance at June 30, 2016, of \$176 million but down from the June 30, 2015, balance of \$226 million. This amount will decrease over time as NAIT further invests in capital needs. NAIT continues to use some of this money to renew older campus buildings and other potential capital projects.

Despite efforts to grow other revenue streams, NAIT continues to be highly dependent on Government of Alberta capital and operating grants, which accounted for approximately 59% of total revenues for 2016/17 and regulated tuition revenues, which were approximately 20% in 2016/17.

In the future, the department of Advanced Education will change the way it funds the operation of new facilities, currently known as "lights-on funding." This funding normally provided by the government for new buildings to make ongoing operations sustainable will no longer be provided. NAIT no longer has certainty that it will continue to receive the \$4.7 million of funding for "lights-on" costs for the Centre for Applied Technology.

The department of Advanced Education is currently reviewing both the Funding Model and the Tuition Model. The current funding model does not provide extra funding for those institutions growing the number of graduates. NAIT has advocated to government the importance of a model that supports growth. Tuition alone does not cover the costs of delivering the majority of NAIT's courses, and in some cases, programs with large equipment needs or small class sizes due to the requirements of the training, tuition does not come close to covering the costs.

EXPENSES

NAIT's two largest expenses are for staffing and capital. On the staffing front, any future agreements will be negotiated based on balancing the need to be fiscally sustainable with NAIT's need to attract and retain talent. NAIT's ability to align costs to government grants is critical to its financial sustainability.

NAIT completed the construction on the Centre for Applied Technology in July 2016 and took possession of the building in early August. It accommodates 5,000 full-time students. Much of the growth needed to reach NAIT's vision will rely on further capital projects, including the repurposing and renovating of existing NAIT buildings, the planned acquisition of expansion land in the City of Edmonton's Blatchford development and other adjacent properties, and building student housing.

FINANCIAL HEALTH INDICATORS

NAIT views its financial health in terms of both its accumulated Net Asset position and its yearly Operating Deficit/Surplus. Both are described below.

HEALTH OF NET ASSET POSITION - ACCUMULATED SURPLUS

NAIT ended the 2016/17 fiscal year with a total accumulated surplus of \$280,322 including the accumulated remeasurement gains and losses (2015/16: \$286,844 total accumulated surplus).

It includes \$118,761 related to amounts invested in capital assets (2015/16: \$112,217) and \$42,950 held for endowments (2015/16: \$41,458), which continue to grow. Of the remaining \$118,611 of accumulated surplus, \$36,731 is held for the Centre for Applied Technology (CAT) cascading projects, \$1,772 for final CAT expenditures, \$14,251 for Main Campus renovations, \$10,000 for student housing and \$2,088 to other priority capital areas. In addition to the targeted capital spends, NAIT has targeted \$25,201 to priority operational activities such as course redevelopment, applied research and general operating cost pressures to prepare for growth.

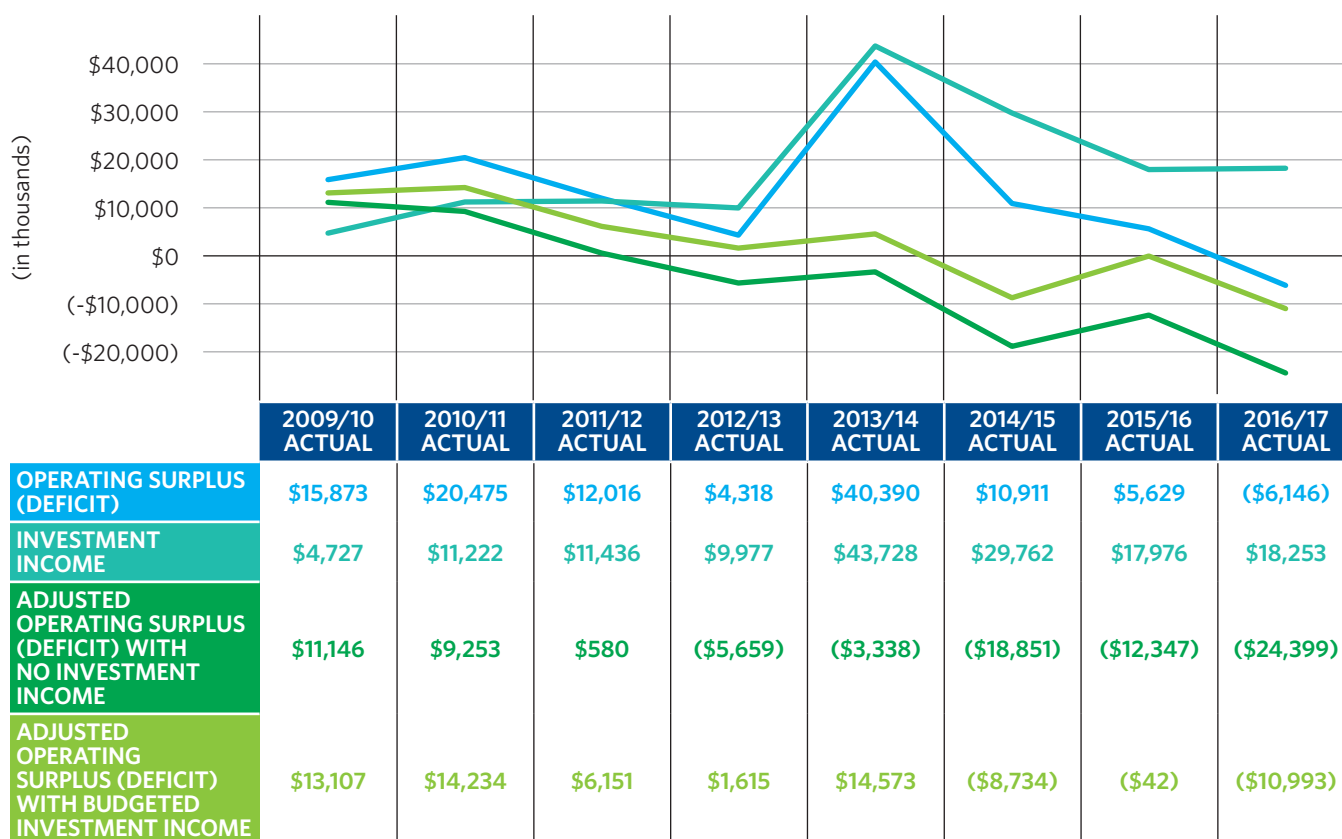
The best indicator of NAIT's financial strength from previous operations is its accumulated operating surplus that has not already been spent on capital or committed to future expenditures. At the end of 2016/17, this amount was \$28,568 (2015/16: \$27,078), or approximately 7.4% of NAIT's yearly operating expenses. The accumulated operating surplus includes accumulated remeasurement gains on portfolio investments of \$6,144 (2015/16: \$8,012). This year's operating deficit did not negatively impact the accumulated operating surplus as it was funded by an \$18 million operating reserve previously set up to cover temporary deficits. Note 11 to the financial statements contains a more complete picture of NAIT's accumulated surplus.

HEALTH OF YEARLY OPERATING DEFICIT/SURPLUS

NAIT ended 2016/17 with an operating deficit of <\$6,146> (2015/16 surplus: \$5,629). Although NAIT ended the year in a deficit, it represents only 1.6% of its annual expenditures. Over half of the deficit may be attributed to \$3,285 in one-time severance related to an unanticipated reduction of apprenticeship seats.

The following chart shows the flow of NAIT's deficit/surplus over time. It shows the overall deficit/surplus and what the results would be if adjusted for normal (budgeted) investment revenues, or no investment revenues. It is meant to show NAIT's reliance on a volatile revenue source. See the following chart:

NAIT ANNUAL SURPLUS (DEFICIT) ADJUSTED FOR INVESTMENT INCOME



FINANCIAL SUSTAINABILITY - LOOKING FORWARD

In preparing for growth, pressures on expenditures often precede the associated growth in revenues, especially on the administrative side of the business. NAIT has incurred extra staffing and capital costs (buildings, information technology, and equipment) over the past couple of years to prepare for growth in general, and specifically for the opening of the Centre for Applied Technology (CAT). NAIT has planned for this, setting aside \$18,000 in Funds and Reserves to fund any temporary operational deficits, which was partially used this year to cover the deficit. Ultimately, the key to maintaining the health of the yearly operating results will depend on a number of actions that NAIT is taking. NAIT's financial sustainability strategies are as follows:

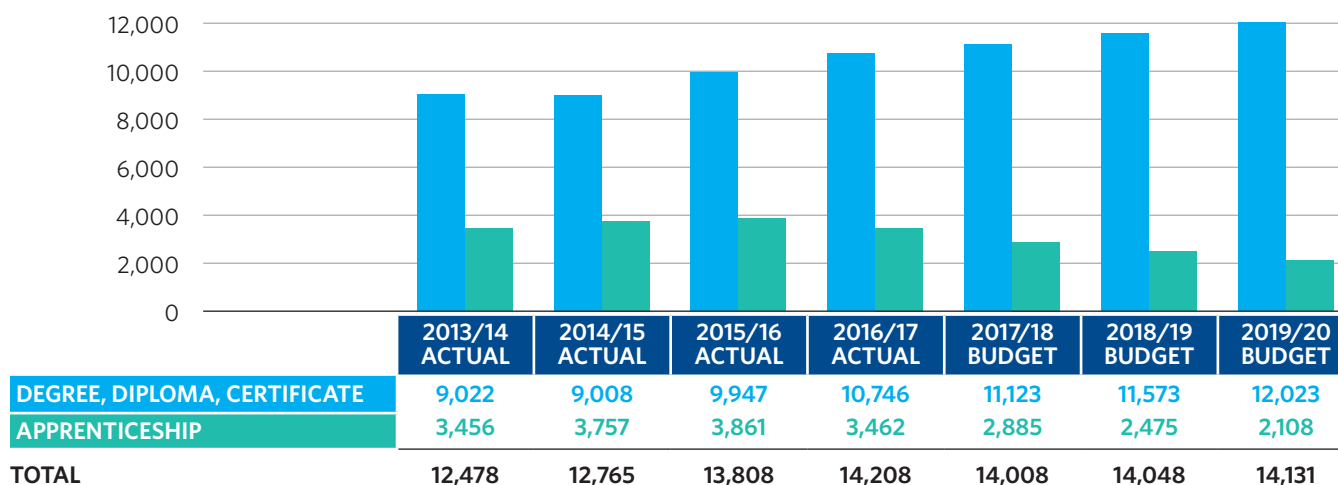
- Grow earned revenues, through developing a robust Industry Services model (including opening the Productivity and Innovation Centre), and growing our continuing education revenues.
- Grow credit program revenues in a way that maximizes existing resources (instructors and classrooms), so net new growth creates greater tuition revenue than the extra costs associated with this growth, where possible.
- Advocate for sustainable Funding and Tuition Models that consider outcomes including growth.
- Negotiate labor agreements, including the on-going AUPE negotiation, with appropriate balance of affordability and ability to recruit the necessary staff to achieve NAIT's vision.
- Continue to pursue and refresh the Capital Plan based on affordability and efficiency (efficient use of space, consolidation to one Main Campus), and provide space to meet NAIT's long term vision.
- Optimize the use of resources to ensure they are being used as efficiently as possible.
- Continually assess services offered, and ensure they continue to be important to NAIT's vision.
- Improve the productivity of our IT and other systems and processes. Currently, NAIT has greater than 20 outstanding IT projects, many of which have significant improvements to efficiency included as elements to their business case.

FINANCIAL SUSTAINABILITY – LOOKING FORWARD

As a large institution with significant growth potential, NAIT deals with many risks and opportunities. The following items comprise NAIT's significant financial risks.

1. **Government Funding** – Operational funding has not kept pace with inflation. This past year, the government increased operating grants for 2016/17 by 2%, but as discussed above, other grants such as “lights-on funding” for new facilities has been discontinued. Government funding is always tied to the health of the economy and emerging fiscal pressures, therefore long-term stability remains a risk. NAIT is mitigating this risk in a number ways, as discussed above.
2. **Private Sector Competition for Staff** – Payroll expense is NAIT's largest expense and must be carefully managed. As discussed above, NAIT needs to take prudent steps when negotiating labour agreements, or financial sustainability will be at risk. However, it must be balanced with attracting staff that will allow NAIT to achieve its vision. Many of the skills NAIT teaches, and which NAIT itself needs to operate, are in high demand. With the downturn in the health of the Alberta economy, the competition for staff has lessened but remains and is subject to the cyclical trends in the Alberta economy.
3. **Enrolment Growth Funding** – NAIT's plan for the future, as outlined in NAIT's vision, forecasts significant growth in student enrolment. The addition of the Centre for Applied Technology, development of student residences and potential increases in revenue from increased provincial grants and tuition fees are predicated on growth in student enrolment. NAIT opened the Centre for Applied Technology in September 2016, and it has already seen Full-Load Equivalents (FLE) in degree, diploma and credit programs increase from 9,947 FLE in 2015/16 to 10,746 in 2016/17 and plans to increase to 11,123 in 2017/18. On the contrary, funding for apprenticeship programs has declined as fewer seats are required by government and funding has been reduced for many of the programs where seats have dropped. Apprenticeship FLEs were 3,462 in 2016/17, down from 3,861 in 2015/16 and are expected to further drop to 2,885 in 2017/18.

NAIT – FLE TREND



The department of Advanced Education has funded growth in various ways in the past, including targeted enrolment funding three years ago. However, there is currently no mechanism to increase the Campus Alberta Grant for the growth that NAIT is expecting over the next several years. This is a substantial risk as, at some point, it will limit NAIT's ability to grow. This is especially true for high cost programs, even if these programs are the ones that the Alberta economy most needs. NAIT continues to advocate for a new funding model that recognizes student growth and parity of tuitions across the sector.

4. **Increasing Student Supports and Services** – As a polytechnic, NAIT has placed a strong emphasis on developing students' academic understanding and technical skills in discrete program areas. A more holistic student focus that emphasizes student health (both physical and mental), safety and additional wrap-around supports such as student housing will be developed in line with NAIT becoming a world-class polytechnic institution. These additional student supports and services have significant financial implications. NAIT will continue to develop and analyze its data on the nature of NAIT's students in order to fully understand the specific types of supports and services that NAIT's students require most. Most recently, the department of Advanced Education has provided some new grant funding dedicated to mental health initiatives. This alleviates some of NAIT's risk, as there have been costs incurred building up services for this important area in the last several years.

