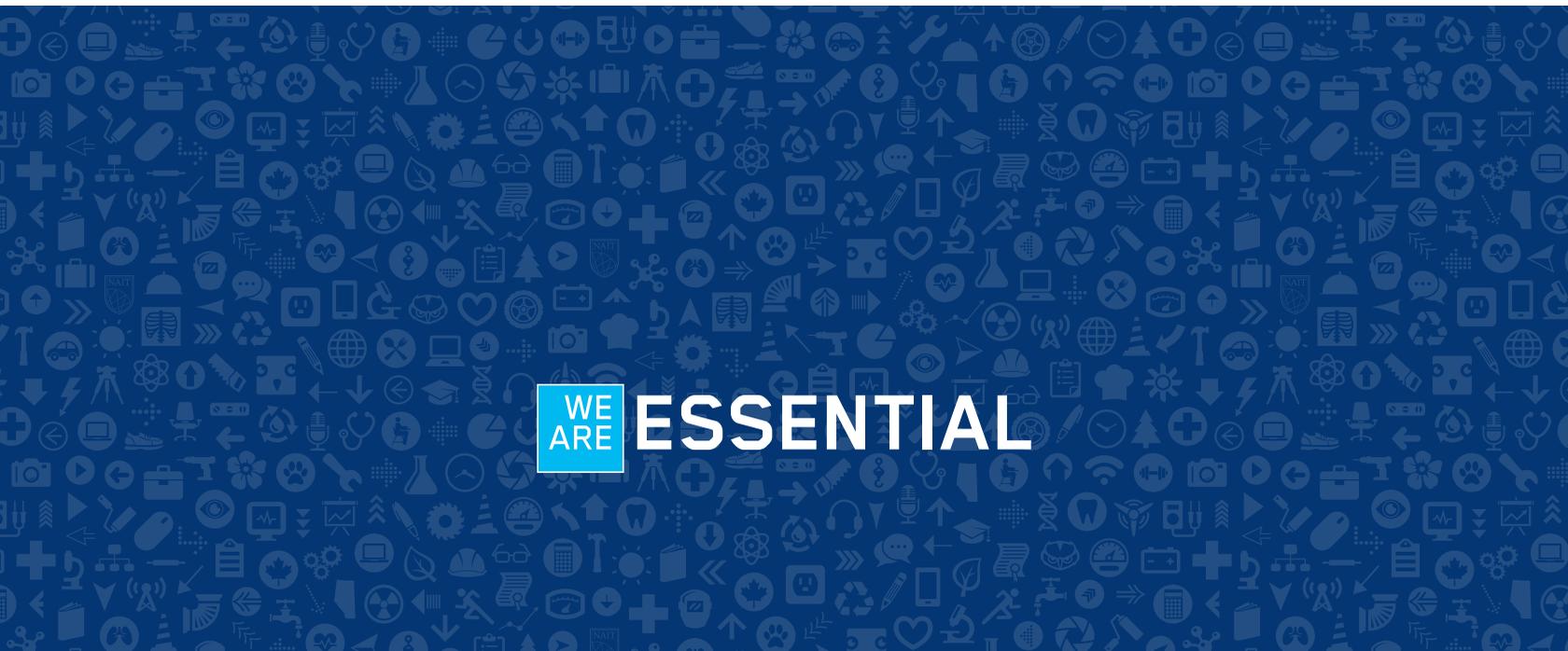




ANNUAL REPORT

2017/2018



WE
ARE

ESSENTIAL

Front cover from left to right:

Cecile Bukmeier
Instructor, Auto Body Technician
Auto Body Technician '15

Dr. Jean-Marie Sobze
Applied Research Chair, Plant and Seed Technologies
Centre for Boreal Research

Stephani Carter
Owner, General Manager & Project Director, EcoAmmo
Interior Design Technology '01

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ACCOUNTABILITY STATEMENT

NAIT's Annual Report for the year ended June 30, 2018, 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 that reads "Ray Martin". The signature is written in a cursive, flowing style.

Ray Martin
Chair, NAIT Board of Governors
December 11, 2018

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,



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



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

MESSAGE FROM THE PRESIDENT AND CEO

NAIT continues to play an essential role in our city, province and country.

Alberta needs the skilled workforce a NAIT education provides. The development of this talent is essential to the success of industry. But, in addition to this critical role, NAIT works directly with industry and businesses to help them to find solutions and to succeed. As a polytechnic, working in partnership with industry is part of our DNA. The creation of the Productivity and Innovation Centre allows us to deepen this relationship. This purpose-built building for industry and business provides dedicated space to helping industry to become more competitive.

Opening in fall 2018, this building was made possible in part through the \$34.9 million in funding from the Government of Canada's Post-Secondary Institutions Strategic Investment Fund as well as an endorsement of this project from the Government of Alberta. This project will open on time and on budget.

NAIT continues to lead in providing polytechnic education. This past year, we celebrated the first class of Trades to Degrees graduates. This pathway is one of the first in North America to allow qualified tradespeople the opportunity to move directly from a trades certificate to the third year of a degree program. Trades to Degrees was introduced in response to workforce demand for tradespeople with managerial, leadership and entrepreneurship skills. This program provides a meaningful pathway for those in the skilled trades to continue their post-secondary education.

We are grateful for the support of our community. Our largest fundraising campaign in our history, Essential: The NAIT Campaign, supported student success including scholarships and bursaries, applied research and the Centre for Applied Technology. We received incredible support for this campaign from alumni, individual donors, companies and industry – it has truly been amazing to see the generosity of so many. The campaign concluded in the spring and far exceeded our original goal of \$100 million, raising over \$123 million.

The impact of the funds raised for this campaign has helped so many students and has elevated our campus and has helped to provide new spaces so more people can get the polytechnic education they need for an exceptional career. I want to thank everyone who gave to NAIT to make this campaign such an incredible success.

We continue to focus on inclusivity. We hosted a number of events to celebrate the diversity of our campus, including Pride Week celebrations, Aboriginal Culture Day, various international events and much more. We also joined Pride at Work Canada to ensure our existing practices and current initiatives reduce barriers faced by LGBT staff in the workplace.

We also welcomed several new board members to NAIT's Board of Governors. I want to thank our Chair, Ray Martin, and our entire board for their efforts to advance NAIT's vision.

Alberta needs the skilled workforce NAIT educates. With an 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.

While we continue to have strong financial oversight and a robust balance sheet, we remain in a deficit position. The current deficit can be attributed in part to a weak Alberta economy which has resulted in significant decreases in the education of apprentices, corporate training and lower ancillary revenues. Additionally, the main revenue sources of grants and tuitions have not kept pace with the growth of our student population and services for our students. NAIT has continued to make decisions in support of growth to ensure Albertans have access to the polytechnic education they need for a rewarding career. We continue to control expenses and have diversified our revenue sources into the future to return to a balanced budget in the near future.

NAIT is an essential part of Edmonton, Alberta and Canada. We are ready to meet the demands of our province – we are here to provide the relevant and responsive education our students need for rewarding careers and we are here to help business and industry to succeed.

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 2017/18 year, NAIT's Designated Officer: (a) received no disclosures of wrongdoing and had no disclosures referred to it by the Public Interest Commissioner, (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

As a polytechnic, NAIT plays an important role in Alberta by providing the hands-on, technology-based education needed to meet the current and future needs of our province. Education and applied research play a critical role in advancing and diversifying Alberta.

Demand for polytechnic education continues to remain strong as people seek the skills they need for a rewarding career. With programs closely aligned to Alberta's economy, our graduates are making a real difference in the economy with an 86 per cent employment rate within nine months of graduating from full-time programs. Ninety-six per cent of graduates would recommend NAIT, and 95 per cent of employers are satisfied with our graduates.

As an institution, we are committed to helping Alberta to diversify its economy, and we offer programs in alternative energy and in many technology-related fields. We also offer a variety of options to support learners throughout their career and life to meet all needs whether that is to enhance skills for an existing career or new skills for a career change. We are focused on offering solutions to learners that meet their needs to ensure they can get the relevant and responsive education they need as the demands of the economy change.

Industry and business are partners in all NAIT does. Our new building, the Productivity and Innovation Centre (PIC), will deepen our relationship with industry. PIC's goal is to help Alberta companies to become more competitive, productive and innovative. It is the place industry and business will come for solutions and to succeed. NAIT will provide solutions and services that empower industry and businesses in Alberta to be globally competitive - these services relate to productivity, industry-driven applied research, product development and testing and technology adoption.

We continue to advance industry-driven applied research projects. The Productivity and Innovation Centre has additional space for more applied research centres with several under development in the areas of water sustainability, manufacturing, grid innovation, chemicals and fuels and much more.