5. **Facilities Development and Maintenance** – With government capital grants for building new and maintaining current infrastructure being constrained, NAIT is challenged in meeting its growth potential through the required development of new facilities and the upgrading and maintenance of existing facilities. The high utilization rate of existing space is impacting NAIT’s programming growth and results in less-than-optimal facilities being maintained in service. The construction of the Centre for Applied Technology has relieved some pressure on utilization, allowing for overall growth in enrolments, and is helping NAIT proceed with the Campus Development Plan to demolish time-expired buildings, thereby reducing maintenance costs. Unfortunately, operating grants for “lights-on” funding for the new CAT facility are at risk as NAIT was made aware that the 2017/18 funding would be one-time and not ongoing as expected. To continue to achieve the growth in student enrolments ultimately needed in NAIT’s vision and in the Government of Alberta’s projections on labour needs, NAIT will need a combination of new development and updated existing space. To the extent that NAIT does not receive further government funding for capital projects, or determine other funding sources, NAIT’s growth initiative will be hindered.
6. **Unfunded Pension Liabilities** – NAIT staff members are part of the Local Authorities Pension Plan (LAPP), a multi-employer contributory defined benefit pension plan. This pension plan has had significant unfunded liabilities over the last several years, and the government has investigated ways of making the plan more sustainable. As a result of strong investment earnings in the last several years in LAPP, the unfunded actuarial deficiency of the entire plan continues to drop going from \$0.9 billion in 2015/16 to \$0.6 billion in 2016/17. Therefore this lessened somewhat the past several years but remains high due to the cyclical nature of investment returns. Note 6 to the financial statement contains further information.
7. **Investment Revenues** – NAIT’s sound financial management has allowed it to accumulate a sizable portfolio of investments, which has produced income that helped sustain operations and produce operating surpluses. Investment revenues, by their nature, are subject to unstable returns. The investment market has produced very good returns, exceeding budget expectations the past several years. To facilitate construction of the Centre for Applied Technology and other related capital projects, NAIT is reallocating approximately \$75 million of investments to support these projects. This will lead to reduced investment revenues, which will impact NAIT’s flexibility to address unexpected operational pressures with investment revenue. Notes 4 and 5 to the financial statements contain more complete information on NAIT’s investments and risk mitigation actions.

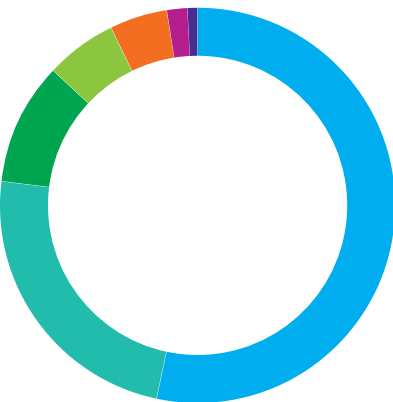
DETAILED FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF OPERATIONS

REVENUE

NAIT's total revenue increased by \$20,014 (5.6%) this year, from \$357,945 in 2015/16 to \$377,959 in 2016/17.

The distribution of total revenue between revenue sources for 2016/17 is presented in the chart below. The comparative percentage for the previous year is shown in brackets.



NAIT REVENUE

2016/17: \$378.0 MILLION (2015/16: \$357.9 million)

GOVERNMENT OF ALBERTA OPERATING GRANTS: 53.4% (2015/16: 53.5%)

STUDENT TUITION AND RELATED FEES: 23.5% (2015/16: 24.6%)

SALES, RENTALS AND SERVICES: 10.2% (2015/16: 10.9%)

EXPENDED CAPITAL RECOGNIZED AS REVENUE: 5.7% (2015/16: 4%)

INVESTMENT INCOME: 4.8% (2015/16: 5%)

DONATIONS AND OTHER CONTRIBUTIONS: 1.7% (2015/16: 1.5%)

FEDERAL AND OTHER GOVERNMENT GRANTS: 0.6% (2015/16: 0.4%)

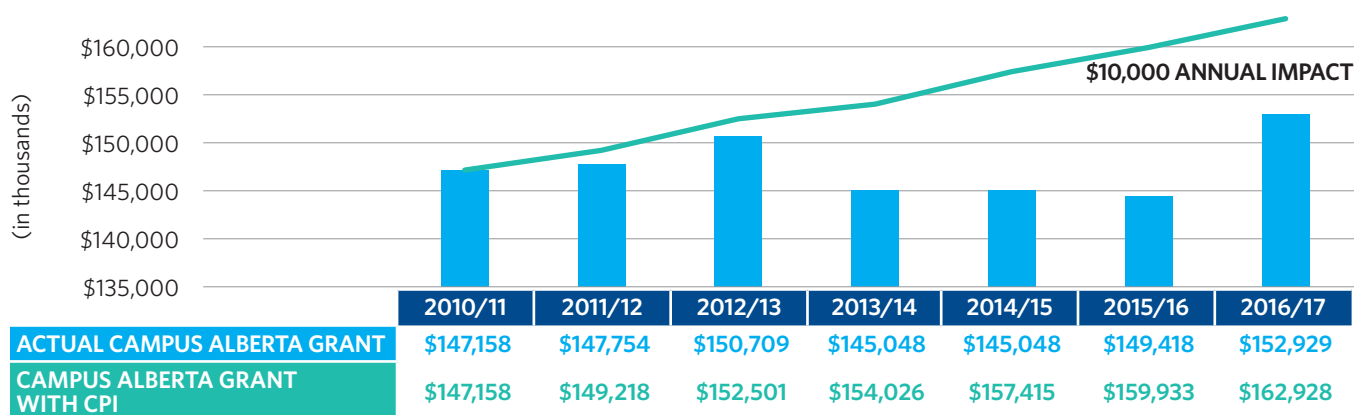
NAIT ended the year with an increase in revenues, with the main revenue highlights noted below:

GOVERNMENT OF ALBERTA GRANTS

Government of Alberta operating grants, which includes the Campus Alberta Grant and a number of conditional and one time grants, increased from the prior year by \$10,219 (5.3%). A brief summary is as follows:

- Campus Alberta Grant as a proportion of total revenue is 40.7% compared to the previous year's level of 42.1%. Overall, the base grant increased by \$3,263 (2.2%) from \$150,656 in 2015/16 to \$153,919 in 2016/17, which related to a 2% increase for inflation and additional funding to cover the amount estimated to be lost from the tuition freeze. The tuition freeze adjustment has been removed in the chart below to reflect the true inflationary growth in the Campus Alberta Grant.
- The Campus Alberta Grant has not kept pace with inflation. NAIT has been adapting to this new funding reality, in part, by taking steps to increase efficiency and effectiveness. The following chart shows how the Campus Alberta Grant would have been if it had been increased for inflation using the annual Alberta Consumer Price Index (CPI). Starting with 2010/11 as the base, this graph depicts the actual Campus Alberta grant in 2016/17 as compared to what it would have been if it had been adjusted for the Alberta inflation each year since 2010/11.

NAIT CAMPUS ALBERTA GRANTS



- Apprenticeship grant funding decreased as NAIT offered fewer apprenticeship seats in 2016/17. Funding rate per seat was increased by 2% from 2015/16 rates. Some of the larger changes in seats were in Welder, Heavy Equipment Technician, Steamfitter-Pipefitter, Electrician and Plumber.

INVESTMENT REVENUE

Investment revenue increased by \$277(1.5%). The portfolio investment balances dropped by <\$3,741> (-1.0%) from 2015/16 of \$381,376 to \$377,635 in 2016/17. While non-endowment fund balances decreased year over year, endowment funds continued to grow. Detailed breakdown of these balances can be found in Note 4 to the consolidated financial statements.

FEDERAL AND OTHER GOVERNMENT GRANTS

Federal and other government grants increased by \$563 (35.3%) from \$1,596 in 2015/16 to \$2,159 in 2016/17. This is a direct result of increased grants for applied research activities that align with NAIT's vision.

STUDENT TUITION AND RELATED FEES

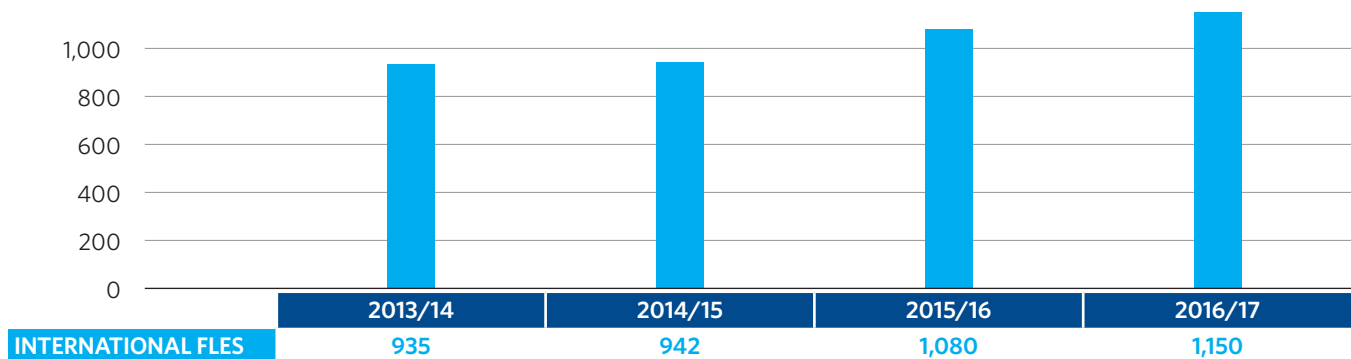
Student tuition and related fees revenue increased by \$847 from \$88,083 in 2015/16 to \$88,930 in 2016/17. The majority of the increase was due to the increased number of degree, diploma and certificate program FLEs and international students surcharge. Student tuitions and fees represent 23.5% of NAIT's overall revenue decreasing in proportion from 24.6% of total revenue in 2015/16.

- There are a number of factors that can influence the average tuition per FLE such as individual course mix, full-time versus part-time student mix and average number of courses per student. A given increase or decrease in FLE will explain the majority of change in tuition dollars; it will not necessarily yield the exact same percentage change for the reasons above.
- Certificate, diploma, and degree program revenues increased by \$2,421 (4.9%) from \$49,132 in 2015/16 to \$51,553 in 2016/17. Tuition fee rates were frozen at 2014/15 levels as directed by Alberta Advanced Education regulations. NAIT had an increase in enrolments (FLEs) and a change in the mix of students in the various programs that accounted for this increase. The FLEs increased by 799 (8.0%) from 9,947 in 2015/16 to 10,746 in 2016/17. In the future, we expect to see additional increases in the FLEs as NAIT focuses on enrolment growth.

	ACTUAL				CHANGE	BUDGET	VARIANCE
FLE TREND	2013/14	2014/15	2015/16	2016/17	2016/17	2016/17	2016/17
DEGREE, DIPLOMA, CERTIFICATE	9,022	9,008	9,947	10,746	799	10,268	478
APPRENTICESHIP	3,456	3,757	3,861	3,462	(399)	3,842	(380)
TOTAL	12,478	12,765	13,808	14,208	400	14,110	98

- Student tuition and related fees from apprenticeship training decreased by \$1,116 (9.0%) from \$12,462 in 2015/16 to \$11,346 in 2016/17, directly related to the decrease in funded apprenticeship seats which was the equivalent of -399 FLEs (-10.3%), decreasing from 3,861 in 2015/16 to 3,462 in 2015/16.
- Overall tuition fees for continuing education studies decreased by \$855 (-5.6%) from \$15,134 in 2015/16 to \$14,279 in 2016/17. While enrolments for the Optical and Upgrading credit programs were up by 500 over 2015/16, the non-credit trades-related course enrolments which have higher tuition rates were down significantly, resulting in decreased tuition revenues.
- Revenue from the international student surcharge increased by \$397 (3.5%) from \$11,355 in 2015/16 to \$11,752 in 2016/17. The increases are reflecting the general growth in student numbers where the FLEs of international students increased from 1,080 in 2015/16 to 1,150 in 2016/17, an increase of 70 FLEs (6.5%).

INTERNATIONAL FLES



SALES, RENTALS AND SERVICES REVENUE

- Ancillary operations revenues increased \$467 (1.9%) from \$25,174 in 2015/16 to \$25,641, as a result of a higher number of students and the opening of the CAT building. Ancillary operations consist of the following:
 - Parking: 18.3% of ancillary revenue - \$4,680
 - Food services: 36.9% of ancillary revenue - \$9,451
 - Shop @NAIT (Bookstore) operations - 44.7% of ancillary revenue - \$11,467
 - Athletics: 0.1% of ancillary revenue - \$43

Changes in revenues are as follows:

- Parking revenue increased by \$115 (2.5%) from prior year.
- Eat @NAIT (Food Services) revenue increased by \$263 (2.9%) from prior year.
- Shop @NAIT (Bookstore) revenue increased by \$83 (0.7%) from prior year.
- Training contracts showed a small increase of \$276 (3.7%), up from \$7,450 in 2015/16 to \$7,726 in 2016/17, reflecting industry's willingness to invest in corporate training. Although the results were lower than planned, a modest increase over the prior year shows NAIT growing this important revenue in keeping with NAIT's sustainability objectives.
- Other sales, rentals and services revenue which includes various amounts like NAIT's share of PanGlobal management fees, athletic passes and locker rentals, rentals of conference rooms, event revenues and one-time revenues such as gain on disposal of assets decreased by <\$1,223> (-19.0%) from \$6,421 to \$5,198, due mainly to the discontinuation of the contract with the Government of Alberta for administration of the Individual Learning Modules sales for the province.

FINANCIAL SUSTAINABILITY STRATEGIES

When the budget was approved, NAIT had used the best estimates for revenues and expenses, based on its intention to grow and meet its strategic objectives. NAIT also had an expectation to avoid going into a deficit for the year. Reflective of this, NAIT budgeted a target for financial sustainability strategies of \$1,000 to find throughout the year through either new revenue generation or limiting expenditures. NAIT monitors its financial position throughout the year to determine what corrective actions need to be taken, to ensure it can meet its yearly financial results expectations. As noted in the Financial Statements, actual amounts related to sustainability strategies are shown in the actual numbers for the various revenues and expenses.

DONATION AND OTHER CONTRIBUTION REVENUE

Donation and other contribution revenue includes the amount of revenue that is necessary to cover the costs of projects of NAIT Advancement Services; gifts in kind that are expensed; and scholarships, bursaries and other expenses funded by donations. Restricted donation revenues raised in a given year are not recognized as revenue until they are expended. The recognized donations and other contributions increased from \$5,345 in 2015/16 to \$6,499 in 2016/17 due to the increase in associated costs.

EXPENSES

NAIT reviewed and realigned the reporting of costs, which moved \$9,215 in program administration costs to the expense category of Academic and student support that were previously embedded in the Instructional delivery category to better reflect the cost classifications. The prior year totals have also been restated to be comparable to the current year; however, the budget was not restated, resulting in a significant variance between these two functions when compared to budget.

Total actual expenses increased by \$31,789 (9.0%) from \$352,316 in 2015/16 to \$384,105 in 2016/17.

The distribution of total expenses by function for the 2016/17 fiscal year is presented in the following chart. The comparative percentage for the previous year is shown in brackets.



NAIT EXPENSES

2016/17: \$384.1 MILLION (2015/16: \$352.3 million)

- INSTRUCTIONAL DELIVERY: 44.2% (2015/16: 47.1%)
- FACILITIES OPERATIONS AND MAINTENANCE: 17.4% (2015/16: 14%)
- ACADEMIC AND STUDENT SUPPORT: 15.7% (2015/16: 15.9%)
- INSTITUTIONAL SUPPORT: 13.7% (2015/16: 14.2%)
- ANCILLARY SERVICES: 6.4% (2015/16: 6.3%)
- APPLIED RESEARCH: 2.6% (2015/16: 2.3%)
- FUNDRAISING: 0% (2015/16: 0.1%)

The key expense highlights compared to prior year are as follows:

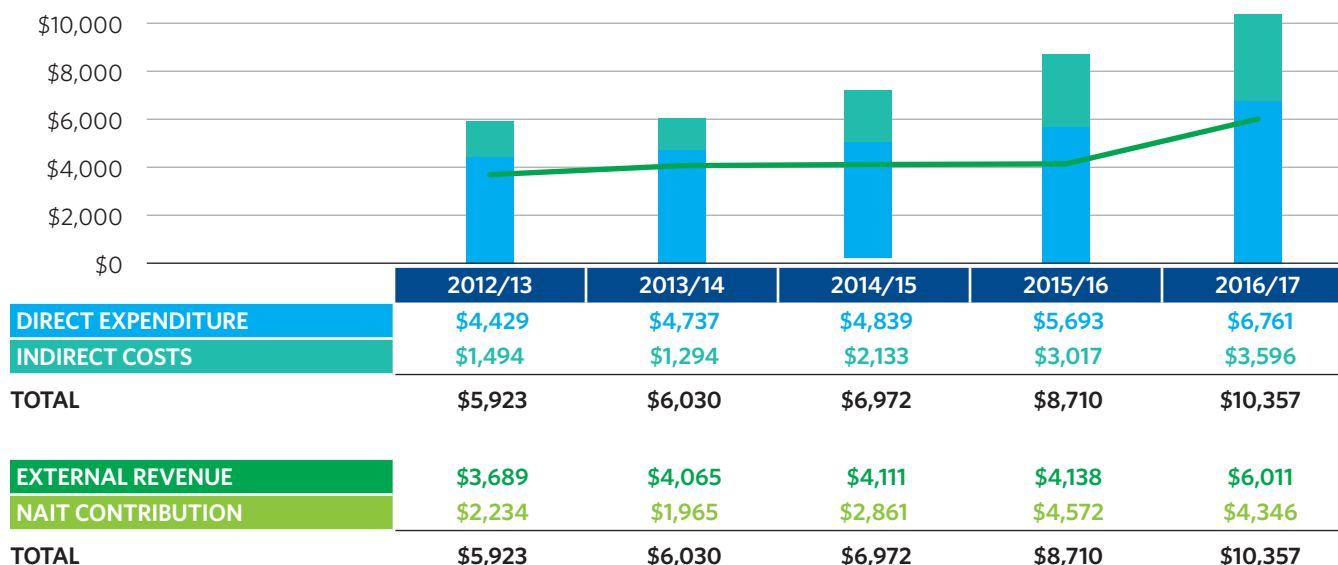
INSTRUCTIONAL DELIVERY

Instructional delivery increased by \$3,698 (2.2%) from \$166,275 in 2015/16 to \$169,973 in 2016/17. The largest increase was \$5,504 related to cost of living and grid moves for instructional staff. Additionally, there was a \$3,285 increase in one-time severance costs related to the reduction of Apprenticeship seats. These two major increases were partially offset by temporary reduced staffing and vacancies (\$4,026) and other cost savings (\$1,065).

APPLIED RESEARCH

Applied research expenses grew, reflective of the planned growth in research activities and revenues. As part of NAIT’s 2021 vision, the area of applied research will continue to grow significantly over the next few years as part of the Productivity and Innovation Centre.

NAIT APPLIED RESEARCH REVENUES AND EXPEDITURES



FACILITIES OPERATIONS AND MAINTENANCE

Facilities operations and maintenance expense increased by \$17,282 (35.0%) from \$49,432 in 2015/16 to \$66,714 in 2016/17. The increase is mainly explained by an increase in costs related to the new Centre for Applied Technology (CAT) which include amortization of \$9,576, gas and electricity costs of \$577 and janitorial costs of \$597. These costs are partially supported by additional funding from the government considered as “lights-on” funding and normally rolled into the Campus Alberta grant the year following the opening of a new facility. In addition to CAT costs, overall there was increased maintenance spending of \$6,437, which is offset by Infrastructure Maintenance Program (IMP) grant revenues.

ACADEMIC AND STUDENT SUPPORT

Academic and student support expense increased by \$4,247 (7.6%) from \$55,895 in 2015/16 to \$60,142 in 2016/17.

The major changes were due to:

1. support staff cost of living and grid step increases and
2. additional student supports.

INSTITUTIONAL SUPPORT

Institutional support increased by \$2,316 (4.6%) from \$50,122 in 2015/16 to \$52,438 in 2016/17.

1. Information Technology Services increased staffing to support the new CAT operations as well as the Enterprise Information Management initiatives and the growing information technology needs and data security.
2. The departments of Marketing, Communications and Web and Digital Media responded to pressures related to NAIT’s growth, aggressive revenue targets and an increasing emphasis on digital competencies by planning for and adding new staff in strategic positions. NAIT has also embarked on a transformational change in how it communicates across digital platforms and channels, with two major projects in digital optimization and the redesign of the external website, with the work beginning in 2016/17.
3. Interest expense increased by \$1,046, which was offset by higher investment revenues related to the refinancing of our CAT building loan which deferred the repayment of that loan.
4. The introduction of a convenience fee for students paying tuition using their credit cards lowered NAIT credit card fees by <\$800>.

ANCILLARY SERVICES

Ancillary operations consist of parking, eat @NAIT (food services) and Shop @NAIT (bookstore) operations. Ancillary services expense increased by \$2,440 (10.9%) from \$22,323 in 2015/16 to \$24,763 in 2016/17. The new CAT operations added \$1,055 in amortization, royalty payments and one-time non-capital start-up costs. Additional spending on staffing for training and production was \$943. Cost of goods sold was up \$412, offset by increased sales revenue.

OPERATING SURPLUS

The Consolidated Statement of Operations reports an operating deficit in the amount of (\$6,146), which arises from actual revenue being less than budgeted by \$8,023 (2.1%) and actual expense being greater than budgeted by \$3,338 (0.9%), as follows:

	BUDGET 2016/17	ACTUAL 2016/17	DOLLAR VARIANCE	PERCENTAGE VARIANCE
Total Revenue	\$385,982	\$377,959	(\$8,023)	-2.1%
Total Expense	\$380,767	\$384,105	\$3,338	0.9%
OPERATING SURPLUS (DEFICIT)	\$5,215	(\$6,146)	(\$11,361)	

The budgeted revenue included \$14,000 expected for a land transfer grant from the Government of Alberta that did not conclude in 2016/17 but is expected to occur in 2017/18. This was partially offset by higher-than-planned operating grants of \$5,023 due to some apprenticeship seats being re-added following the preparation of the budget in 2016/17, an additional year of tuition freeze funding which had not been budgeted and additional Infrastructure Maintenance Program grant allocations. There was also higher than planned investment income of \$4,847 as NAIT refinanced the CAT loan and, instead of beginning to repay the loan, was able to hold the funds in the investment portfolio and use them for upcoming capital projects. The repayment of this loan is planned for 2018/2019.

The major variance between budget expenses and actual results was due to the fact that the budget did not include the unplanned one-time severance costs related to the reduction of apprenticeship seats and increases of interest expense as NAIT refinanced the \$150 million loan for the Centre for Applied Technology.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NAIT's consolidated statement of financial position gives a snapshot of the financial health of the organization in the net asset section. Also, a few of the key variances in assets and liabilities stand to show NAIT preparing to grow to meet NAIT's vision. Both the key variances and net assets are described below:

CASH AND CASH EQUIVALENTS/PORTFOLIO INVESTMENTS:

In total, cash and cash equivalents increased by \$14,789 from \$15,854 in 2015/16 to \$30,643 in 2016/17. The net increase is mainly due to the receipt of deferred capital funding being greater than actual capital spending during the year. This cash is expected to be used as we continue to spend funds on the construction of the new Productivity and Innovation Centre.

NAIT's portfolio investments include medium-term and long-term investments. The portfolio investment balances dropped by <\$3,741> (-1.0%) from 2015/16 of \$381,376 to \$377,635 in 2016/17. This decrease reflects the continued investment into capital, specifically related to the Productivity and Innovation Centre construction during 2016/17. While the non-endowment fund balances decreased year over year, endowment funds continued to grow.

Further information on cash and portfolio investments are in Notes 3 and 4 to the consolidated financial statements.

ACCOUNTS RECEIVABLE

There was an increase of \$566 in accounts receivable from \$7,497 in 2015/16 to \$8,063 in 2016/17 due to outstanding vendor credits for returned books and materials which were \$620 higher than in 2015/16.

INVENTORIES FOR RESALE

Inventory of goods held for resale at Shop @NAIT decreased by \$628 from \$4,081 in 2015/16 to \$3,453 in 2016/17 due to changes in stocking practices.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The change in accounts payable and accrued liabilities which decreased by <\$5,335> (-12.1%) was generally due to amounts owing for Centre for Applied Technology (CAT) construction at June 30, 2016, which were subsequently paid in 2016/17. These amounts were partially offset by new amounts owing for the Productivity and Innovation Centre (PIC) construction at June 30, 2017, that were less than the CAT amounts.

EMPLOYEE FUTURE BENEFIT LIABILITIES

Employee future benefit liabilities increased by \$637. The most significant change was the increase in the accrued vacation pay of \$556, which represents a 2.7% increase in accrued vacation over the 2015/16 balances.

DEBT

There was a small decrease in debt of <\$513>, as the debt balances were down from \$171,645 in 2015/16 to \$171,132 in 2016/17. This small decrease was due to the current year's repayment of the loan for the parkade construction. The majority of the debt is a \$150,000 loan for the Centre for Applied Technology construction, which is scheduled to be repaid in 2018/19.

UNEARNED REVENUE

Unearned revenue decreased by <\$1,373> (-8.2%) from \$16,711 in 2015/16 to \$15,338 in 2016/17. The decrease mainly relates to a reduction of <\$1,280> in apprenticeship registrations for 2017/18 terms at June 30, 2017, which were lower than the registrations at the end of the previous year. The tuition revenue received is recognized in the period in which the classes are offered and reported as unearned revenue until such time.

DEFERRED CONTRIBUTIONS

Deferred contributions are targeted amounts received that are intended for specific purposes to be spent in the future. These include earnings from endowments, conditional grants, research grants and restricted donations. The decrease of <\$3,350> in 2016/17 is primarily due to the recognition of funding in 2016/17 that was received in previous years, from the Government of Alberta, for the construction of the Centre for Applied Technology and other projects such as Parkwest, Patricia Campus and Crane and Hoisting simulation.

TANGIBLE CAPITAL ASSETS

The overall increase in the value of the capital assets of \$29,688 includes the investments made to Centre for Applied Technology and leasehold improvements on the Spruce Grove campus. Further information on tangible capital assets is disclosed in Note 9 to the consolidated financial statements.

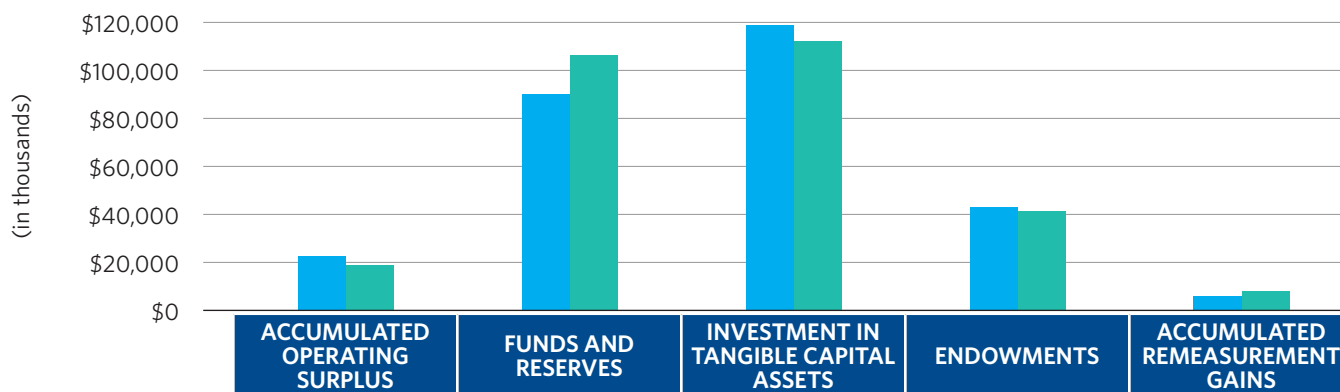
SPENT DEFERRED CAPITAL CONTRIBUTIONS

This category represents amounts spent on capital assets that have not been put into use. The majority of the balance of \$348,133 in 2016/17 (\$290,440 in 2015/16) relates to donations and grants that have been spent on the construction of CAT which will be recognized over the life of the building as the building is amortized. The main factors that contributed to the increase of \$57,692 relates to the final \$55,300 received from the Government of Alberta for the CAT building, and \$17,100 in the Government of Canada's Post-Secondary Institutions Strategic Investment Fund received for the new Productivity and Innovation Centre (PIC). Details are disclosed in Notes 8 and 10 to the consolidated financial statements.

NET ASSETS

Net Assets are comprised of accumulated operating surplus, funds and reserves, investments in tangible capital assets, endowments and remeasurement gains, and is described in Note 11 to the consolidated financial statements. The Net Assets decreased by (\$6,522) (2.3%) from \$286,844 in 2015/16 to \$280,322 in 2016/17 and is further disclosed as follows:

NET ASSETS



	2016/17	2015/16	INCREASE (DECREASE)	% CHANGE
ACCUMULATED OPERATING SURPLUS	\$22,424	\$19,066	\$3,358	17.6%
FUNDS AND RESERVES	\$90,043	\$106,091	(\$16,048)	-15.1%
INVESTMENT IN TANGIBLE CAPITAL ASSETS	\$118,761	\$112,217	\$6,544	5.8%
ENDOWMENTS	\$42,950	\$41,458	\$1,492	3.6%
ACCUMULATED REMEASUREMENT GAINS	\$6,144	\$8,012	(\$1,868)	-23.3%
TOTAL	\$280,322	\$286,844	(\$6,522)	-2.3%

ACCUMULATED OPERATING SURPLUS

The accumulated operating surplus is the net result of life-to-date operating surpluses of NAIT which have not been assigned to funds and reserves or invested in tangible capital assets.