Supporting students in accessing education continues to be a primary goal for NAIT. During the 2017/18 admission cycle, applicants lacking entrance requirements for their program of interest are automatically offered a free application to Academic Upgrading. NAIT continues to work directly with Aboriginal communities across Alberta to bring employability skills to communities which helps build capacity within each community.

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 the goals, priority initiatives, expected outcomes and performance measures outlined in our Comprehensive Institutional Plan.

The metrics presented in each of the goals are collected and reported from NAIT's internal financial and administration systems and through surveys conducted by NAIT's Department of Institutional Research.

GOAL 1: Create a student-centred experience beyond the classroom that supports and inspires lifelong success.

PERFORMANCE MEASURES

SATISFACTION WITH QUALITY OF STUDENT SUPPORT SERVICES

2017/18 TARGET

2017/18 ACTUAL

Description: Percentage of current NAIT students satisfied with the overall quality of student support services at NAIT

90%

88%

PRIORITY INITIATIVE 1	EXPECTED COMPLETION DATE
<p>Review NAIT’s response to instances of sexual violence and establish an institutional response supported by policy, procedures and a training and communication plan.</p>	<p>Completed</p>

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- A sexual violence policy and procedure approved, implemented and fully communicated.
- Ongoing training and education opportunities for students and staff.
- Growth in on-campus resources.
- Processes to capture future and ongoing needs.

2017/18 UPDATE

- We created a sexual violence policy.
- A sexual violence prevention and response plan has been developed that includes prevention measures and a response plan and accompanying training for both students and staff.

PRIORITY INITIATIVE 2	EXPECTED COMPLETION DATE
<p>Develop an Aboriginal Strategy that will guide NAIT decisions, priorities and processes in the future.</p>	<p>Winter 2019</p>

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- A stronger NAIT community in which Aboriginal students and staff feel fortified and supported through celebration and education opportunities.
- Increased Aboriginal student success.
- Increased Aboriginal student recruitment and retention.
- Increased Aboriginal awareness.

2017/18 UPDATE

- NAIT’s Aboriginal strategy is nearing completion and includes strategies that honour Aboriginal knowledge and culture in order to address barriers to Aboriginal student success and develop trust with Aboriginal people and communities. As with the teepee, NAIT’s strategy is based on the three foundational poles: community strength, academic success and staff support.
- An Aboriginal Recruitment Coordinator has been hired to support Aboriginal student recruitment strategies.

PRIORITY INITIATIVE 3	EXPECTED COMPLETION DATE
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Review and revise the student conduct model. | **Completed**

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- An approach to student misconduct that is developmental, consistent and effective in responding to issues in the community.

2017/18 UPDATE

- The Student Resolution office completed its first year of supporting students and staff; the office handled over 280 files with 65% being handled through alternative resolutions.

PRIORITY INITIATIVE 4	EXPECTED COMPLETION DATE
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Implement OneCard. | **Completed**

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Allow NAIT to champion technological systems and strive to be a leader in student-focused solutions.
- One card for all NAIT services.

2017/18 UPDATE

- The implementation of OneCard for identification, access and payment throughout NAIT has been completed and fully implemented at all campuses.

PRIORITY INITIATIVE 5	EXPECTED COMPLETION DATE
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Create more robust supports for students identified as at risk of program withdrawal or probation. | **Winter 2019**

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Increased student resiliency and retention.
- Increased collaboration among academic advising, learning services and programs to support students at risk.

2017/18 UPDATE

- Early identification and supports for students have been implemented to help students who experience academic struggles. These strategies assist with retention and progression. Specific supports have also been implemented to assist apprenticeship students with gaps in their mathematic skills.
- Learning supports for students have now been integrated into one office to ensure better service for students.

GOAL 2: Enhance lifelong learning pathways and connections.

PERFORMANCE MEASURES

TOTAL NUMBER OF DEGREE, DIPLOMA AND CERTIFICATE PROGRAM GRADUATES	2017/18 TARGET	2017/18 ACTUAL
Description: Annual count of students who have met all requirements for completion of a credit program and have been conferred a parchment	4,168	4,420

TOTAL NUMBER OF APPRENTICE COMPLETERS	2017/18 TARGET	2017/18 ACTUAL
Description: Count of all apprentices who complete their final period of apprenticeship training at NAIT	2,235*	3,121

TOTAL NON-CREDIT REGISTRATIONS	2017/18 TARGET	2017/18 ACTUAL
Description: Total number of registrations to professional development, career and recreational courses provided on a non-credit basis	42,500	38,941

PRIORITY INITIATIVE 6	EXPECTED COMPLETION DATE
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Identify and analyze barriers to student learning to create mitigation strategies to support student success.	Winter 2019
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|---------------|---------------|----------------|--------------|----------------|
| ACCESSIBILITY | AFFORDABILITY | QUALITY | COORDINATION | ACCOUNTABILITY |
|---------------|---------------|----------------|--------------|----------------|

EXPECTED OUTCOMES

- Increased instructor capacity to develop accessible curriculum and instructional practices using Universal Design for Learning principles.
- Increased student retention.

2017/18 UPDATE

- Implemented Universal Design for Learning principles into NAIT training programs, including within our instructor development and advising training courses.
- Additional online supports have been implemented to help students with writing as well as accessing library services.

*Internal forecasting assumptions were overly conservative; this will be adjusted in the 2019/20 CIP.

PRIORITY INITIATIVE 7	EXPECTED COMPLETION DATE
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Streamline the application process for Academic Upgrading students. | **Completed**

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Simplified, student-friendly application process.
- Reduced unnecessary application fees.

2017/18 UPDATE

- Applicants who do not meet the requirements for their program of choice, now automatically will receive an application to Academic Upgrading free of charge.

PRIORITY INITIATIVE 8	EXPECTED COMPLETION DATE
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Develop mechanisms to connect newcomer students with targeted supports and services. | **Completed**

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Expanded outreach of NAIT International to include permanent resident and refugee students and all newcomers.
- Improved service delivery for newcomer students through embedded resources in the International Centre.
- Increased inclusion, outreach and use of student supports.

2017/18 UPDATE

- Engaged all international students, including permanent residents and refugee students in events and campus activities.
- Provided more inclusive support services for newcomers including dedicated counseling and tutoring.
- Launched the Newcomer Academic Booster program to help international students learn about the Canadian classroom, academic writing, NAIT and intercultural learning.
- Participated in a survey conducted by the Canadian Bureau for International Education to understand the international student experience at NAIT. NAIT ranked number one in Alberta for student satisfaction with their program of study as well as student satisfaction with their overall Canadian education experience. NAIT ranked second across all of Canada for students feeling prepared for employment in Canada and NAIT ranked top across all of Canada for the campus where students feel the safest.

PRIORITY INITIATIVE 9	EXPECTED COMPLETION DATE
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Develop partnerships to increase access to NAIT programs. | **Fall 2019**

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Exploration of additional partnership opportunities for the delivery of Bachelor of Business Administration (BBA) and Trades to Degrees pathways with additional Campus Alberta institutions, building on the Keyano College partnership.
- Partnership with the Chartered Professional Accountants to deliver the Advanced Certificate in Accounting and Finance bridging credit programs.

2017/18 UPDATE

- Trades to Degree pathway has been added to the Keyano College agreement.
- A collaboration agreement is being explored with Portage College.
- A post-diploma certificate in Accounting has been approved.

PRIORITY INITIATIVE 10	EXPECTED COMPLETION DATE
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Increase the number and breadth of international partnerships. | **Winter 2019**

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Additional opportunities available to provide training internationally, resulting in stronger touchpoints to the NAIT brand and financial sustainability for the institution.
- Growth in international destinations and opportunities for staff and students, contributing to a more customized and relevant experience.
- Become the learning institute of choice for international students.

2017/18 UPDATE

- Signed additional agreements for international opportunities to study abroad; one of the agreements is in partnership with three other Alberta post-secondary institutions.
- Provided international experiences for instructors and students.



CARBON CUTTING

A steadfast focus on environmental sustainability saw NAIT cut greenhouse gas emissions by 17,000 tonnes in 2017. This represents the most successful year-over-year reduction since 2009 when benchmark data was set for all campuses. Since then, the amount of energy the polytechnic uses per square metre has declined by 30%.

While the overall building footprint increased 24%, NAIT continued to reduce emissions by constructing more energy-efficient buildings, retrofitting older facilities and changing energy sources. These practises “help to keep our greenhouse gas emissions in check, whether they’re emitted on site by using natural gas for heating or at the source by using electricity,” says Robert Akkerman, director of facilities management.

In cutting emissions by 17,000 tonnes, NAIT reduced its carbon footprint to the equivalent of 43,739 tonnes of CO₂; equivalency includes CO₂ emissions and greenhouse gases such as methane, nitrous oxide and other halocarbons.

Construction of more energy-efficient buildings included the 51,600-square metre Centre for Applied Technology with 100% LED lighting and the 17,650-square metre Productivity and Innovation Centre with solar panels that can produce 67 megawatt hours of electricity annually.