FUNDS AND RESERVES

Funds and reserves decreased by \$16,048 as a result of using some of the reserves for the CAT building of \$10,874. As well, reserves were used to cover the current year's operating deficit of \$6,146 against an \$18,000 reserve which was set aside in past years for short-term deficit support. The detailed breakdown of the changes in Funds and Reserves can be found in Note 11 to the consolidated financial statements.

INVESTMENT IN TANGIBLE CAPITAL ASSETS

The tangible capital assets of \$497,362 are funded by the following sources:

	2017	2016
Internally funded (invested in tangible capital assets)	\$ 118,761	\$ 112,217
Externally financed (debt)	30,468	65,017
Externally funded (expended capital contributions)	348,133	290,440
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 497,362	\$ 467,674

The internally funded portion of \$118,761 in 2016/17 represents NAIT's internally funded portion of its assets. This increased by \$6,544 in 2016/17, as the new acquisitions, primarily the CAT building, exceeded the net amortization of existing assets. See note 9 to the consolidated financial statements for additional information on tangible capital assets.

ENDOWMENTS

Endowments have increased by \$1,492 in 2016/17 (\$1,166 in 2015/16) with the increase mainly due to \$1,022 in additional donations and contributions received in the year. The breakdown of changes to endowments can be found in Note 11 to the consolidated financial statements.

ACCUMULATED REMEASUREMENT GAINS

NAIT's investment portfolio continues to have remeasurement gains. As at June 30, 2017, the investment portfolio had a net remeasurement gain of \$9,036 (\$11,186 in 2015/16), of which \$3,162 (\$3,174 in 2015/16) was allocated to endowments and recorded in deferred contributions, and the remaining \$6,144 (\$8,012 in 2015/16) was recorded as accumulated remeasurement gains. The effects of the remeasurement gains are disclosed in the last table in Note 4 to the consolidated financial statements.

DETAILED FINANCIAL INFORMATION

The following provides information on NAIT's 2016/17 key operating indicators, leading to the calculation of the tuition revenue and net program cost per full-load equivalent student for the certificate, diploma and degree programs; apprenticeship training programs; and other programs and services.

	Note	Certificate, Diploma and Degree Programs - full-time and part-time studies	Apprenticeship Training Programs	Other Programs and Services	TOTAL
a) Full-load equivalent students (FLE)	(i)	10,747	3,462	-	14,209
b) Tuition and training revenue	(ii)				
Certificate, diploma and degree programs		\$ 46,600	\$ -	\$ 4,953	\$ 51,553
Apprenticeship training		-	10,280	1,066	11,346
Continuing education		-	-	14,279	14,279
International student surcharge		-	-	11,752	11,752
Training contracts		404	-	7,322	7,726
		\$ 47,004	\$ 10,280	\$ 39,372	\$ 96,656
c) Net program cost	(iii)				
Expenses per financial statements		\$ 212,122	\$ 116,423	\$ 55,560	\$ 384,105
Less cost recoveries		(1,176)	(153)	-	(1,329)
		\$ 210,946	\$ 116,270	\$ 55,560	\$ 382,776
d) Tuition revenue per FLE (in dollars)		\$ 4,374	\$ 2,969		
e) Net program cost per FLE (in dollars)		\$ 19,628	\$ 33,585		
f) Tuition revenue as a percentage of net program cost		22.3%	8.8%		

An analysis of the tuition revenue as a percentage of net program costs highlights NAIT's discussions with the Government of Alberta. For apprenticeship training programs, the tuition is a very low percentage of the cost of providing the training, 8.8% in 2016/17 down from 10.3% in 2015/16. This change is directly related to the decrease in approved seats by the government, while fixed costs continue to increase with inflation. This is especially true for the higher-cost trades such as Crane and Hoisting and, depending on other sources of funding, it may impact NAIT's ability to expand to meet the expected forecasted demand. Given the value that tradespeople provide to the Alberta economy, and the impact caused by shortages, NAIT believes sufficient funding to allow for expansion is critical.

Note (i) - Full-Load Equivalent Students (FLE)

As defined by Alberta Advanced Education, one full-load equivalent student reflects one student completing the full load for one year of study in a program, or several students combining to complete the equivalent of a normal full load.

Note (ii) - Tuition and Training Revenue

Tuition and Training Revenue for the Certificate, Diploma, and Degree segment consists of all tuition fees for credit FLEs, and includes tuition fees from credit continuing education courses.

Tuition Revenue for the Apprenticeship Training Program segment consists of all fees charged to apprenticeship students in accordance with the rates approved by Alberta Advanced Education.

Revenue for the Other Programs and Services segment consists of fees not subject to the Government of Alberta Public Post-secondary Institutions' Tuition Fee Regulation, as well as, all fees charged for non-credit continuing education courses, international education, and athletics programs.

Note (iii) - Net Program Cost

Operating expenses are allocated to the operating segments based on the Provincial Program Costing Methodology as recommended by Alberta Advanced Education.

Net program cost for the other program and services segment consists of all expenses not attributed to the certificate, diploma, and degree programs and the apprenticeship training program segments. It includes non-credit continuing education courses, international education projects, athletic programs, ancillary operations (Bookstore, Food Services, and Parking) and expenses related to fundraising events of the NAIT Advancement Office.

INTERNATIONALIZATION

NAIT's Internationalization strategy's four goals are:

1. International engagement and intercultural competence development;
2. International student pathways and enrolments;
3. Human capital and knowledge mobility;
4. Sustainable stewardship of our resources.

NAIT's value proposition of hands-on, applied learning is significant in international markets; accordingly, so are the opportunities.

In 2016/17, NAIT refined its efforts around targeted international enrolments, expanded retention efforts with both visa and newcomer students and significantly increased international learning opportunities for students and staff (on campus and off).

Eight international delegations toured NAIT, resulting in three new agreements with institutions in France, the Netherlands and Ghana. Targets for intercultural training, Becoming a Master Instructor training and off-campus international learning opportunities were all met or exceeded. Of note, two instructors won provincial "i@home" grants to benefit students here and in universities in Turkey and China; a Campus Alberta Grant for International Learning (CAGFIL) supported an industry tour for 12 students and an instructor to visit Germany; Alternative Energy students and an instructor participated in an international service learning trip to Guatemala.

NAIT's international student advising model was refined to align with the new academic structure which proactively connects with students prior to arrival and throughout their first term. International Peer Mentors now work more closely with advisors and align their work to NAIT's holistic student success model to better and more quickly meet individual student needs including academic and personal, as well as collective community development activities that support transition needs. Immigration advising is a NAIT strength, with four more advisors having successfully completed the Regulated International Student Immigration Advisor (RISIA) training (now six in total), in addition to an experienced, regulated Immigration Consultant certified by the Immigration Consultants of Canada Regulatory Council (ICCRC-CRICC).

In 2016/17, NAIT enrolled 2,255 visa-holding students, with the highest representation coming from China and India and growing numbers from Vietnam, Republic of Korea, the Philippines and Nigeria.

OFF-SHORE DELIVERY

APPENDIX B – MEASURING ALBERTA POST-SECONDARY INSTITUTIONS' OFF-SHORE EDUCATIONAL ACTIVITY

NAIT offers its two-year Digital Media and IT diploma (DMIT) from the Heilongjiang University of Science & Technology (HUST) in Harbin, China. This program is delivered by both NAIT and HUST instructors.

WHAT IS DELIVERED?

The students in China are also taking a HUST undergraduate degree at the same time. Some of the HUST courses are eligible for advance credit for the DMIT diploma. The remainder of the NAIT courses are taught by NAIT instructors and by HUST instructors. All delivery is done face-to-face in China.

The following is the list of courses for the DMIT program, who is responsible for teaching each course and whether or not the course is subject to advanced credit.

COURSE	COURSE NAME	CORE/ ELECTIVE	CREDITS	INSTRUCTOR	ADVANCE CREDIT	NAIT COURSE
CMIS1014	System Foundations	E	3.0	HUST	Yes	No
CPSC1012	Programming Fundamentals	E	4.5	HUST	Yes	No
DMIT1001	Communications for Digital Media & IT	C	3.0	HUST	No	Yes
DMIT1010	Interactive Media Production	E	3.0	HUST	No	Yes
ANAP1525	Systems Analysis and Design 1	E	3.0	HUST	No	Yes
ANAP1005	Analysis: Fundamental Methods	E	3.0	NAIT	No	Yes
DMIT2000	Advanced Communications for Digital Media and IT	C	3.0	NAIT	No	Yes
COMP1017	Web Design Fundamentals 1	C	3.0	HUST	Yes	No
CPSC1517	Introduction to Application Development	E	4.5	HUST	No	Yes
DMIT1508	Database Fundamentals	E	4.5	HUST	No	Yes
CPSC1520	Javascript	E	4.5	HUST	No	Yes
DMIT2028	Systems Analysis and Design 2	E	4.5	NAIT	No	Yes
ORGB1500	Organizational Behaviour for Media and IT	C	3.0	HUST	Yes	No
DMIT2018	Intermediate Application Development	C	4.5	NAIT	No	Yes
DMIT2015	Enterprise Application Development	E	4.5	HUST	No	Yes
DMIT1095	COOP Work Experience	E	3.0	HUST	Yes	No
DMIT2025	PHP/MySQL	E	4.5	HUST	No	Yes
DMIT2504	Android Development	E	4.5	HUST	No	Yes
DMIT2590	Capstone Project	C	6.0	HUST	Yes	No

If a student meets all the academic requirements and NAIT's English language proficiency, the student will earn a NAIT Digital Media and IT diploma.

If a student meets all the academic requirements but did not attain the required English language proficiency, he or she is issued a Corporate and International Training Certificate of Achievement – Digital Media and IT. This is a non-credit qualification.

Anyone who has not met the academic requirements is provided with a letter identifying the courses successfully completed including a copy of his or her NAIT transcript. This is a contractual relationship between NAIT and HUST which includes a curriculum license component. The linkage is a 4 + 0 model with all four years taking place in China. The program is a cost recovery program in that direct and indirect costs are included in the price of the contract. All delivery is done face-to-face.

The current contract is for three cohorts of students; total unduplicated headcount is 323 with a total full-time equivalent of 78.4.

INFORMATION TECHNOLOGY

Throughout 2016/17, NAIT enhanced its information and technology services to meet the needs of students and staff. Several foundational elements were implemented to enable future growth.

2016/17 highlights include:

PRIORITY INITIATIVE	HIGHLIGHT
One-Card Implementation	The project involves the implementation of a single card ("One Card") that will provide staff and students with access to a variety of NAIT services. Phase one went live in July 2017.
NAIT Mobile Application	The new NAIT app provides a student-centred experience beyond the classroom that supports and inspires lifelong success.
Applied Research Information Integration	Currently in the planning phase, this project will augment the use of PeopleSoft financials to track and monitor research and to simplify and standardize the grants and/or awards lifecycle.
PeopleSoft Finance Upgrade to 9.2	This upgrade is in the planning phase and will ensure continuity of support while enabling new features that will allow effective and efficient use of resources.
NAIT Customer Relationship Management System	This project is in the planning phase and will produce automated and sustainable processes to support NAIT in engaging and growing its customers more effectively.
Hyperion Upgrade	This upgrade is in process and will enable functionality to support the budget and forecasting processes.
Enterprise Information Management program	Work continues on developing processes to manage information assets across NAIT in order to deliver the right information to the right people at the right time.
Cyber-Security	NAIT strengthened controls and technology protecting our perimeter, our end points and our users.
Payment Card Industry Standard	NAIT made formal a complete plan of action to descope and make compliant our card holder data environment.
Update and Enhance Wireless Functionality	Wireless expansion in our activities centre was completed.
Bandwidth Expansion and Upgrades	NAIT completed a connection to the Edmonton Internet Exchange which expanded access to internet service providers. NAIT completed negotiations for and started work on a redundant northerly fibre route, providing path redundancy to internet and other content service providers.
PeopleSoft Human Capital Management Upgrade to 9.2	An upgrade was completed to bring the human resources system up to date. This upgrade is required before fall 2017 to ensure continued support including legislated tax updates.
Canada's Anti-Spam Legislation CASL	Updated procedures, technical tools and communication to prepare for changes to Canada's Anti-Spam Legislation on July 1, 2017.
Travel and Expense Module in PeopleSoft Finance	New module implemented to allow for streamlined, paperless expense claim processing.

CAPITAL PLAN

The table below represents the updates of NAIT's priority projects.