Ongoing retrofitting for existing buildings included installing occupancy sensors to dim lights in empty rooms, upgrading ventilation systems to recover more heat, replacing steam-powered air conditioners with high-efficiency electric units and converting lights to LED or T8 bulbs.

GOAL 3: Offer polytechnic education that enables transformative careers.

PERFORMANCE MEASURES

SATISFACTION WITH RELEVANCE OF SKILLS ACQUIRED

Description: Percentage of NAIT graduates and final-period apprentice completers satisfied with the workplace relevance of the skills they learned at NAIT

2017/18 DEGREE, DIPLOMA AND CERTIFICATE PROGRAM GRADUATES

TARGET	ACTUAL
97%	96.3%

2017/18 APPRENTICES

TARGET	ACTUAL
96%	96%

SATISFACTION WITH RELEVANCE OF KNOWLEDGE ACQUIRED

Description: Percentage of NAIT graduates and final period apprentice completers satisfied with the workplace relevance of the knowledge they acquired at NAIT

2017/18 DEGREE, DIPLOMA AND CERTIFICATE PROGRAM GRADUATES

TARGET	ACTUAL
98%	97.1%

2017/18 APPRENTICES

TARGET	ACTUAL
98%	97.5%

PRIORITY INITIATIVE 11	EXPECTED COMPLETION DATE
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Implement program quality-assurance processes.

Completed

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Enhanced, comprehensive quality-assurance and continuous-improvement processes for all NAIT programming.

2017/18 UPDATE

- Multifaceted quality assurance and continuous improvement processes were implemented to ensure programs are reviewed and remain at a high-quality level. Comprehensive and accreditation reviews are completed on five-to-seven year intervals as required.

PRIORITY INITIATIVE 12	EXPECTED COMPLETION DATE
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Develop a multifaceted approach to communicating, educating and supporting scholarly activity within NAIT.

Fall 2018

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

ACCOUNTABILITY

EXPECTED OUTCOMES

- Increased reporting on scholarly activity undertaken by NAIT academic staff.

2017/18 UPDATE

- Policy and procedures for scholarly activity are in their final stages of approval following engagement with instructors.
- Scholarly activity is a component of NAIT’s instructor preparation course, Becoming a Master Instructor, as well as in the Championing Academic Practice course for chairs.

PRIORITY INITIATIVE 13	EXPECTED COMPLETION DATE
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Develop a certificate program that recognizes polytechnic teaching excellence.

December 2020

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

ACCOUNTABILITY

EXPECTED OUTCOMES

- Formal recognition for instructors who develop teaching as a form of expertise.

2017/18 UPDATE

- A preliminary environmental scan was conducted.
- Determined a potential plan for how to deliver through NAIT’s Continuing Education.

PRIORITY INITIATIVE 14	EXPECTED COMPLETION DATE
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Develop and implement the inclusion of polytechnic enabling skills into NAIT curriculum.

Fall 2019

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

ACCOUNTABILITY

EXPECTED OUTCOMES

- Identify a critical set of broad, polytechnic skills (beyond job-specific technical skills) that will enable people throughout their career.
- Integrate these polytechnic enabling skills into NAIT curriculum in accordance with NAIT’s existing curriculum review and renewal process.

2017/18 UPDATE

- The enabling skills are in the final stages of approval. The advisory committee continues to look at the best ways to ensure the skills are offered to all students at NAIT.

GOAL 4: Support growth that meets and anticipates the emergent polytechnic needs of Alberta.

PERFORMANCE MEASURES

TOTAL CREDIT FILE

Description: The total number of full-load equivalent (FLE) students in non-apprenticeship programming and apprenticeship training attending NAIT during the academic year, validated by Alberta Advanced Education

2017/18 NON-APPRENTICE		2017/18 APPRENTICE	
TARGET	ACTUAL	TARGET	ACTUAL
11,123	10,941	2,885	2,807

SATISFACTION WITH IMPROVED EMPLOYMENT OPPORTUNITIES

Description: Percentage of graduates and final-period apprentice completers satisfied with improved employment opportunities

2017/18 DEGREE, DIPLOMA AND CERTIFICATE PROGRAM GRADUATES		2017/18 APPRENTICES	
TARGET	ACTUAL	TARGET	ACTUAL
92%	85.1%	92%	90.6%

FACILITIES CONDITION INDEX

Description: The ratio of the cost to address accumulated maintenance and renewal needs relative to the replacement value of the facility

TARGET			ACTUAL		
GOOD	FAIR	POOR	GOOD	FAIR	POOR
70%	30%	0%	64%	36%	0%

PRIORITY INITIATIVE 15	EXPECTED COMPLETION DATE
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Develop new programs to respond to Alberta’s emerging needs. | Fall 2019 - Fall 2021

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Develop new programs in the following areas:
 - Advanced Woodworking and Manufacturing
 - Home Renovation Technician
 - Service Advisor Certificate
 - Advanced Accounting Certificate
 - Bachelor of Business Administration in Health Administration

2017/18 UPDATE

- Initial feasibility studies have been conducted on Advanced Woodworking and Manufacturing, Home Renovation Technician, and Service Advisor program ideas.
- Home Renovation Technician best aligns with Continuing Education and is proceeding to detailed feasibility considerations.
- The Accounting certificate was proposed as a post-diploma certificate and received approval starting July 2019.
- Work continues on creating a bachelor’s level management education option suitable for allied health professionals, applied science technologists and skilled tradespeople.

PRIORITY INITIATIVE 16	EXPECTED COMPLETION DATE
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Optimize NAIT's physical, technological and human resource capacity to accommodate growth.

2020

ACCESSIBILITY	AFFORDABILITY	QUALITY	COORDINATION	ACCOUNTABILITY
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EXPECTED OUTCOMES

- Purposeful growth that meets the needs of students and industry.

2017/18 UPDATE

- Agreement to purchase the Westwood Bus Barn is in place and is expected to close in January 2019 for future development of the Skills Centre.
- Substantial progress has been made on the purchase of Blatchford lands.
- Purchased a lot adjacent to the Spruce Grove campus for future NAIT expansion/use.
- Continue to investigate a partnership model for student housing that is financially viable.

GOAL 5: Partner with industry to help increase its productivity and competitiveness.

GOAL 6: Be a leader in polytechnic applied research and its bridge to innovation, commercialization and new ventures.

PERFORMANCE MEASURES

PROPORTION OF ACTIVE APPLIED RESEARCH PROJECTS THAT ENGAGE EXTERNAL PARTNERS

2017/18 TARGET

90%

2017/18 ACTUAL

98%

Description: Count of active applied research projects with identified external partners as a ratio of all active research projects

NUMBER OF APPLIED RESEARCH PROJECTS

2017/18 TARGET

50/YEAR

2017/18 ACTUAL

60/YEAR

Description: Number of applied research projects that are active in the academic year

APPLIED RESEARCH PORTFOLIO ALIGNMENT

2017/18 TARGET

4.5/5

2017/18 ACTUAL

4.5/5

Description: Demonstration of the degree of alignment of NAIT applied research initiatives with NAIT's strategic objectives

Develop new programs to respond to Alberta’s emerging needs.

2017-2019

ACCESSIBILITY

AFFORDABILITY

QUALITY

COORDINATION

ACCOUNTABILITY

EXPECTED OUTCOMES

- Complete NAIT’s Productivity and Innovation Centre, which will allow NAIT to better serve the needs of industry through applied research, productivity and innovation.
- Proposals for a number of new applied research centres in partnership with industry, which may include:
 - Centre for Industrial and Remote Rural Water Technologies
 - Centre for Distributed Power Generation and Transmission
 - Chemical Conversions Centre
 - Centre for Smart Building Technologies
 - Centre for Advanced Medical Simulation
 - Centre for Medical Imaging and Remote Sensing Technologies

2017/18 UPDATE

- The Productivity and Innovation Centre opened on time and on budget with the associated financial and operating models being developed.
- Centre for Industrial and Remote Rural Water Technologies: NAIT received funding from Western Economic Diversification Canada and Canada’s Oil Sands Innovation Alliance (COSIA) to design and construct a high-temperature, high-pressure testing unit that companies will use to implement higher-efficiency industrial water processes in oil sands operations. The Membrane Technology Assessment Program represents the first element of the (newly-renamed) Centre for Sustainable Water Solutions, to be housed in the Productivity and Innovation Centre.
- Centre for Distributed Power Generation and Transmission: NAIT received confirmation of funding from Alberta Economic Development and Trade for the Distributed Energy Management Initiative, a partnership between NAIT, ATCO, Siemens and the Future Energy Systems research program at the University of Alberta. This initiative, which represents the first phase of the (newly-renamed) Centre for Grid Innovation, will provide a “plug-and-play” microgrid where energy companies can test and validate innovative technologies to generate, manage and store energy and reduce or eliminate greenhouse gas emissions under realistic field conditions.
- Centre for Smart Building Technologies: The (newly-renamed) Centre for Construction Innovation was developed in June 2018. Submission of proposals relating to all four phases of the proposed Centre is anticipated in 2018-19.
- Chemical Conversions Centre: NAIT’s significant engagement with the petrochemical, bioindustrial and midstream natural-gas led to the development of a collaborative framework for the (newly-renamed) Centre for Chemicals & Fuels.
- NAIT received confirmation of NSERC funding for the Centre for Culinary Innovation, with industrial partners that include primary producers, ingredient manufacturers, food and beverage processors, food service organizations, retailers and equipment suppliers.

GOAL 7: Maintain financial sustainability.

PERFORMANCE MEASURES

NET INCOME PERCENTAGE

Description: 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

2017/18 TARGET

5%

2017/18 ACTUAL

-2.46%

DEBT LEVEL PERCENTAGE

Description: 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.

2017/18 TARGET

120%

2017/18 ACTUAL

124.6%

PRIORITY INITIATIVE 17	EXPECTED COMPLETION DATE
Develop and implement financial sustainability strategies to support sustainable growth and financial stability.	Winter 2020
ACCESSIBILITY	AFFORDABILITY
QUALITY	COORDINATION
ACCOUNTABILITY	

EXPECTED OUTCOMES

- Refined staffing models for delivery of instruction and support.
- Refined approach to funding infrastructure and other capital needs.
- Improved industry engagement initiatives that support self-sustaining facilities.
- New policies that establish financial sustainability as a pillar in all major decisions.
- Improved business intelligence.

2017/18 UPDATE

- Working on financial sustainability strategies (FSS) was a constant focus for NAIT in 2017/18. Some of the main areas of focus were:
- Growing Earned Revenue/Developing Industry Solutions Model. Significant work on how to broaden services and relationships with industry in an effort to expand revenue-generating activities to sustain the new Productivity and Innovation Centre.
 - Grow Credit Revenues/ Program Efficiency. Significant work on how to be more efficient and effective in delivery of credit programming to students.
 - NAIT improved the efficiency of capital by renovating several old buildings and spaces.
 - New budget policy and business case template now provide greater guidance to NAIT’s new revenue and expense initiatives.
 - Hiring chill, to reinforce assessing all internal staffing options to meet new requirements or replace staff who leave NAIT, before committing to a new full-time hiring.

See Management Discussion and Analysis section that accompanies NAIT’s Financial Statements in the Financial and Budget Section of the Annual Report for a more complete discussion on this goal.



FINANCIAL SOLUTIONS

In 2017/18, we continued to look for ways NAIT can work towards being more financially sustainable. Guided by our Financial Sustainability Strategy, and in consultations with leaders across the polytechnic, we are working together to identify ways to reduce costs and become more efficient.

We worked further in several areas of our financial sustainability strategies which were developed in 2017 and is supported by a task force which includes representation from across NAIT. We have developed a robust Industry Solutions model and are looking at ways to grow our continuing education revenues. We are also looking at ways to grow our 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.

In addition, we continue to pursue and refresh the Capital Plan based on affordability and efficiency (efficient use of space, consolidation to one Main Campus, reducing the need for leased space) while providing the space to meet NAIT's long-term vision.

Financial sustainability will remain a priority going forward as we grow as a polytechnic.

ACCESS AND QUALITY

ENROLMENT PLAN AND PROPOSED PROGRAMMING

In keeping with our promises, NAIT has been intentionally expanding access to credit programs – which has been driven by student demand. Despite our efforts, the economic reality of the province with decreased opportunities in oil-related careers, has resulted in our overall full-load equivalent students' (FLE) enrolment numbers decreasing in 2017/18, specifically in apprenticeship programs. NAIT's planned responsive growth continues to be projected in select career streams. However, it is important to recognize that external factors can happen suddenly whether positive or negative.

As NAIT looks to meet the existing and emerging educational needs of students with a focus to purposeful growth, we have evaluated the opportunities for new programs in advanced woodworking and manufacturing, home renovation technology, and service advisor. We have concluded that initial demand is best supported within the continuing non-credit education framework. Our proposal for a post-diploma certificate in Advanced Accounting was approved, and we look forward to the opportunity to support students' progression within the accounting profession with this offering.

The consideration of a bachelor of Landscape Architecture has been suspended. Elements of the external environment have changed since we began the investigation, resulting in a reconsideration of the demand facts. The consideration of the potential for a health administration degree continues. The short-term need has been aligned with the 2+2 nature of our Bachelor of Technology – Technology Management. However, there is indication that students and industry would prefer a degree with a nomenclature more representative of the desired graduate outcomes.

2017/18 FLE ENROLMENT BY CREDENTIAL

	PROJECTED 2017/18	ACTUAL 2017/18		PROJECTED 2017/18	ACTUAL 2017/18
Non-credential	880	960	Apprentice	2,885	2,807
Certificate	816	780	TOTAL	2,885	2,807
Diploma	7,892	7,580			
Degree	1,535	1,621			
TOTAL	11,123	10,941			

2017/18 FLE ENROLMENT BY PROGRAM

	PROJECTED 2017/18	ACTUAL 2017/18	SIGNIFICANT VARIANCE	VARIANCE EXPLANATION
CERTIFICATE	816	780		
Applied Financial Services	33	19	(14)	Perceived decreased opportunities
Baking Certificate	26	25	-	
CNC Machinist Technician	35	29	(6)	Perceived decreased opportunities
Computer Network Administrator	44	39	(5)	Perceived decreased opportunities
Culinary Arts Certificate	80	92	12	Early exit from diploma program continues
Emergency Management Certificate	0	1	-	
Emergency Medical Technician- Ambulance (Edmonton & Lethbridge)	70	64	(6)	Perceived decreased opportunities
Graphic Communications	40	35	(5)	Perceived decreased opportunities
HVAC Specialist	42	36	(6)	Perceived decreased opportunities
Magnetic Resonance Imaging-Second Discipline	24	21	-	
Medical Laboratory Assisting	50	33	(17)	Delay in launching additional delivery
Medical Transcription	30	27	-	
Millwork & Carpentry	75	90	15	Purposeful growth
Optical Sciences - Contact Lenses	72	79	7	Response to increased industry need
Power Engineering Certificate	27	28	-	
Pre-Employment - Autobody & Automotive	45	42	-	
Professional Meat Cutting and Merchandising	20	19	-	
Veterinary Medical Assistant	29	28	-	
Water & Wastewater Technician	74	73	-	
DIPLOMA	7,892	7,580		
Alternative Energy Technology	70	61	(9)	Perceived lack of opportunities
Animal Health Technology	74	61	(13)	Perceived decreased opportunities
Architectural Technology	178	190	12	Purposeful growth
Baking and Pastry Arts	24	0	(24)	Delay in launching the new diploma
Biological Sciences Technology - General	10	61		
Biological Sciences Technology - Environmental Sciences	40	16		
Biological Sciences Technology - Laboratory & Research	35	18	(11)	Perceived decreased opportunities
Biological Sciences Technology - Renewable Resources	42	21		
Biomedical Engineering Technology	34	33	-	
Biomedical Engineering Technology Co-op	5	7	-	

	PROJECTED 2017/18	ACTUAL 2017/18	SIGNIFICANT VARIANCE	VARIANCE EXPLANATION
Building Environmental Systems Technology	21	18	-	
Business Administration Diplomas	2210	2175	(35)	Transitions to BBA degree
Captioning and Court Reporting	45	41	-	
Chemical Engineering Technology	120	112	(8)	Perceived decreased opportunities
Chemical Technology	90	76	(14)	Perceived decreased opportunities
Civil Engineering Technology	220	199	(21)	Perceived decreased opportunities
Civil Engineering Technology Co-op	45	46	-	
Computer Engineering Technology	120	104	(16)	Perceived decreased opportunities
Computer Engineering Technology Co-op	2	5	-	
Construction Engineering Technology	165	165	-	
Culinary Arts Diploma	85	74	(11)	Impact of early exit with certificate
Cytotechnology	8	1	(7)	Decreased opportunities
Dental Assisting Technology	108	66	(42)	Delay in launching additional delivery
Dental Technology	34	36	-	
Denturist Technology	45	50	5	Purposeful growth
Diagnostic Medical Sonography	85	84	-	
Digital Media and IT	700	736	36	Purposeful growth
Digital Media and IT Co-op	10	4	(6)	
Electrical Engineering Technology	142	145	-	
Electronics Engineering Technology	60	69	9	Purposeful growth
Electronics Engineering Technology Co-op	5	5	-	
Emergency Management Diploma	60	89	29	Purposeful growth
Emergency Medical Technology - Paramedic	48	38	(10)	Perceived decreased opportunities
Engineering Design and Drafting Technology	110	101	(9)	Perceived decreased opportunities
Forest Technology	85	89	-	
Geological Technology	78	58	(20)	Perceived decreased opportunities
Geomatics Engineering Technology	60	49	(11)	Perceived decreased opportunities
Hospitality Management	80	69	(11)	Perceived decreased opportunities
Industrial Heavy Equipment Technology	75	80	5	Purposeful growth
Instrumentation Engineering Technology	300	273	(27)	Perceived decreased opportunities
Interior Design Technology	110	106	-	
Laboratory and X-Ray Technology Combined	84	83	-	
Landscape Architectural Technology	60	50	(10)	Perceived decreased opportunities
Magnetic Resonance First Discipline	34	33	-	