PRIORITY PROJECTS

TYPE	DESCRIPTION	STATUS	EXPECTED COMPLETION DATE (FROM CIP)	PROGRESS MADE IN THE LAST 12 MONTHS
New	Centre for Applied Technology (CAT)	Operational since Aug. 2, 2016	Occupancy for fall 2016 term	The building opened to the public on August 2, 2016. The project was completed on time and under budget.
New	Main Campus Expansion Land Acquisition	Ongoing	Land agreement in place in 2016	Negotiations for land acquisition are complex and ongoing. Current projection is to conclude an agreement in 2018.
New	Crane and Hoisting Facility	Operational since Aug. 22, 2016	Occupancy for fall 2016 term	The new leased facility was open for the first intake in September 2016.
New	NAIT Skills Centre	Waiting for GoA funding	Occupancy for fall 2023 term	An Opportunity Assessment for the Skills Centre project was completed in 2015 and a request for planning funds was submitted to Government of Alberta (GoA) in 2015.
New	Student Housing	Delayed	To be confirmed once the City of Edmonton's plans are finalized	This project is contingent upon NAIT's successful acquisition of expansion land at Blatchford. With the delay, NAIT is considering other options.
Preservation	Main Campus Space Optimization	Ongoing	Fall 2019	Upgrades to L and T buildings are underway to address priority deficiencies and maintain an acceptable level of building condition, safety and functional usability. NAIT is also updating the previous optimization plan to include the retention of L Building and the construction of the new PIC Building.
New	Productivity and Innovation Centre (PIC)	Ongoing	Substantial completion by Apr. 30, 2018	The project is on schedule and on budget. This project was approved by the Government of Canada under the Post-Secondary Institutions Strategic Investment Fund program.
Preservation	Capital Maintenance and Rehabilitation	Waiting for GoA funding	If full funding is available, it could be completed by fall 2022	Has not started as requested funding is not yet available. Most of the projects can be done in phases and have a degree of flexibility based on funding levels. Requests for capital grants were resubmitted in Building and Land Information Management System (BLIMS) in 2017.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of the Northern Alberta Institute of Technology



REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

I have audited the accompanying consolidated financial statements of the Northern Alberta Institute of Technology, which comprise the consolidated statement of financial position as at June 30, 2017, and the consolidated statements of operations, change in net financial assets, 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 CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Northern Alberta Institute of Technology as at June 30, 2017, and the results of its operations, its changes in net financial assets, its remeasurement gains and losses, 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

October 10, 2017

Edmonton, Alberta

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2017 (IN THOUSANDS OF DOLLARS)

	2017	2016
Financial assets excluding portfolio investments restricted for endowments		
Cash and cash equivalents (Note 3)	\$ 30,643	\$ 15,854
Portfolio investments - non-endowment (Note 4)	326,378	331,415
Accounts receivable	8,063	7,497
Inventories for resale	3,453	4,081
	<u>368,537</u>	<u>358,847</u>
Liabilities		
Accounts payable and accrued liabilities	38,861	44,196
Employee future benefit liabilities (Note 6)	28,341	27,704
Debt (Note 7)	171,132	171,645
Deferred revenue		
Unearned revenue	15,338	16,711
Deferred contributions (Note 8)	39,921	43,271
	<u>293,593</u>	<u>303,527</u>
Net financial assets excluding portfolio investments restricted for endowments	74,944	55,320
Portfolio investments - restricted for endowments (Note 4)	<u>51,257</u>	<u>49,961</u>
Net financial assets	<u>\$ 126,201</u>	<u>\$ 105,281</u>
Non-financial assets		
Tangible capital assets (Note 9)	\$ 497,362	\$ 467,674
Inventories of supplies	471	570
Prepaid expenses	4,421	3,759
	<u>502,254</u>	<u>472,003</u>
Net assets before spent deferred capital contributions	628,455	577,284
Spent deferred capital contributions (Note 10)	<u>348,133</u>	<u>290,440</u>
Net assets	<u>\$ 280,322</u>	<u>\$ 286,844</u>
Net assets is comprised of:		
Accumulated surplus (Note 11)	274,178	278,832
Accumulated remeasurement gains and losses (Note 4)	6,144	8,012
	<u>\$ 280,322</u>	<u>\$ 286,844</u>

Contingent liabilities and contractual obligations (Notes 12 and 13)

Approved by the Board of Governors (Note 20):



Chair, Board of Governors



President and CEO

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2017 (IN THOUSANDS OF DOLLARS)

	2017		2016
	Budget (Note 15)	Actual	Actual (Note 21)
Revenue:			
Government of Alberta grants			
Operating grants (Note 18)	\$ 210,845	\$ 201,868	\$ 191,649
Expended capital recognized as revenue	16,781	16,922	11,059
Federal and other government grants			
Operating grants	3,123	2,159	1,596
Expended capital recognized as revenue	1,218	1,221	1,294
Student tuition and related fees			
Degree, diploma, and certificate programs	51,014	51,553	49,132
Apprenticeship training	12,080	11,346	12,462
Continuing education	16,625	14,279	15,134
International student surcharge	12,500	11,752	11,355
Sales, rentals and services			
Ancillary operations	26,112	25,641	25,174
Training contracts	9,054	7,726	7,450
Other	5,184	5,198	6,421
Financial sustainability strategies ¹	1,000	-	-
Donations and other contributions			
Donations and operating grants	3,805	6,499	5,345
Expended capital recognized as revenue	3,235	3,542	1,898
Investment income (Note 14)	13,406	18,253	17,976
	<u>385,982</u>	<u>377,959</u>	<u>357,945</u>
Expense (Notes 2(I), 16):			
Instructional delivery	175,487	169,973	166,275
Applied research	10,659	9,886	8,061
Facilities operations and maintenance	66,022	66,714	49,432
Academic and student support	49,592	60,142	55,895
Institutional support	54,813	52,438	50,122
Ancillary services	23,979	24,763	22,323
Fundraising	215	189	208
	<u>380,767</u>	<u>384,105</u>	<u>352,316</u>
Annual operating (deficit) surplus	<u>\$ 5,215</u>	(6,146)	5,629
Endowment contributions (Note 11)		1,022	800
Endowment capitalized investment income (Note 11)		470	366
		<u>1,492</u>	<u>1,166</u>
Annual (deficit) surplus		(4,654)	6,795
Accumulated surplus, beginning of year (Note 11)		278,832	272,037
Accumulated surplus, end of year (Note 11)		<u>\$ 274,178</u>	<u>\$ 278,832</u>

(1) Financial Sustainability Strategies were budgeted as a single number for NAIT to identify revenue increases and expense reductions throughout the year. Actual amounts related to sustainability strategies are shown in the actual numbers for various revenues and expenses.

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED JUNE 30, 2017 (IN THOUSANDS OF DOLLARS)

	2017		2016
	Budget	Actual	Actual
Annual (deficit) surplus	\$ 5,215	\$ (4,654)	\$ 6,795
Acquisition of tangible capital assets	(48,495)	(62,094)	(98,100)
Net proceeds from disposal of tangible capital assets	1,500	97	119
Amortization of tangible capital assets	33,634	32,383	22,137
(Gain) on disposal of tangible capital assets	(400)	(74)	(45)
Decrease in inventories of supplies	100	99	40
(Increase) decrease in prepaid expenses	(500)	(662)	116
Increase in spent deferred capital contributions		57,693	26,561
Decrease in accumulated remeasurement gains		(1,868)	(1,047)
Increase (decrease) in net financial assets		20,920	(43,424)
Net financial assets, beginning of year		105,281	148,705
Net financial assets, end of year		\$ 126,201	\$ 105,281

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES

FOR THE YEAR ENDED JUNE 30, 2017 (IN THOUSANDS OF DOLLARS)

	2017	2016
Accumulated remeasurement gains, beginning of year	\$ 8,012	\$ 9,059
Unrealized gains attributable to:		
Portfolio investments (Note 4)		
Non-endowment	3,019	4,024
Amount recognized in consolidated statement of operations:		
Portfolio Investments (Note 4)		
Non-endowment	(4,887)	(5,071)
Accumulated remeasurement gains, end of year	\$ 6,144	\$ 8,012

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017 (IN THOUSANDS OF DOLLARS)

	2017	2016
OPERATING TRANSACTIONS		
Annual (deficit) surplus	\$ (4,654)	\$ 6,795
Add (deduct) non-cash items:		
Amortization of tangible capital assets	32,383	22,137
Expended capital recognized as revenue	(21,685)	(14,251)
(Gain) on disposal of portfolio investments	(735)	(1,677)
(Gain) on disposal of tangible capital assets	(74)	(45)
Increase in employee future benefits	637	1,166
(Increase) decrease in accounts receivable	(566)	657
Decrease (increase) in inventories for resale	628	(1,467)
(Decrease) in accounts payable and accrued liabilities	(5,335)	(1,414)
(Decrease) in unearned revenue	(1,373)	(918)
(Decrease) in deferred contributions	(3,338)	(3,252)
Decrease in inventories of supplies	99	40
(Increase) decrease in prepaid expenses	(662)	116
Increase in spent deferred capital contributions, excluding expended capital recognized as revenue	78,963	40,532
Cash provided by operating transactions	74,288	48,419
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(61,679)	(97,820)
Net proceeds from disposal of tangible capital assets	97	119
Cash applied to capital transactions	(61,582)	(97,701)
INVESTING TRANSACTIONS		
Purchase of portfolio investments	(123,686)	(99,169)
Proceeds from disposal of portfolio investments	126,281	157,209
Cash provided by investing transactions	2,595	58,040
FINANCING TRANSACTIONS		
Debt repayment	(512)	(495)
Cash applied to financing transactions	(512)	(495)
Net increase in cash and cash equivalents	14,789	8,263
Cash and cash equivalents, beginning of year	15,854	7,591
Cash and cash equivalents, end of year	\$ 30,643	\$ 15,854

The accompanying notes are part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017 (IN THOUSANDS OF DOLLARS)

1. AUTHORITY AND PURPOSE

The Board of Governors of the Northern Alberta Institute of Technology is a corporation that manages and operates the Northern Alberta Institute of Technology (NAIT) under the *Post-secondary Learning Act* (Alberta). 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, NAIT is a polytechnical institute which serves primarily central and northwestern Alberta, offering a variety of career programming in credit, noncredit and apprenticeship formats with opportunities for full and part-time delivery. Certificate, diploma, applied degree and baccalaureate degree programs are offered, as well as a full range of continuing education programs and activities. NAIT also works with industry partners to engage in applied research to solve real world problems. NAIT 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 consolidated financial statements have been prepared in accordance with PSAS. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. NAIT management uses judgment to determine such estimates. Employee future benefit liabilities, amortization of tangible capital assets, the revenue recognition for expended capital, and investment revenue are the most significant items based on estimates. In management'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

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

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

Unrealized gains and losses from changes in the fair value of financial assets and liabilities are recognized in the consolidated statement of remeasurement gains and losses. When the restricted nature of a financial instrument and any related change in fair value create a liability, unrealized gains and losses are recognized as deferred contributions. Upon settlement, the cumulative gain or loss is reclassified from the consolidated statement of remeasurement gains and losses and recognized in the consolidated statement of operations.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated 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.

The effective interest rate method is used to determine interest expense on debt.

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

(c) REVENUE RECOGNITION

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

Government grants, non-government grants, and donations

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

Contributions without terms for use are recognized as revenue when NAIT is eligible to receive the funds. Unrestricted contributions related to government grants are recognized as revenue in the year received or in the year the funds are committed to NAIT if the amount can be reasonably estimated and collection is reasonably assured. Donations without terms for use are recorded in the year received.

In-kind donations of services, materials and tangible capital assets are recognized at fair value when such value can be reasonably determined. Transfers of tangible capital assets from related parties are recorded at the carrying value. While volunteers contribute a significant amount of time each year to assist NAIT, the value of their services is not recognized in these consolidated 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 contributions when received and recognized as revenue when the land is purchased. NAIT recognizes in-kind contributions of land as revenue at the fair value of the land when a fair value can be reasonably determined. When NAIT cannot determine the fair value, it records such in-kind contributions at nominal value.

Endowment donations

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

Investment Income

Investment income includes dividends, interest income, and realized gains or losses on the sale of portfolio investments, as well as revenue distributed by the pooled funds (which also includes dividends, interest, and gains and losses). Some pooled funds distribute revenue monthly, while others distribute annually on December 31. Revenue is accrued for the pooled funds with a December 31 distribution for the period January 1 to June 30 (6 months). The accrual is calculated using historical distribution information per unit and current market values.

Investment income from restricted grants is recognized as deferred contributions when the terms of use create a liability, and is recognized as investment income when the terms of the grant are met. The endowment spending allocation portion of investment income earned by endowments is recognized as deferred contributions when the terms for the use by the endowment create a liability. Realized investment income allocated to endowment balances for the preservation of endowment capital purchasing power is recognized in the consolidated statement of operations. Unrealized gains and losses on portfolio investments that are from unrestricted contributions are recognized in the consolidated statement of remeasurement gains and losses until settlement. Once realized, these gains or losses are recognized as investment income in the consolidated statement of operations.

(d) ENDOWMENTS

Endowments consist of externally restricted donations received by NAIT and internal allocations by NAIT's Board of Governors, the principal of which is required to be maintained intact in perpetuity.

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

Under the Post-secondary Learning Act, NAIT 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 amount 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 NAIT 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 funded from the cumulative deferred investment income.

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

(e) INVENTORIES

Inventories for resale are valued at the lower of average cost and expected net realizable value and are determined using the weighted average method. Inventories of supplies are valued at average cost or net replacement cost.

(f) 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 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, are amortized on a straight-line basis over the following estimated useful lives as follows:

Buildings and renovations	up to 40 years
Site improvements	up to 10 years
Leasehold improvements	Amortized over lease term
Furnishings, equipment and vehicles	up to 10 years
Heavy equipment	up to 25 years
Library holdings	up to 10 years
Computers and related equipment	up to 3 years
Software	up to 3 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to NAIT'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 accounted for as expenses in the consolidated statement of operations.

(g) ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are recognized for statutory, contractual or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is amortized on the same basis as the related asset and the discount accretion is included in determining the results of operations.

(h) FOREIGN CURRENCY TRANSLATION

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at weekly exchange rates. Carrying values of monetary assets and liabilities reflect the exchange rates at the consolidated statement of financial position date.

(i) EMPLOYEE FUTURE BENEFITS

Pension

NAIT participates with other employers in the Local Authorities Pension Plan (LAPP). This pension plan is a multi-employer defined benefit pension plan that provides pensions for NAIT's participating employees based on years of service and earnings.

NAIT does not have sufficient plan information on the LAPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the LAPP 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.

Long-term disability

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under NAIT's long-term disability plans is charged to expense in full when the event occurs which obligates NAIT to provide the benefits. The cost of these benefits is actuarially determined using the accumulated benefit method, a market interest rate and management's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains or losses on the accrued benefit obligation are amortized over the average expected period the benefits will be paid.

Supplementary retirement plan

NAIT maintains a supplementary pension plan for certain senior executives. The pension expense for defined benefit supplementary retirement plans is actuarially determined using the projected benefit method prorated on service. Actuarial gains or losses on the accrued benefit obligation are amortized over the expected average remaining service life.

Special leave plan

NAIT provides an employee future benefit in the form of a compensated absence. Costs for this benefit are estimated using reasonable assumptions and are recorded in the financial statements.

Management retirement plan

NAIT provides a management retirement plan to employees in a management position between 1988 and 2002. Costs for this benefit are estimated using reasonable assumptions and are recorded in salary and employee benefits.

(j) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of NAIT and the Northern Alberta Institute of Technology Foundation. The Foundation is a registered charity for the purpose of fundraising, operates within the Alberta Gaming and Liquor Act and is exempt from the payment of income tax.

NAIT holds a 33.33% share in a limited company (PanGlobal Training Systems Ltd.) with the Southern Alberta Institute of Technology and the British Columbia Institute of Technology. Government business enterprises (GBEs) are consolidated using the modified equity basis, with equity being computed in accordance with accounting standards applicable to those entities. Under the modified equity method, the accounting policies of the GBEs are not adjusted to conform to those of the other government organizations. PanGlobal Training Systems Ltd. is not material to NAIT's financial statements, and therefore, separate condensed financial information is not presented.

(K) LIABILITY FOR CONTAMINATED SITES

Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard being introduced into soil, water or sediment. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from an operation(s) that is no longer in productive use and is recognized when all of the following criteria are met:

- (a) an environmental standard exists;
- (b) contamination exceeds the environmental standard;
- (c) NAIT is directly responsible or accepts responsibility;
- (d) it is expected that future economic benefits will be given up; and
- (e) a reasonable estimate of the amount can be made.