	PROJECTED 2017/18	ACTUAL 2017/18	SIGNIFICANT VARIANCE	VARIANCE EXPLANATION
Materials Engineering Technology	52	48	-	
Mechanical Engineering Technology	170	162	(8)	Perceived decreased opportunities
Medical Laboratory Technology	65	60	(5)	Delay in launching additional delivery
Medical Radiologic Technology	95	86	(9)	Perceived decreased opportunities
Nanotechnology Systems	45	42	-	
Network Engineering Technology	40	35	(5)	Perceived decreased opportunities
Network Engineering Technology Co-op	5	3	-	
Occupational Health and Safety	70	63	(7)	Delay in launching additional delivery
Optical Sciences - Eyeglasses	453	432	(21)	Response to lower industry need
Personal Fitness Trainer	240	237	-	
Petroleum Engineering Technology	150	112	(38)	Perceived decreased opportunities
Photographic Technology	50	50	-	
Power Engineering Technology	150	158	8	WIL completion impacts
Radio and Television	104	104	-	
Respiratory Therapy	135	135	-	
Wireless Systems Engineering Technology	52	56	-	
DEGREE	1535	1621		
Bachelor of Applied Business Administration - Accounting	70	20	(50)	Transitions to BBA degree
Bachelor of Applied Business Administration - Finance	35	36	-	
Bachelor of Applied Information Systems Technology	110	123	13	Purposeful growth
Bachelor of Business Administration	1050	1156	106	Purposeful growth
Bachelor of Technology in Construction Management	80	73	(7)	Perceived decreased opportunities
Bachelor of Technology in Technology Management	190	213	23	Purposeful growth
NON-CREDENTIAL	880	960		
Academic Upgrading	460	433	(27)	Changes to program competitive entry requirements
Open Studies	420	527	106	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; however, in 2017/18, the requested seats were at 12,021. Typically, 3-4 apprenticeship seats equals 1 FLE, and the actual seats represent between an 85-90% fill rate of requested seats.

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

2017/18 SEATS BY PROGRAM

	PROJECTED 2017/18	ACTUAL 2017/18	TRADE COMMITMENT LEVEL	ACTUAL TO COMMITMENT LEVEL
APPRENTICESHIP	10,474	10,351	8902	1449
Auto Body Technician	158	134	240	(106)
Automotive Service Technician	808	601	630	(29)
Baker	36	32	96	(64)
Boilermaker	168	187	108	79
Cabinetmaker	87	67	150	(83)
Carpenter	690	690	500	190
Communication Technician	64	38	96	(58)
Cook	96	95	230	(135)
Crane & Hoisting - Boom Truck/Mobile Crane	120	116	204	(88)
Electrician	2322	2600	1050	1550
Electronics Technician	0	0	84	(84)
Floorcovering Installer	12	15	48	(33)
Gasfitter	72	75	72	3
Heavy Equipment Technician	912	896	600	296
Instrument Technician	384	345	450	(105)
Insulator	264	246	144	102
Ironworker	288	317	216	101
Lather - Interior Systems Mechanic	36	27	60	(33)
Machinist	140	115	330	(215)
Millwright	400	472	420	52
Outdoor Power Equipment Technician	36	33	0	33
Painter & Decorator	36	22	48	(26)
Parts Technician	181	138	170	(32)
Plumber	792	846	600	246
Power lineman Technician	240	270	70	200
Power Systems Electrician	48	46	28	18
Refrigeration and Air Conditioning Mechanic	200	179	140	39
Rig Technician	36	9	0	9
Roofer	156	113	60	53
Sheet Metal Worker	312	265	232	33
Steamfitter-Pipefitter	648	656	320	336
Structural Steel & Plate Fitter (Steel Fabricator)	72	31	96	(65)
Welder	660	675	1410	(735)



MENTAL HEALTH

Grant funds from the Government of Alberta Post-Secondary Student Mental Health program are ensuring NAIT can expand and enhance services to improve student and staff mental health.

In February, the polytechnic hired its first Mental Health Coordinator, Lynn Ryan, to expand mental health initiatives, identify gaps and help build relationships with other institutions and supportive organizations such as Alberta Health Services.

“I think the fact that my position exists is proof that NAIT is committed to fostering a healthy environment and looking for new ways to educate and talk about mental wellness in a sustainable way and over the long-term,” she said.

From Mental Health First Aid courses for students and staff to pet therapy and the suicide prevention program *Tough Enough To Talk About It*, Ryan says NAIT is doing well. “We’re pulling together everything we’re doing and enhancing it. It’s an opportunity to see something grow that I think is incredibly important.”

A priority for the polytechnic’s counsellors is increased attention on educating more students about all the services available and removing any stigma around accessing the services.

Last fall the polytechnic introduced fitness classes for students suffering from anxiety. The National College Health Assessment 2016 survey reports more than 90% of Alberta’s post-secondary students feel overwhelmed, a symptom of anxiety. Physical activity can help, according to clinical psychologist Dr. Tanya Spencer, lead for student counselling at NAIT who collaborated on the fitness class with Campus Recreation Services. “Mental and physical health cannot be divorced. They’re one and the same,” she said.

RESEARCH, APPLIED RESEARCH AND SCHOLARLY ACTIVITY

SCHOLARLY ACTIVITY

NAIT's policy and procedure on scholarly activity are in the final stages of approval. As with the 2015 Campus Alberta Quality Council endorsement of the framework for scholarly activity within a polytechnic, these documents are an important step in formalizing NAIT's approach to scholarly activity.

NAIT has continued to create a suite of resources for instructors to ensure that they are familiar with and prepared to engage in scholarly activity. These resources include an internal website designed specifically for instructors which provides answers to frequently asked questions and guidance on how to engage in scholarly activity, education on scholarly activity embedded in our mandatory instructor preparation course and processes to track and report on scholarly activity within programs, schools and the institution.

APPLIED RESEARCH

NAIT continues to work closely with Alberta Economic Development and Trade, Alberta Innovates and other institutional partners to ensure our applied research priorities are aligned to the research and innovation priorities of the Government of Alberta. NAIT also seeks to improve connections and collaboration among Alberta Innovates, Campus Alberta and industry; optimize use of public resources for delivering innovation outcomes; enhance innovation portfolio management in core priorities; and accelerate commercial outcomes delivering economic and societal benefit to Albertans.

NAIT's industry-driven applied research is central to the continued development of its engagement with industry, in addition to services helping companies enhance productivity and spur innovation.

NAIT's recently completed Productivity and Innovation Centre is devoted to helping industry and business find solutions and to succeed. The Productivity and Innovation Centre supports a broad range of industry services - it is staffed with experts across many fields and industry sectors. The building is home to applied research centres, innovation and manufacturing spaces, testing labs and equipment, simulation equipment and learning and interaction spaces - all to serve industry and business.

In addition to housing NAIT's existing Centre for Oil Sands Sustainability and Centre for Sensors and System Integration, the Productivity and Innovation Centre will provide space for several new applied research centres.

- In January 2018, NAIT received funding from Western Economic Diversification Canada and from Canada's Oil Sands Innovation Alliance to design and construct a high-temperature, high-pressure testing unit that western Canadian companies will use to implement higher-efficiency industrial water processes in oil sands operations.
- In April 2018, NAIT received confirmation of funding from Alberta Economic Development and Trade for the Distributed Energy Management Initiative, a partnership between NAIT, ATCO, Siemens and the Future Energy Systems research program at the University of Alberta. This initiative will provide a "plug-and-play" microgrid where energy companies can test and validate technologies to generate, manage and store energy, and reduce or eliminate greenhouse gas emissions.
- In May 2018, NAIT received confirmation of Natural Sciences and Engineering Research Council of Canada funding for the Centre for Culinary Innovation, with industrial partners that include primary producers, ingredient manufacturers, food and beverage processors, food service organizations, retailers and equipment suppliers spanning Alberta's \$50 billion food industry. The centre's four areas of focus are the application of unique ingredients, new techniques and emerging flavours to create enhanced food experiences; formulation for health-promoting nutrition products and the development of therapeutic foods; sustainability strategies for the use of by-products, alternative proteins and local foods; and the development and validation of efficient kitchen technologies and processes that support automation and reduce energy and water consumption.

Through continued collaboration with institutional and government stakeholders, NAIT ensures that its applied research priorities are aligned to the research and innovation priorities of the Government of Alberta and accelerates commercial outcomes delivering economic and societal benefit to Albertans.

COMMUNITY AND UNDERREPRESENTED LEARNERS

NAIT has many strategies in place to support all students, including assistance for marginalized students. During the 2017/18 academic year, NAIT began to support students' understanding of the connection between mental, physical and emotional well-being and academic success. For instance, free fitness programs were implemented where participants were taught that holistic well-being supports academic success. Collaborative partnerships have been developed between NAIT and external organizations such as Alberta Health Services, the City of Edmonton and Healthy Campus Alberta to support student well-being.

NAIT has implemented a system to identify students who are at risk of academic failure which allows collaboration between students and staff to support student success. NAIT has also created several online "self-serve" supports for students so that they can access support when and where they need it. An example of this would be the online math tutor program that allows student to self-assess, determine areas of difficulty and then follow a program to increase their knowledge in targeted areas.

NAIT continues work to develop a Diversity and Inclusion strategy in an effort to provide a safe, inclusive and supportive environment for all students and staff. In a recent needs assessment, instructors indicated further training would be beneficial in order for them to best support the success of diverse learners. NAIT responded by creating intercultural training opportunities for instructors. Linked to the development of the strategy is specific work being done to support students with disabilities and Aboriginal students.

Creating barrier-free access to education continues to be a primary goal for NAIT. During the 2017/18 admission cycle, a new strategy was put in place to provide a free application to Academic Upgrading for applicants lacking entrance requirements for their program of interest.

COMMUNITY PARTNERSHIPS

NAIT has developed several community partnerships that have proven to be beneficial to learners. NAIT currently has a relationship with the Fort Saskatchewan Correctional Centre and is exploring opportunities to expand training programs for inmates. NAIT has also been actively pursuing opportunities to support training for rural populations in outlying communities that might otherwise not be available.

NAIT continues to work directly with Aboriginal communities across Alberta to bring employability skills to communities which helps build capacity within each community. This past year, capacity building within communities included pre-trades, camp cooking, office administration and soft skills. In total, these partnerships have resulted in 21 projects in 13 communities across Alberta, Saskatchewan and the Northwest Territories.

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 Canadian Public Sector Accounting Standards.

NAIT ended the year with its second year of an operating deficit after many years of operating surpluses. As described in greater detail below, many factors have contributed to this deficit, including the health of the Alberta economy, dramatic decreases in Apprenticeship training, and government grants and tuition revenues not keeping pace with growth and inflation. NAIT has strategies discussed in greater detail below to adapt to new funding realities and position itself well for new growth as the Alberta economy improves. Using its financial strength, NAIT is balancing meeting its vision and continuing to pursue growth and other priorities of a world-class polytechnic, and pursuing financial sustainability strategies that will bring NAIT back to operating surpluses.

The following is an overview of the consolidated financial results achieved in the fiscal year ended June 30, 2018 by 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 vision is to be the most relevant and responsive post-secondary institution in Canada and one of the world's leading polytechnics. This has led NAIT to continue to invest in expanding learning opportunities, grow our campus and build the Productivity and Innovation Centre (PIC).

PIC is dedicated to providing services to Alberta businesses and industry, with an aim to improve their competitiveness in an ever increasing competitive global marketplace. NAIT has continued to grow despite several years where the main source of revenue of grants and tuition have not kept pace with the growth in the numbers of students and services provided. By having a strong balance sheet, NAIT has ensured we have sufficient reserves to fund temporary deficits. This has allowed us to continue to make decisions to support growth and ability to diversify revenue sources into the future.

Overall, the demand for polytechnic education remains strong and the number of students choosing a NAIT education is increasing. NAIT's financial position remains healthy. However, some of NAIT's revenue sources have declined while expenditures are rising. In 2016/17, NAIT recorded its first deficit in many years and ended 2017/18 with an even larger deficit. NAIT's annual operating deficit in 2017/18 was \$12.2 million, or 3.3% of total revenues, up from the previous year's deficit of \$6.1 million. These deficits are due to a reduction in funded apprenticeship seats as well as the decline in Alberta's economy, resulting in lower corporate and industry revenues.

NAIT grew by 195 Full Load Equivalents (FLEs) in degree, diploma and certificate training programs in 2017/18. Growth has been substantial since 2014/15, increasing in total by 1,933 FLE. However, at the same time, NAIT lost 678 apprenticeship FLE in 2017/18 for a total decline of 950 apprenticeship FLE since 2014/15. Unfortunately, the current government funding models have meant that as NAIT grows, the funding for degree, diploma and certificate training programs has not been increased. Yet as the apprenticeship FLEs decline, funding from government is reduced. This current funding model has a significant impact on NAIT.

NAIT has continued to focus on growth despite increased financial strain for several 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 strong net assets) to accommodate the growth. However, two consecutive years of deficits have caused NAIT to deplete its reserve to cover temporary deficits. Any future deficits will cause a direct reduction in net assets.
- The Government of Alberta is currently finalizing major reviews of both grant funding and tuition funding models, with some of the goals addressing the growth in institutions and positioning institutions to be financially sustainable.
- Through growth in certain under-capacity programs, NAIT can produce new tuition revenues with minimal new expenses.

Two key factors must be considered in whether NAIT can continue to focus on growth. First, NAIT has used its reserves set aside for funding temporary deficits. Second, the funding model review that was expected to introduce an element to support growth has continued to be delayed. NAIT continues to make changes to be more efficient to allow for growth. At some point soon, however, this growth will be threatened if funding for growth is not part of an updated funding model. This is especially true given that the other revenue source that supports growth - tuition, is in its fourth year of being frozen. In addition, NAIT's tuition rates are low compared to other comparable post-secondary institutions.

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 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: oil and gas, petrochemicals, info and communication technologies, cleantech, interactive digital media, agriculture and agri-food and tourism.

Alberta's new grant funding and tuition models continue to be expected soon. As an institution, we recognize the current financial situation of the government and understand the importance of change in how post-secondary education is funded into the future. NAIT plays an essential role in our province's economy. We have continued to move forward with purposeful growth in areas that will support Alberta's economic strengths.

NAIT is also growing its capacity to serve industry in a number of ways, as one of the critical elements of a polytechnic post-secondary institution is the close relationship with business and industry. Services provided to industry (branded as Industry Solutions) are funded by the revenues associated with providing those services, not the Campus Alberta grant that funds students' education.

Growing the capacity to provide services to industry provides two important benefits. First, it helps improve the competitiveness, productivity and innovation of industry in our province. Secondly, it helps diversify NAIT's revenues, which will help in maintaining financial sustainability.

NAIT received approval in August 2016 to build the Productivity and Innovation Centre (PIC). This new facility is the front door to NAIT's Industry Solutions and the place where industry comes for solutions and to succeed. Its focus is on providing industry with training, applied research and access to space, equipment and expertise for a variety of solutions that will help improve competitiveness, productivity and innovation. This facility, originally budgeted at \$85.5 million, is funded partially from a \$34.9 million grant from the Government of Canada's Post-Secondary Institutions Strategic Investment Fund. The remaining amount will be funded by NAIT from the revenues generated from the services provided to industry. PIC will be open to business and industry by the fall of 2018.

REVENUE STREAMS

As discussed above, NAIT continues to focus on developing new revenue streams to diversify our reliance on government grants and tuitions. NAIT is strengthening its model and service offerings to provide a wider range of services to industry in order to help industry be more competitive. The building of the Productivity and Innovation Centre will provide a dedicated space for Industry Solutions. It will deliver:

- Solutions for business innovation - much of which relates to productivity
- Product testing
- Technology adoption
- Industry-driven applied research

While NAIT's continuing education and corporate training revenues were down in 2017/18, NAIT is striving to look for new growth opportunities as a NAIT-wide Industry Solutions model is developed. NAIT's applied research revenues increased last year, and future revenues are targeted to cover a greater amount of the associated expenses, allowing NAIT's contribution from other revenue sources to decrease. As the economy improves and as the Productivity and Innovation Centre is fully operational, NAIT is positioning itself to increase revenues in these areas.

Through sound fiscal management, NAIT has accumulated a sizeable investment portfolio and the earnings from investments help provide funding for annual operations. At June 30, 2018, NAIT had cash and net investments totaling \$100 million, excluding investments offset by debt or reserved for endowments, which is down from the balance at June 30, 2017, of \$186 million. This amount has decreased over time as NAIT has strategically invested in transformative projects for NAIT such as the Productivity and Innovation Centre and refurbishments to the L and T buildings.