NAIT has not recorded a liability for contaminated sites.

(L) EXPENSE BY FUNCTION

NAIT uses the following categories of functions on its consolidated statement of operations:

Instructional delivery

Expenses related to program and training delivery, both credit and non-credit. This function also includes expenses related to scholarly activity undertaken by faculty.

Applied research

Expenses related to research activities undertaken within the institution to produce research outcomes.

Facilities operations and maintenance

Expenses related to operations of facilities, including utilities, grounds, maintenance, custodial services, major repairs and renovations, and amortization.

Academic and student support

Expenses related to direct support of instructional delivery and support of the student body. This function includes libraries, Deans and administrative support for Schools, admissions and registry functions, student service administration, registry functions, social and cultural activities, counseling services, career guidance, intercollegiate athletics, scholarships, financial aid, and health services.

Institutional support

Expenses related to executive management, public and government relations, alumni relations and advancement, corporate insurance premiums, corporate finance, human resources, information technology, and other institution-wide administrative services.

Ancillary services

Expenses related to operations outside of the normal instructional and support functions, including bookstore, food services and parking.

Fundraising

Expenses directly related to fundraising activities. This function does not include advancement administrative expenses.

(m) FUNDS AND RESERVES

Certain amounts, as approved by the Board of Governors, are set aside in accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are adjustments to the respective fund when approved.

(n) FUTURE ACCOUNTING CHANGES

In March 2015, the Public Sector Accounting Board issued PS 2200 Related Party Disclosures and PS 3420 Inter-entity Transactions. In June 2015, the Public Sector Accounting Board issued PS 3210 Assets, PS 3320 Contingent Assets, PS 3380 Contractual Rights and PS 3430 Restructuring Transactions. These accounting standards are effective for fiscal years starting on or after April 1, 2017, with the exception of PS 3430, which is effective for fiscal years starting on or after April 1, 2018.

- PS 2200 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.
- PS 3420 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.
- PS 3210 Assets provides guidance for applying the definition of assets set out in PS 1000 Financial Statement Concepts and establishes general disclosure standards for assets.
- PS 3320 Contingent Assets defines and establishes disclosure standards for contingent assets.
- PS 3380 Contractual Rights defines and establishes disclosure standards on contractual rights.
- PS 3430 Restructuring Transactions defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction.

Management is currently assessing the impact of these standards on the consolidated financial statements. NAIT discloses transactions and balances related to the Government of Alberta in Note 18.

3. CASH AND CASH EQUIVALENTS

	2017	2016
Cash	\$ 37,434	\$ 22,022
Less: Funds held on behalf of others (Note 17)	(6,791)	(6,168)
	<u>\$ 30,643</u>	<u>\$ 15,854</u>

4. PORTFOLIO INVESTMENTS

	2017	2016
Non-endowment	\$ 326,378	\$ 331,415
Restricted for endowments	51,257	49,961
Total portfolio investments	<u>\$ 377,635</u>	<u>\$ 381,376</u>

As at June 30, 2017, the average effective bond and dividend yields and the terms to maturity are as follows:

- Fixed income: ranging from 1.28% to 2.29% (2016: 0.99% to 1.95%); weighted-average yield 1.89% (2016: 1.51%); terms to maturity range from less than one year to greater than 10 years
- Canadian equity: 3.03% (2016: 3.10%)
- All World equity: 3.03% (2016: 2.95%)

The composition of portfolio investments measured at fair value is as follows:

2017				
	Level 1	Level 2	Level 3	Total
Portfolio investments at fair value:				
Fixed income *	\$ -	\$ 223,294	\$ -	\$ 223,294
Canadian equity	56,409	-	-	56,409
All World equity **	96,714	(72)	-	96,642
Other	-	-	1,290	1,290
	<u>\$ 153,123</u>	<u>\$ 223,222</u>	<u>\$ 1,290</u>	<u>\$ 377,635</u>
	<u>40.6%</u>	<u>59.1%</u>	<u>0.3%</u>	<u>100.0%</u>

2016				
	Level 1	Level 2	Level 3	Total
Portfolio investments at fair value:				
Fixed income *	\$ -	\$ 249,198	\$ -	\$ 249,198
Canadian equity	47,548	-	-	47,548
All World equity **	83,372	47	-	83,419
Other	-	-	1,211	1,211
	<u>\$ 130,920</u>	<u>\$ 249,245</u>	<u>\$ 1,211</u>	<u>\$ 381,376</u>
	<u>34.3%</u>	<u>65.4%</u>	<u>0.3%</u>	<u>100.0%</u>

2017 level composition is based on December 31, 2016 information provided by investment manager.

* Fixed income pooled investments consist mainly of government and corporate bonds. The pools can also have money market funds, short term notes and treasury bills.

** All World equity includes investments in Canadian markets, equating to 9.9% (2016: 9.9%) of the Fund at December 31, 2016.

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

Level 2 – Fair value measurements are those derived from 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. derives from prices).

Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

The following table reconciles the changes in fair value of level 3 investments:

	2017	2016
Balance, beginning of year	\$ 1,211	\$ 739
Investment income	84	477
Funds disbursed to NAIT	(4)	(4)
Expenses	(1)	(1)
Balance, end of year	<u>\$ 1,290</u>	<u>\$ 1,211</u>

NAIT's investment policy is dedicated to optimizing the return on investment while ensuring that the assets of NAIT are at all times prudently invested to minimize the potential for loss of capital.

Specific guidelines have been established with respect to asset mix, diversification, security and performance measurement as well as quality, liquidity and term constraints.

	Endowments recorded in deferred contributions (Note 8)	Accumulated remeasurement gains and losses	Total
Balance as at July 1, 2015	\$ 2,608	\$ 9,059	\$ 11,667
Unrealized gains attributable to portfolio investments	1,940	4,024	5,964
Amounts reclassified to statement of operations	(1,374)	(5,071)	(6,445)
Balance as at June 30, 2016	\$ 3,174	\$ 8,012	\$ 11,186
Unrealized gains attributable to portfolio investments	1,949	3,019	4,968
Amounts reclassified to statement of operations	(1,961)	(4,887)	(6,848)
Balance as at June 30, 2017	\$ 3,162	\$ 6,144	\$ 9,306

5. FINANCIAL RISK MANAGEMENT

NAIT is exposed to a variety of financial risks including market risks (price risk, currency risk and interest rate risk), credit risk and liquidity risk. To manage these risks, NAIT invests in a diversified portfolio of investments that is guided by established investment policies that outline risk and return objectives. The primary objective is to ensure that the assets of NAIT are at all times prudently invested to enhance the capital base of the portfolio and not subject NAIT to any undue risk or loss of capital.

NAIT's portfolio investments are in a pooled fund portfolio. All of the pooled funds have a year end of December 31. Where June 30 information is not available, NAIT uses the preceding December 31 information from the investment manager and current market value as a reasonable proxy for the calculations below.

NAIT 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, NAIT has established an investment policy governing asset mix, diversification, exposure limits, credit quality, and performance measurement.

A 5% change in the benchmark would result in an increase (decrease) in the market value of the investment portfolio per the table below.

	2017	2016
Canadian equity	\$ 1,523	\$ 1,279
All World equity *	3,672	3,454

* All World equity includes investments in Canadian markets, equating to 9.9% (2016: 9.9%) of the Fund at December 31, 2016.

All material risks that affect the market value of NAIT's investments in fixed income are adequately explained in credit and interest rate risk below.

In accordance with NAIT's investment policy, risk on portfolio investments is managed by restricting investments as follows:

- Investments may be made by directly holding investments or through units of a pooled fund.
- Financial institutions and broker/dealers handling NAIT's investments must be registered with the Alberta Securities Commission and be in good standing with the Investment Industry Regulatory Organization of Canada.

- 100% of the bonds held in the portfolio must be rated BBB or better by Standards & Poor's or an equivalent rating agency.
- Investments in equities are to be made in securities that trade on recognized stock exchanges.
- Investment strategies shall be supported by sound analysis of economic and industry fundamentals.
- Leverage investments that expose NAIT to liability beyond the amount invested are prohibited unless otherwise approved by the Finance Committee. These include but are not limited to derivatives, options, purchasing on margin and short selling of securities. Any approved exception by the Finance Committee must be consistent with taking appropriate action to ensure the preservation of capital.
- Except for the bonds issued or guaranteed by federal and provincial governments, no more than 10% of the fixed income portfolio will be invested in the bonds of a single issuer and related parties, and no single holding shall equal more than 10% of the market value of the total outstanding for that issue.
- The debt and equity investments in a single company are limited to 10% of the book value of the fund.
- No equity in the portfolio shall represent more than 9.9% of the voting shares of a company. The maximum equity holding of a company is limited to a weight of 10% of the market value of the Canadian equity and Global equity portfolios as the case may be.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. NAIT does not use foreign currency forward contracts or any other type of derivative financial instruments for trading or speculative purposes. NAIT's exposure to foreign exchange risk is low due to the amount of business activities conducted in foreign currency. NAIT further mitigates risks by limiting international contracts that are not in Canadian dollars to only US dollars.

A 5% strengthening or weakening in the Canadian dollar would result in a \$3,962 (2016: \$3,429) change in the market value of the investment portfolio.

CREDIT RISK

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honor its financial obligations with NAIT. NAIT is exposed to credit risk on investments and has established an investment policy with required minimum credit quality standards and issuer limits to manage this risk. The credit risk from accounts receivable is relatively low as the majority of balances are due from government agencies and corporate sponsors. Credit risk from tuition is managed through restricted enrolment activities for students with delinquent balances and maintaining standard collection procedures.

The credit rating distribution of bonds (based on market value) is as follows:

	2017	2016
AAA	28.7%	27.5%
AA	38.4%	35.9%
A	18.7%	23.8%
BBB	12.9%	10.8%
Short-term investments and other net assets (liabilities)	1.3%	2.0%
	100.0%	100.0%

LIQUIDITY RISK

Liquidity risk is the risk that NAIT will encounter difficulty in meeting obligations associated with its financial liabilities. NAIT invests in short-term pooled funds to manage short-term cash requirements. NAIT maintains a short-term line of credit that is designed to ensure the availability of funds to meet current and forecasted financial requirements as cost effectively as possible. As at June 30, 2017, NAIT had not drawn on this line of credit.

INTEREST RATE RISK

Interest rate risk is the risk to NAIT's earnings that arises from the fluctuations in interest rates and the degree of volatility in these rates. The risk is managed by contractually setting interest rates with banking institutions and investing in a fixed income portfolio with a variety of interest rates and terms to maturity. Interest risk on NAIT's debt is managed through fixed-rate agreements with Alberta Capital Finance Authority (Note 7).

A 1% change in the interest rate in the fixed income portfolio would result in a \$9,680 (2016: \$10,489) change in the market value of the investment portfolio.

The maturity of interest bearing investments (fixed income portfolio) are as follows:

	2017	2016
< 1 year	16.8%	20.7%
1 - 5 years	58.3%	54.2%
> 5 years	24.9%	25.1%
	100.0%	100.0%
Average effective yield	1.89%	1.51%

6. EMPLOYEE FUTURE BENEFIT LIABILITIES

Employee future benefit liabilities are comprised of the following:

	2017	2016
Accrued vacation pay	\$ 21,334	\$ 20,777
Long-term disability	5,003	5,089
Supplementary retirement plan	1,420	1,269
Special leave plan	533	493
Management retirement plan	51	76
	\$ 28,341	\$ 27,704

A. DEFINED BENEFIT PLANS ACCOUNTED FOR ON A DEFINED BENEFIT BASIS

Long-term disability (LTD)

NAIT provides long-term disability defined benefits to employees. The most recent actuarial valuation for these benefits was as at June 30, 2017. The long-term disability plan provides pension and non-pension benefits after employment, but before the employee's normal retirement date. Salary costs are covered by an insurance plan.

Supplementary Retirement Plan (SRP)

NAIT provides non-contributory defined supplementary retirement benefits to current and past executives. An actuarial valuation of these benefits was carried out as at June 30, 2017.

Special Leave Plan

NAIT provides compensated absences for its employees under a special leave plan. Under this plan, employees contribute 18% of their gross bi-weekly earnings for a contributory period of four years. For the fifth year, employees receive 82% of their gross salary as of the last day of their contributory period. Alternatively, employees contribute 18% of their gross bi-weekly earnings for a contributory period of two years and for the subsequent six months, receive 82% of their gross salary as of the last day of their contributory period. NAIT funds the shortfall between the contributed funds, including interest earned, and the gross salary to be paid to the employee during their compensated absence. NAIT's contribution to the total liability under the plan is \$419 (2016: \$414), and has been discounted at a rate of 0.0% (2016: 0.0%).

B. DEFINED BENEFIT PLANS ACCOUNTED FOR ON A DEFINED CONTRIBUTION BASIS

Local Authorities Pension Plan

The Local Authorities Pension Plan (LAPP) is a multi-employer contributory defined benefit pension plan for staff members and is accounted for on a defined contribution basis. As at December 31, 2016, the LAPP reported an actuarial deficiency of \$637,357 (2015: \$923,416). As at June 30, 2017, NAIT recorded 2,362 (2016: 2,291) pensionable contributors comprising 1.50% (2016: 1.47%) of active LAPP membership. NAIT is not responsible for future funding of the plan deficit other than through contribution increases. The pension expense recorded in these financial statements is \$25,068 (2016: \$24,099).

Management Retirement Plan

A management retiring allowance was established in 1988 in response to market conditions. The allowance is \$2 per year of eligible service. To be eligible to receive this allowance, employees must have been employed in an eligible management position with NAIT prior to July 1, 2002 and also be eligible for retirement benefits from the Local Authorities Pension Plan. Managers whose employment with NAIT commenced on or after July 1, 2002 are not eligible for this allowance. The liability is calculated based on management's best estimate of when the eligible employee will retire and a discount rate of 2.7% (2016: 2.7%).

The expense and financial position of these defined benefit plans are as follows:

	2017			
	LTD	SRP	Special Leave	Management Retiring
Expense				
Current service cost	\$ 220	\$ 241	\$ 40	\$ 11
Interest cost	103	56	-	-
Amortization of actuarial (gains) losses	-	(52)	-	-
	<u>\$ 323</u>	<u>\$ 245</u>	<u>\$ 40</u>	<u>\$ 11</u>
Financial Position				
Accrued benefit obligation:				
Balance, beginning of year	\$ 5,089	\$ 1,269	\$ 493	\$ 76
Current service cost	220	241	40	11
Interest cost	103	56	-	-
Benefits paid	(409)	(94)	-	(36)
Actuarial (gain) loss	-	(52)	-	-
Balance, end of year	<u>\$ 5,003</u>	<u>\$ 1,420</u>	<u>\$ 533</u>	<u>\$ 51</u>

	2016			
	LTD	SRP	Special Leave	Management Retiring
Expense				
Current service cost	\$ 2,018	\$ 222	\$ 639	\$ 6
Interest cost	53	41	-	-
Amortization of actuarial (gains) losses	-	29	-	-
	<u>\$ 2,071</u>	<u>\$ 292</u>	<u>\$ 639</u>	<u>\$ 6</u>
Financial Position				
Accrued benefit obligation:				
Balance, beginning of year	\$ 4,344	\$ 986	\$ 396	\$ 99
Current service cost	2,018	222	639	6
Interest cost	53	41	-	-
Benefits paid	(1,326)	(9)	(542)	(29)
Actuarial (gain) loss	-	29	-	-
Balance, end of year	<u>\$ 5,089</u>	<u>\$ 1,269</u>	<u>\$ 493</u>	<u>\$ 76</u>

NAIT plans to use its working capital to finance these future obligations.

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

	2017		2016	
	LTD	SRP	LTD	SRP
Accrued benefit obligation:				
Discount rate	2.45%	2.45%	2.45%	2.45%
Long-term average compensation increase	3.00%	3.00%	3.00%	3.00%
Benefit cost:				
Discount rate	2.45%	2.45%	2.45%	2.60%
Long-term average compensation increase	3.00%	3.00%	3.00%	3.00%
Alberta inflation (long term)	2.00%	2.00%	2.00%	2.00%
Estimated average remaining service life	5	12	6	13

7. DEBT

Debt is measured at amortized cost and is comprised of the following:

	2017				2016
	Collateral	Maturity Date	Interest rate	Amortized Cost	Amortized Cost
Debentures payable to Alberta Capital Finance Authority:					
Parkade	Cashflows	December 2042	3.426%	\$ 21,132	\$ 21,645
Centre for Applied Technology	(1)	June 2019	1.373%	150,000	150,000
				<u>\$ 171,132</u>	<u>\$ 171,645</u>

(1) Security interest in all of its present and after-acquired personal property exclusive of the Centre for Applied Technology.

Principal and interest repayments are as follows:

	Principal	Interest	Total
2018	\$ 530	\$ 2,779	\$ 3,309
2019	150,548	2,761	153,309
2020	567	682	1,249
2021	587	663	1,250
2022	607	642	1,249
Thereafter	18,293	7,320	25,613
	<u>\$ 171,132</u>	<u>\$ 14,847</u>	<u>\$ 185,979</u>

Interest expense on debt is \$4,547 (2016: \$3,518) and is included in the consolidated statements of operations.

8. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants and donations. Deferred contributions are set aside for specific purposes as required by legislation, regulation or agreement. Changes in the deferred contributions balances are as follows:

	Unexpended Operating Contributions	Unexpended Capital Contributions	Total
Balance as at July 1, 2015	\$ 23,679	\$ 22,278	\$ 45,957
Grants and donations received	56,746	28,024	84,770
Investment income (Note 14)	2,743	38	2,781
Unearned capital acquisition transfers (Note 10)	-	(40,856)	(40,856)
Recognized as revenue	49,581	-	(49,581)
Transferred to endowment	(366)	-	(366)
Change in unrealized gain on investments relating to endowments (Note 4)	566	-	566
Balance as at June 30, 2016	\$ 33,787	\$ 9,484	\$ 43,271
Grants and donations received	58,450	74,416	132,866
Investment income (Note 14)	3,234	24	3,258
Unearned capital acquisition transfers (Note 10)	-	(79,393)	(79,393)
Recognized as revenue	(59,607)	-	(59,607)
Transferred to endowment	(462)	-	(462)
Change in unrealized gain on investments relating to endowments (Note 4)	(12)	-	(12)
Balance as at June 30, 2017	\$ 35,390	\$ 4,531	\$ 39,921

9. TANGIBLE CAPITAL ASSETS

	2017							2016
	Land	Buildings, Leasehold and Site Improvements	Furnishings, Equipment and Systems	Vehicles	Library holdings	Work in progress	Total	Total
Cost								
Beginning of year	\$ 40,703	\$ 324,815	\$ 127,238	\$ 2,750	\$ 3,515	\$ 226,657	\$ 725,678	\$ 633,911
Acquisitions	126	226,808	27,325	157	129	(192,451)	62,094	98,100
Disposals	-	-	(4,195)	(114)	(14)	-	(4,323)	(6,333)
	<u>40,829</u>	<u>551,623</u>	<u>150,368</u>	<u>2,793</u>	<u>3,630</u>	<u>34,206</u>	<u>783,449</u>	<u>725,678</u>
Accumulated Amortization								
Beginning of year	-	(163,378)	(90,224)	(1,890)	(2,512)	-	(258,004)	(242,126)
Amortization expense	-	(18,087)	(13,779)	(262)	(255)	-	(32,383)	(22,137)
Disposals	-	-	4,172	114	14	-	4,300	6,259
	<u>-</u>	<u>(181,465)</u>	<u>(99,831)</u>	<u>(2,038)</u>	<u>(2,753)</u>	<u>-</u>	<u>(286,087)</u>	<u>(258,004)</u>
Net book value at								
June 30, 2017	<u>\$ 40,829</u>	<u>\$ 370,158</u>	<u>\$ 50,537</u>	<u>\$ 755</u>	<u>\$ 877</u>	<u>\$ 34,206</u>	<u>\$ 497,362</u>	
Net book value at								
June 30, 2016	<u>\$ 40,703</u>	<u>\$ 161,437</u>	<u>\$ 37,014</u>	<u>\$ 860</u>	<u>\$ 1,003</u>	<u>\$ 226,657</u>	<u>\$ 467,674</u>	<u>\$ 467,674</u>

Cost includes work-in-progress totaling \$34,206 (2016: \$226,657), comprised of buildings \$31,297 (2016: \$213,320), site improvements \$1,424 (2016: \$51), leasehold improvements \$0 (2016: \$114), equipment \$1,096 (2016: \$13,172) and software \$389 (2016: \$0).

Acquisitions during the year include in-kind contributions in the amount of \$415 (2016: \$280).

10. SPENT DEFERRED CAPITAL CONTRIBUTIONS

Spent deferred capital contributions is comprised of restricted grants and donations spent on tangible capital acquisitions (not yet recognized as revenue).

	2017	2016
Balance, beginning of year	\$ 290,440	\$ 263,879
Transfers from unspent deferred capital contributions (Note 8)	79,393	40,856
Expended capital recognized as revenue	(21,685)	(14,251)
Net book value of asset disposals	(15)	(44)
Balance, end of year	<u>\$ 348,133</u>	<u>\$ 290,440</u>

11. ACCUMULATED SURPLUS

	Accumulated Operating Surplus	Funds and Reserves	Investment in Tangible Capital Assets	Endowments	Total Accumulated Surplus
Balance as at July 1, 2015	\$ 18,135	\$ 116,593	\$ 106,076	\$ 40,292	\$ 281,096
Annual operating surplus	5,629	-	-	-	5,629
Endowments					
Contributions	-	-	-	800	800
Capitalized investment income	-	-	-	366	366
Tangible capital assets					
Amortization of tangible capital assets	7,886	-	(7,886)	-	-
Acquisition of tangible capital assets	(47,548)	(9,696)	57,244	-	-
Debt - expenditures from funds received in prior years	43,683	-	(43,683)	-	-
Debt - repayment	(495)	-	495	-	-
Net book value of tangible capital asset disposals	29	-	(29)	-	-
Operating expenses funded from funds and reserves	2,104	(2,104)	-	-	-
Net Board appropriation to funds and reserves	(1,298)	1,298	-	-	-
Change in accumulated remeasurement gains and losses	(1,047)	-	-	-	(1,047)
Balance as at June 30, 2016	\$ 27,078	\$ 106,091	\$ 112,217	\$ 41,458	\$ 286,844
Annual operating deficit	(6,146)	-	-	-	(6,146)
Endowments					
Contributions	-	-	-	1,022	1,022
Capitalized investment income	-	-	-	470	470
Tangible capital assets					
Amortization of tangible capital assets	10,698	-	(10,698)	-	-
Acquisition of tangible capital assets (1)	28,665	(11,366)	(17,299)	-	-
Debt - disbursement in previous year subsequently funded by restricted external sources	(43,683)	-	43,683	-	-
Debt - expenditures from funds received in prior years	9,646	-	(9,646)	-	-
Debt - repayment	(512)	-	512	-	-
Net book value of tangible capital asset disposals	8	-	(8)	-	-
Operating expenses funded from funds and reserves	8,653	(8,653)	-	-	-
Net Board appropriation to funds and reserves	(3,971)	3,971	-	-	-
Change in accumulated remeasurement gains and losses	(1,868)	-	-	-	(1,868)
Balance as at June 30, 2017	\$ 28,568	\$ 90,043	\$ 118,761	\$ 42,950	\$ 280,322
Net assets is comprised of:					
Accumulated surplus	\$ 22,424	\$ 90,043	\$ 118,761	\$ 42,950	\$ 274,178
Accumulated remeasurement gains and losses	6,144	-	-	-	6,144
	\$ 28,568	\$ 90,043	\$ 118,761	\$ 42,950	\$ 280,322

(1) Acquisition of tangible capital assets includes an adjustment for additional restricted funding received in 2016/17 for assets acquired in the previous year.

Investment in tangible capital assets represents the amount of NAIT's accumulated surplus that has been invested in tangible capital assets.

FUNDS AND RESERVES

Funds and reserves represent amounts set aside by NAIT's Board of Governors for specific purposes. These amounts are not available for other purposes without the approval of the Board, and do not have interest allocated to them. Funds and reserves are summarized as follows:

	Balance, Beginning of Year	Appropriations from (returned to) Accumulated Operating Surplus	Disbursements During the Year	Balance, End of Year
Appropriation for capital activities:				
Centre for Applied Technology				
Cascading Reserve	\$ 27,712	\$ 12,332	\$ (3,313)	\$ 36,731
Main Campus Renovations	14,346	31	(126)	14,251
Student Housing	10,000	-	-	10,000
Capital Renewal	1,913	181	(6)	2,088
Centre for Applied Technology	21,665	(12,539)	(7,354)	1,772
LRT-related Activities	31	(31)	-	-
Academic Incentive Plan	-	432	(432)	-
Strategic Investment Fund	-	121	(121)	-
General Research Fund	-	14	(14)	-
	<u>75,667</u>	<u>541</u>	<u>(11,366)</u>	<u>64,842</u>
Appropriation for operating activities:				
Strategic Investment Fund	3,577	2,656	(295)	5,938
Academic Development Fund	3,855	125	(109)	3,871
Department of Corporate, International and Continuing Education Course Development	1,324	500	(440)	1,384
General Research Fund	1,161	366	(440)	1,087
Academic Incentive Plan	2,507	(432)	(1,008)	1,067
Centre for Applied Technology	-	203	(203)	-
Capital Renewal	-	8	(8)	-
Centre for Applied Technology Cascading Reserve	-	4	(4)	-
	<u>12,424</u>	<u>3,430</u>	<u>(2,507)</u>	<u>13,347</u>
Appropriation for programs, operations and equipment	18,000	-	(6,146)	11,854
	<u>\$ 106,091</u>	<u>\$ 3,971</u>	<u>\$ (20,019)</u>	<u>\$ 90,043</u>

12. CONTINGENT LIABILITIES

- NAIT is a defendant in a number of legal proceedings. While the ultimate outcome and liability of these proceedings cannot be reasonably predicted at this time, it is the opinion of NAIT's management that any settlement will not have a material, adverse effect on the financial position or the results of operations of NAIT.
- NAIT has identified potential asset retirement obligations related to the existence of asbestos in a number of its facilities. Although not a current health hazard, upon renovation or demolition of these facilities, NAIT may be required to take appropriate remediation procedures to remove the asbestos. As NAIT has no legal obligation to remove the asbestos in these facilities as long as the asbestos is contained and does not pose a public health risk, the fair value of the obligation cannot be reasonably estimated due to the indeterminate timing and scope of the removal. The asset retirement obligations for these assets will be recorded in the period in which there is certainty that the capital project will proceed and there is sufficient information to estimate fair value of the obligation.

NAIT has obligations for various asbestos remediations, as scheduled for 2018. Management estimates remediation costs of \$489 (2016: \$190) based on contractual obligations and current industry costs. This amount has been recorded in the financial statements.

13. CONTRACTUAL OBLIGATIONS

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

	2017	2016
Capital projects	\$ 71,757	\$ 33,519
Operating leases	21,657	10,915
	\$ 93,414	\$ 44,434

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

	Capital Projects	Operating Leases	Total
2018	\$ 69,398	\$ 3,393	\$ 72,791
2019	2,359	2,234	4,593
2020	-	1,982	1,982
2021	-	1,909	1,909
2022	-	1,931	1,931
Thereafter	-	10,208	10,208
	\$ 71,757	\$ 21,657	\$ 93,414

As at June 30, 2017, NAIT has contractual commitments for capital projects as follows:

Productivity and Innovation Centre	\$ 47,172
T Building Renovation	12,585
L Building Renovation	6,304
Various other projects	4,757
Centre for Applied Technology	939
	\$ 71,757

14. INVESTMENT INCOME

	2017	2016
Investment earnings	\$ 18,378	\$ 18,925
Less transferred to Deferred Contributions (Note 8)	(3,258)	(2,781)
Investment earnings from unrestricted sources	15,120	16,144
Add transfers from Deferred Contributions	3,133	1,832
Investment income	\$ 18,253	\$ 17,976

Investment earnings include an accrual of \$5,469 (2016: \$5,663). The accrual represents management's best estimate of revenue earned from January 1 to June 30 (6 months) and not yet distributed, based on information provided by the Investment Manager (see Note 2(c)).

15. BUDGET

NAIT's 2017 budget was approved by the Board of Governors and was presented to the Minister of Advanced Education as part of NAIT's submission of its 2016/17 to 2018/19 Comprehensive Institutional Plan.

16. EXPENSE BY OBJECT

The following is a summary of expenses by object:

	2017		2016
	Budget	Actual	Actual
Salaries and employee benefits	\$ 261,799	\$ 264,565	\$ 253,600
Materials, supplies and services			
Cost of goods sold	14,261	15,086	14,940
Purchased labour and services	14,908	14,617	12,786
Classroom, lab and general supplies	11,410	13,592	13,639
Other materials, supplies and services	11,640	9,111	9,220
Maintenance and repairs	18,805	19,698	12,649
Utilities	8,492	7,568	6,964
Scholarships, bursaries and prizes	2,577	2,938	2,863
Interest expense	3,241	4,547	3,518
Amortization of capital assets	33,634	32,383	22,137
	<u>\$ 380,767</u>	<u>\$ 384,105</u>	<u>\$ 352,316</u>

17. FUNDS HELD ON BEHALF OF OTHERS

NAIT holds the following funds on behalf of others over which the Board has no power of appropriation. Accordingly, these funds are not included in the financial statements.