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 54% of total revenues for 2017/18 and regulated tuition revenues, which were approximately 17% in 2017/18.

Further, the Department of Advanced Education has changed the way it funds operations of new facilities, or "lights-on funding." This funding normally provided by the Government of Alberta for new buildings to make ongoing operations sustainable will no longer be provided. Starting in 2018/19, NAIT will no longer receive \$4.2 million (\$4.8 million in the previous year) of funding for "lights-on" costs for the Centre for Applied Technology (CAT). The original business case for CAT relied on the ongoing recovery of these costs through this grant. This loss in the CAT grant more than offsets the 2% increase in operating grants.

The Department of Advanced Education has not yet introduced the new funding and tuition models. The current funding model does not provide additional funding for those institutions that are growing. Funding for apprenticeship student numbers is actually reduced even as other programs grow. This model presents a significant constraint as tuition alone does not cover the costs of delivering the majority of courses. This is particularly challenging for institutions such as NAIT that had low comparative tuitions prior to the tuition freeze. In some programs with large capital needs or smaller numbers of students due to the nature of training, tuition revenues support substantially less of the expenditures needed to provide these courses.

EXPENSES

NAIT's two largest expenses are for staffing and capital.

Any future agreements with staff will be negotiated based on balancing the need to be financially sustainable with NAIT's need to attract and retain the talent required to grow and maintain the institution. NAIT's ability to align these costs to government grants is critical to its financial sustainability in the future. In an attempt to contain salary growth, NAIT implemented a hiring chill in 2017/18 and continues to have an approval process for any new hires.

With the completion of the Centre for Applied Technology (CAT), NAIT can now accommodate 5,000 full-time students, resulting in a net increase of approximately 1,700 students due to the decommissioning and demolition of time-expired buildings. Much of the growth needed to reach NAIT's 2021 vision will be achieved through other capital projects, including repurposing and renovating existing NAIT buildings, the planned acquisition of expansion land in the City of Edmonton's Blatchford lands and other adjacent properties, and building student housing. Renovations to the L and T buildings this past year were strategic investments that will both drive new revenues and increase NAIT's efficiency, effectiveness, and ability to meet the needs of students and industry.

NAIT's 2018/19 to 2020/21 Comprehensive Institutional Plan contains a more complete picture of NAIT's capital plan.

FINANCIAL HEALTH INDICATORS

(financial data expressed in thousands unless otherwise noted)

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

HEALTH OF NET ASSET POSITION - ACCUMULATED SURPLUS

NAIT ended the 2017/18 fiscal year with a total accumulated surplus of \$270,752 (2016/17: \$280,322), including the accumulated remeasurement gains of \$7,226 (2016/17: \$6,144). It includes \$146,806 (2016/17: \$118,761) related to amounts invested in capital assets and \$44,511 (2016/17: \$42,950) held for endowments which continue to grow. Of the remaining \$72,209 of accumulated surplus, \$1,468 is reserved for final CAT expenditures, \$24,010 for main campus renovations, \$10,000 for student housing and \$2,315 for other capital priorities. NAIT has also targeted \$11,143 to priority operational activities such as course redevelopment, applied research and advancement of strategic initiatives.

The best indicator of NAIT's financial strength is its accumulated operating surplus that has not already been spent on capital or committed to future expenditures. At the end of 2017/18, this amount was \$30,499 (2016/17: \$28,568), or approximately 8.0% of NAIT's annual operating expenses. The past two years' operating deficits did not negatively impact the accumulated operating surplus as they were almost fully covered by an \$18 million operating reserve previously set up to support temporary deficits. This reserve has now been fully depleted, so any further operating deficits will reduce NAIT's accumulated operating surplus. Note 12 to the financial statements contains a more complete picture of NAIT's accumulated surplus.

HEALTH OF YEARLY OPERATING DEFICIT/SURPLUS

NAIT ended 2017/18 with an operating deficit of \$12,213 (2016/17 deficit: \$6,146). The majority of the deficit related to a decline in NAIT's revenues for:

- decrease in funded apprenticeship seats and related tuition while costs are not able to be reduced at the same rate
- lower investment balances and subsequent investment revenues
- lower than expected corporate training and continuing education revenues
- lower net revenues from retail and ancillary sales

Also contributing to the deficit was one-time severance costs for instructors affected by the reduction of apprenticeship seats. However, through efforts taken by NAIT leaders and implementation of a hiring chill, significant savings were found in many of the business units to help partially offset the revenue decline. NAIT continues to look for further efficiencies.

FINANCIAL SUSTAINABILITY - LOOKING FORWARD

With the potential changes to the funding and tuition models as well as current economic conditions in the province, NAIT has faced challenges in balancing its budget. NAIT has incurred extra staffing and capital costs (buildings, information technology and equipment) over the past couple of years to support its growth. Ultimately, the key to returning to a balanced budget and maintaining the financial health of the organization will depend on the success of a number of actions. The main pillars of NAIT's financial sustainability strategy are as follows:

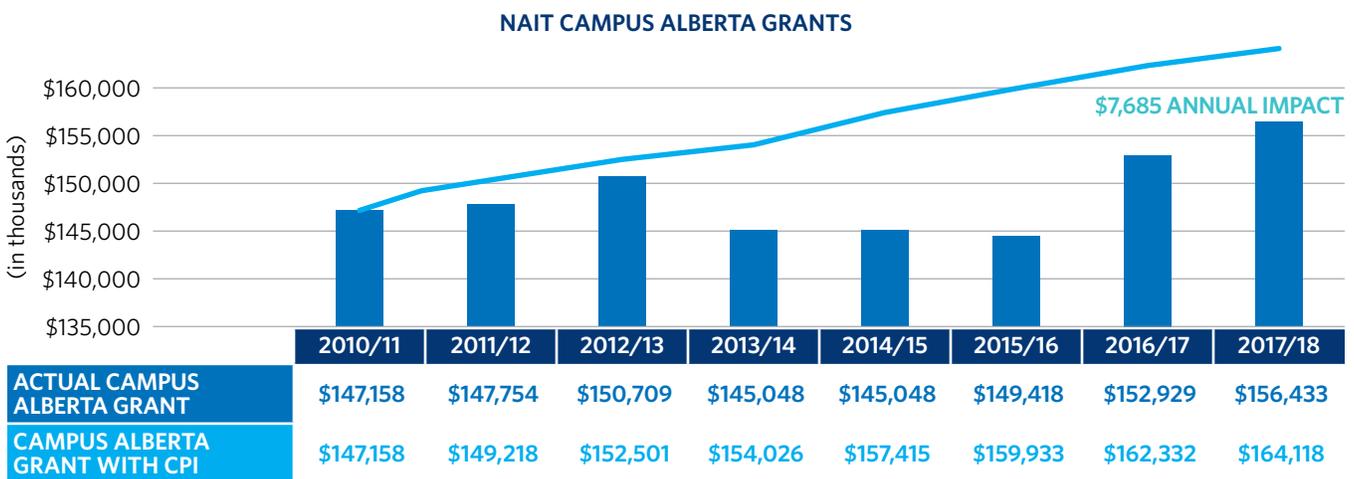
- Grow earned revenues through the development of a robust Industry Solutions model (including opening the Productivity and Innovation Centre) and increasing our continuing education revenue.
- Grow credit program revenues in a way that maximizes existing resources including instructors and classrooms so net new growth creates greater tuition revenue and limits additional costs associated with this growth where possible.
- Advocate for sustainable funding and tuition models that consider outcomes and support growth.
- Negotiate labour agreements with the 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 the NAIT 2021 vision.
- Improve the productivity of our information technology and other systems and processes. Currently, NAIT has greater than 20 information technology projects, many of which include elements resulting in significant efficiency in their business cases.