	2017	2016
Alberta Post-Secondary Application System Society	\$ 5,274	\$ 4,324
NAIT Student's Association	1,517	1,844
	<u>\$ 6,791</u>	<u>\$ 6,168</u>

18. GOVERNMENT OF ALBERTA TRANSACTIONS AND BALANCES

NAIT operates under the authority and statutes of the Province of Alberta. Transactions and balances between NAIT and the Government of Alberta are measured at the exchange amount and summarized below.

	2017	2016
Grants from Government of Alberta		
Advanced Education		
Campus Alberta	\$ 153,919	\$ 150,656
Apprenticeship	28,170	27,284
Infrastructure Maintenance Program	4,375	3,116
Capital - Centre for Applied Technology	55,300	24,700
Capital - Productivity and Innovation Centre	17,168	-
Capital	-	30
Targeted enrolment expansion	8,710	7,123
Lights-on funding	4,245	4,784
Other	2,546	1,949
Total Advanced Education	274,433	219,642
Other Post-secondary Institutions	7	7
Other Government of Alberta departments and agencies		
Economic Development and Trade	1,024	3,978
Labour	71	53
Health	16	6
Culture and Tourism	-	75
Agriculture and Forestry	-	74
Total Other Government of Alberta departments and agencies	1,111	4,186
Total contributions received and receivable	275,551	223,835
Less deferred contributions	(73,683)	(32,186)
Total Government of Alberta operating grant revenue	\$ 201,868	\$ 191,649

During the year NAIT conducted business transactions with related parties, including Ministries of the Province of Alberta, other Alberta post-secondary institutions and corporations for which certain Board members of NAIT serve as management. The revenues and expenses incurred for these have been included in the consolidated statement of operations but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair market value. No material amounts are recorded in accounts receivable or accounts payable other than transactions entered into at arms-length.

NAIT has long-term liabilities with Alberta Capital Finance Authority as described in Note 7.

19. SALARY AND EMPLOYEE BENEFITS

The following is a summary of expenses by object:

	2017				2016
	Base Salary ¹	Other Cash Benefits ²	Other Non-Cash Benefits ^{3,4}	Total	Total
Chair of the Board ⁵	\$ -	\$ -	\$ -	\$ -	\$ -
Board Members ⁵	-	-	5	5	6
President and CEO					
Salary and benefits	376	120	236	732	690
Provost and Vice President Academic ⁶	68	132	(195)	5	399
Provost ⁶	175	27	43	245	-
Vice President Academic ⁶	172	26	28	226	-
Vice President External Relations and CDO	246	66	149	461	397
Vice President Administration and CFO	246	101	-	347	351
Chief Strategy Officer ⁷	-	-	-	-	99

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include variable compensation payments, vacation payouts by special approval or upon retirement, car allowance and pay in lieu of employee benefits.

(3) Other non-cash benefits include

- NAIT's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short- and long-term disability plans, management retirement allowance and professional memberships required for employment.
- NAIT's current and prior service cost of the supplementary retirement plan, as outlined below.
- The tuition fee for the two student representatives on the Board of Governors.
- Negative amounts may appear if accrued non-cash benefits are lower than actual cash benefits paid.

(4) Supplementary Retirement Plan

Under the terms of the supplementary retirement plan (SRP), executive officers may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post employment period. The SRP provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

NAIT uses a discount rate being determined with reference to its borrowing rate of 2.45% in the actuarial valuation of the current service costs.

The supplementary retirement plan current service cost and accrued obligation for each of the executives in the above table are outlined in the following table:

	2017				
	Current		Prior Service and Other		2016 Total
	Cost	Service Cost	Costs	Total	
President and CEO	\$ 153	\$ 24	\$ 25	\$ 202	\$ 138
External Relations and CDO	68	21	31	120	79
Provost and Vice President Academic	21	6	(112)	(85)	66

The accrued obligation for each executive under the SRP is outlined in the following table:

	Accrued Obligation June 30, 2016	Service Cost	Interest Cost	Benefits Paid	Actuarial Loss (Gain)	Accrued Obligation June 30, 2017
President and CEO						
Current incumbent	\$ 815	\$ 153	\$ 24	-	\$ (33)	\$ 959
Vice President External Relations and CDO	805	68	20	-	(34)	859
Provost and Vice President Academic						
Past incumbent 2017	255	21	6	(85)	(197)	-
Past incumbent 2011	199	-	5	(9)	-	195

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

- (5) The Chair and other members of the Board of Governors receive no remuneration for the services they provide as members of the Board of Governors.
- (6) The past incumbent Provost and Vice President Academic left the position in October 2016 and the role was separated into two on an interim basis. The Interim Provost and Interim Vice President Academic appointments will end in September 2018. The value of the non-cash benefits were based on actuarial estimates of past years and the actual payout was less than previously expensed resulting in a negative non-cash benefit in the current year.
- (7) The past incumbent Chief Strategy Officer left the position in November 2015. The vacant position has not yet been filled.

20. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Governors of the Northern Alberta Institute of Technology on October 10, 2017.

21. COMPARATIVE FIGURES

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

INSTITUTIONAL PROFILE

MANDATE STATEMENT

Established under the *Post-secondary Learning Act* (PSLA), the Board manages and operates the post-secondary institution within its approved mandate [PSLA Section 60(1)(a)].

The Northern Alberta Institute of Technology (NAIT) is a public, board governed technical institute operated as a Polytechnic Institution under the authority of the *Post-secondary Learning Act of Alberta*.

As a Polytechnic Institution, NAIT fulfills its role and mandate by offering educational programs and engaging in industry-driven applied research designed to meet the needs of Alberta, students, and industry. NAIT is committed to accessibility, innovation, and responsiveness through collaboration within the Campus Alberta system, and uses new approaches and new technology to deliver educational programs and facilitate collaboration.

Through a practical, hands-on, outcomes-based approach to education, NAIT attracts a diverse group of life-long learners who achieve success in their chosen field and who contribute to the economy and society of Alberta and other regions.

NAIT provides learners with options for career and credential progression by offering academic upgrading, apprenticeship programs, certificate and diploma programs, as well as applied and baccalaureate degrees in specified areas. NAIT delivers programs in a broad range of fields including biological sciences, business, construction, electrical, electronics, engineering technologies, health technologies, hospitality and tourism, manufacturing, mechanical, media and information technologies, natural resources, transportation and trades.

NAIT is valued globally for excellence in four program pillars: science, technology and the environment; health; business; and the trades. Additional priority areas and learner pathways focus on entrepreneurship, safety, sustainability, and energy. NAIT provides business incubator support for those seeking to create and develop new products and services and accelerate or launch new ventures. NAIT cultivates public and private partnerships that enhance student-learning outcomes, create career pathways, and serve communities in which NAIT operates.

NAIT engages in innovative applied research in areas such as boreal forest reclamation, oil sands sustainability, sustainable business practices, productivity enhancement, and others as identified by industry. Applied research is designed to generate immediate and identifiable impacts and solutions to business and industry through the development of new technologies and processes, while scholarly activity is conducted to enhance NAIT's curriculum and the educational experience of faculty and students.

NAIT offers an environment where students can excel and a robust recreation program that promotes health and wellness. Through its credit and non-credit learning opportunities, NAIT offers a large selection of courses and programs through a variety of delivery methods, creating flexible learning pathways. In addition, NAIT offers customized training and workforce development for domestic and international corporate clients in key business and industry sectors.

NAIT believes in and fosters holistic student success through an integrated approach to academic quality and excellence, including the use of leading-edge technology and customer focused student services. Services for students are available through face-to-face and virtual interactions. The Aboriginal and International Student Centres provide additional support to help meet the cultural needs of learners.

In order to be competitive in a global economy, business and industry require a workforce with the knowledge, skills and attitudes to recognized and pursue opportunities, improve productivity, embrace change and promote innovation. As an internationally recognized Polytechnic institute, NAIT is a leader in equipping its graduates for success in the global economy.

Approved by Minister of Advanced Education, June 16, 2014.

GOVERNANCE AND ADMINISTRATION (AS AT JUNE 30, 2017)

BOARD OF GOVERNORS

PUBLIC MEMBERS

Ray Martin (Chair)

Public Trustee
Edmonton Public School Board

Vi Becker

Consultant, Marketing and Communications
Stantec

Valerie Berger

Vice President, Financial Services
ATCO Gas

Mary Lynne Campbell

Executive Director/CEO
Public School Boards' Association of Alberta

Yasmin Jivraj

Director
Dexcent

Daryl Kruper

CEO
Simmax Corp.

Allan Mah

Mah & Associate Consulting
Appeals Commissioner –
Alberta Appeals Commission

Keith Meagher

Retired Engineer

Ray Pisani

President and CEO
Alberta Blue Cross

Matthew Woodley

Operations Partner
Reynolds Mirth Richards & Farmer LLP

NAIT STAFF MEMBERS

Dr. Glenn Feltham

President and CEO

Garry Wilson

Instructor, Electrician Programs
(Academic Representative)

Randy Tribiger

Instructor, Electrician Programs
(Academic Representative)

Jeff Mason

Web Content Coordinator, Marketing and Communications
(AUPE Representative)

NAIT STUDENT MEMBERS

Joel Benitez

Student Representative

Tamara Russell

Student Representative

COMMITTEES OF THE BOARD OF GOVERNORS

ACADEMIC COUNCIL

Dr. Glenn Feltham (Chair)

CAMPUS DEVELOPMENT COMMITTEE

Allan Mah (Chair)

EXECUTIVE COMMITTEE

Ray Martin (Chair)

EXTERNAL RELATIONS COMMITTEE

Vi Becker (Chair)

FINANCE COMMITTEE

Valerie Berger (Chair)

AUDIT COMMITTEE

Valerie Berger (Chair)

GOVERNANCE COMMITTEE

Ray Pisani (Chair)

HUMAN RESOURCES COMMITTEE

Daryl Kruper (Chair)

NAIT SENIOR OFFICERS

PRESIDENT AND CHIEF EXECUTIVE OFFICER PORTFOLIO

Dr. Glenn Feltham

INTERIM VICE PRESIDENT ACADEMIC PORTFOLIO

Dr. Sue Fitzsimmons

INTERIM PROVOST

Kevin Shufflebotham

VICE PRESIDENT ADMINISTRATION AND CHIEF FINANCIAL OFFICER PORTFOLIO

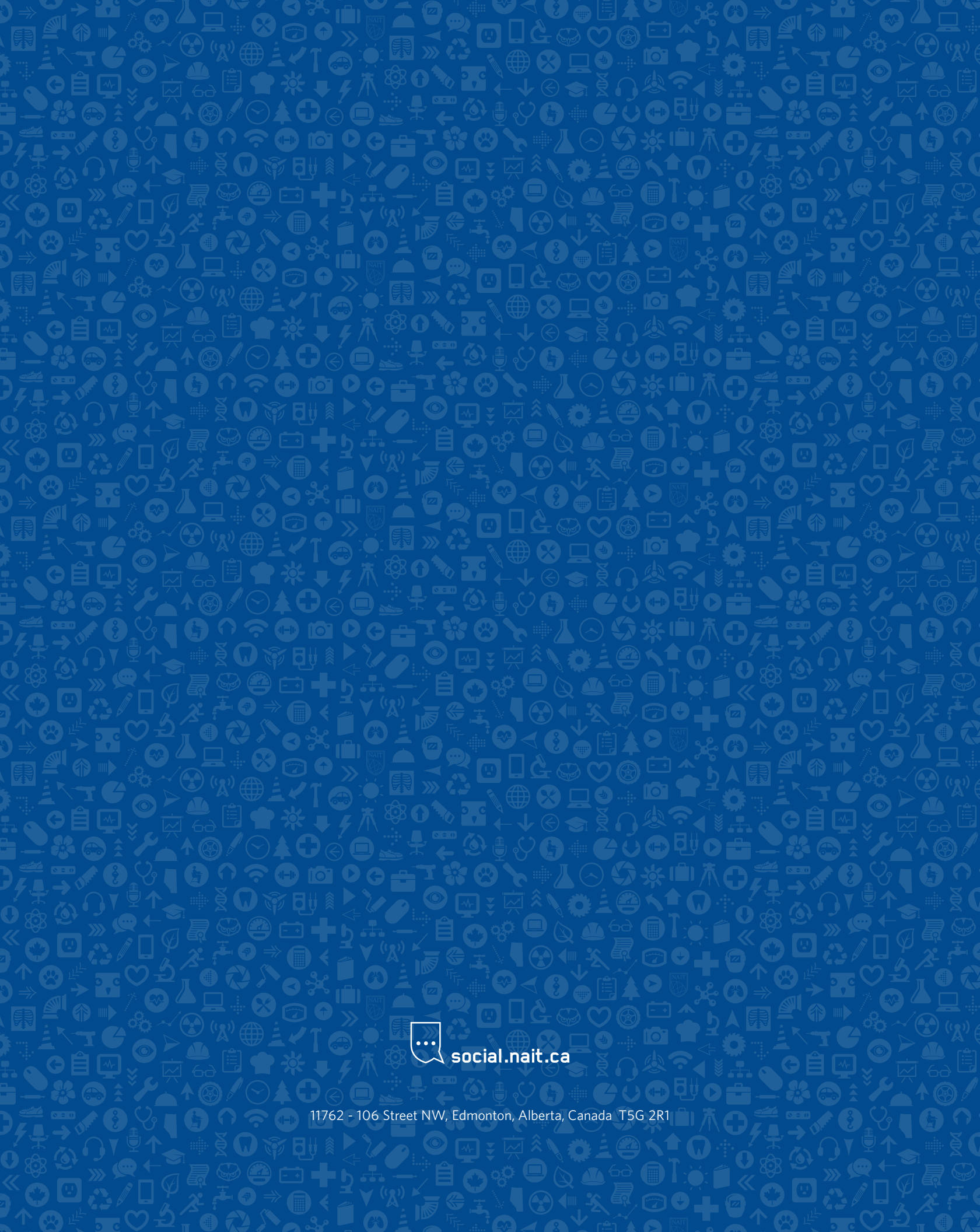
Dr. Ray Block

VICE PRESIDENT EXTERNAL RELATIONS AND CHIEF DEVELOPMENT OFFICER PORTFOLIO

George Andrews

NAIT FOUNDATION

Valerie Berger (Chair)



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