FINANCIAL RISKS AND IMPLICATIONS

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

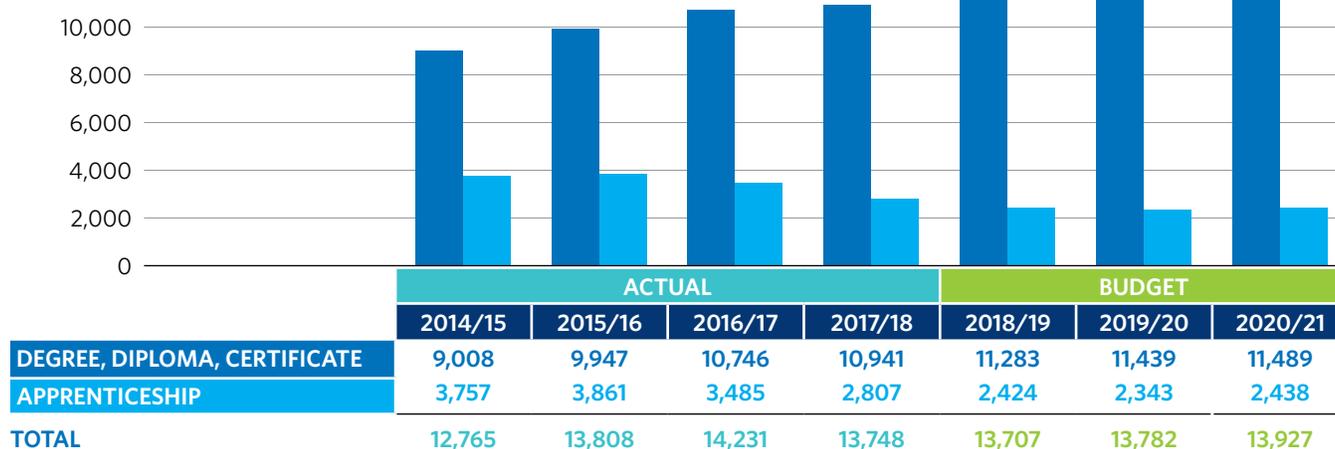
- Government Funding** – Government funding is always tied to the health of the economy and emerging fiscal pressures; therefore, long-term stability remains a risk. NAIT is mitigating this risk in a number of ways, as discussed above. It was not until recent years that our government grants have been adjusted for inflation. There have been several years that included either decreases in grants or grants staying at the same level, impacting NAIT's ability to absorb rising costs. This past year, the government increased operating grants for 2017/18 by 2% but, as discussed above, other grants such as "lights-on funding" for new facilities have been discontinued that more than offset the 2% increase. NAIT has been adapting to this new funding reality, in part, by taking steps to increase efficiency and effectiveness.

The chart below shows how the Campus Alberta Grant would have been calculated if it were increased for inflation using the annual Alberta Consumer Price Index (CPI). Starting with 2010/11, this graph depicts the actual Campus Alberta grant in 2017/18 as compared to what it would have been had it been adjusted for Alberta inflation each year since 2010/11. The tuition freeze adjustment has been removed in the chart below to reflect the true inflationary growth in the Campus Alberta Grant.



- 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, this demand has lessened but remains and is subject to the cyclical trends in the Alberta economy.
- Enrolment Growth Funding** – NAIT's plan for the future, as outlined in its vision, forecasts significant growth in student enrolment. NAIT opened the Centre for Applied Technology and continues to see growth in Full-Load Equivalents (FLE) in degree, diploma and certificate programs, increasing from 10,746 FLE in 2016/17 to 10,941 in 2017/18 and plans to increase to 11,283 in 2018/19. Contrasting this, funding for apprenticeship programs declined as fewer seats are required by government. Apprenticeship FLE were 2,807 in 2017/18, down from 3,485 in 2016/17 and are expected to drop further to 2,424 in 2018/19.

NAIT - FLE TREND



Four years ago, the Department of Advanced Education funded some student growth through targeted enrolment growth funding. However, there currently is 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: at some point in the future, it will limit NAIT's ability to grow. This risk is especially prevalent for high-cost programs, even if these programs are the ones that the Alberta economy needs most. 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 targeted 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, continues to be developed in line with NAIT becoming a world-class polytechnic institution. However, these additional student supports and services come at a cost that NAIT needs to fund. Sometimes, such as with mental health initiatives, there is targeted funding from the Department of Advanced Education, but, at other times, no new sources of funding exists.

NAIT will continue to develop and analyze its data on the nature and needs of NAIT's students in order to fully understand the specific types of supports and services that NAIT's students require most.

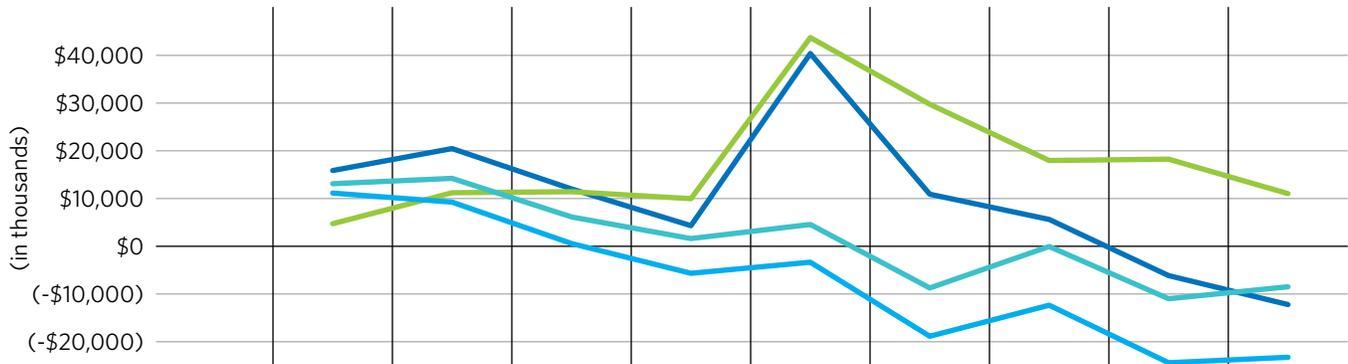
- 5. Facilities Development and Maintenance** - With capital grants from government being constrained, it is challenging to complete the required development of new facilities and the upgrading and maintenance of existing facilities to support NAIT's growth potential. NAIT's traditional high utilization rate of existing space has impacted NAIT's programming growth and has resulted 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 enrolment. NAIT is proceeding with its Campus Development Plan to refurbish main campus, thereby reducing maintenance costs. Renovating the L and T buildings are examples where NAIT has increased the efficiency and effectiveness of existing buildings, further reducing this risk. To continue to achieve the growth in student enrolments ultimately needed to achieve NAIT 2021 and in the Alberta Government projections on labour needs, NAIT will need a combination of new developments and updates to existing space.

- 6. Investment Revenues** - NAIT's sound financial management has allowed it to accumulate a sizable investment portfolio which has produced income that has helped sustain operations and produced operating surpluses in past years. Investment revenues, by their nature, are subject to unstable returns. The investment market has produced very good returns, exceeding budget expectations for many of the past several years. This last year is the first year in recent history where returns were below budget, and lower investment revenues certainly impacted NAIT's ability to balance the operating budget.

As NAIT invests in institutional capital priorities, NAIT will have lower investment balances and therefore lower investment revenues to support operations. Much of these capital investments have now been made, and NAIT intends to keep a sizeable investment balance in its long-term investment fund to support endowments and other institution priorities. Notes 5 and 6 to the financial statements contain more complete information on NAIT's investments and risk mitigation actions.

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 chart on the next page:

NAIT ANNUAL SURPLUS (DEFICIT) ADJUSTED FOR INVESTMENT INCOME



	2009/10 ACTUAL	2010/11 ACTUAL	2011/12 ACTUAL	2012/13 ACTUAL	2013/14 ACTUAL	2014/15 ACTUAL	2015/16 ACTUAL	2016/17 ACTUAL	2016/17 ACTUAL
OPERATING SURPLUS (DEFICIT)	\$15,873	\$20,475	\$12,016	\$4,318	\$40,390	\$10,911	\$5,629	(\$6,146)	(\$12,213)
ADJUSTED OPERATING SURPLUS (DEFICIT) WITH NO INVESTMENT INCOME	\$11,146	\$9,253	\$580	(\$5,659)	(\$3,338)	(\$18,851)	(\$12,347)	(\$24,399)	(\$23,253)
ADJUSTED OPERATING SURPLUS (DEFICIT) WITH BUDGETED INVESTMENT INCOME	\$13,107	\$14,234	\$6,151	\$1,615	\$4,573	(\$8,734)	(\$42)	(\$10,993)	(\$8,483)
INVESTMENT INCOME	\$4,727	\$11,222	\$11,436	\$9,977	\$43,728	\$29,762	\$17,976	\$18,253	\$11,040

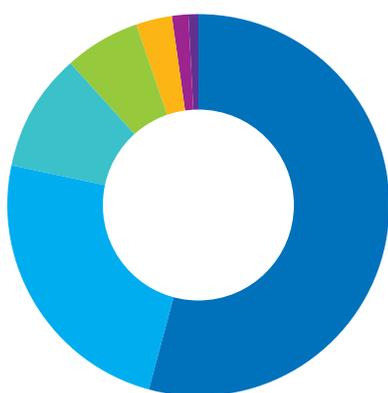
DETAILED FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF OPERATIONS

REVENUE

NAIT's total revenue decreased by \$9,787 (2.6%) this year, from \$377,959 in 2016/17 to \$368,172 in 2017/18.

The distribution of total revenue between revenue sources for 2017/18 is presented in the chart below. The comparative percentage for the previous year is shown in brackets.



NAIT REVENUE

2017/18: \$368.2 MILLION (2016/17: \$378 million)

54.4% GOVERNMENT OF ALBERTA OPERATING GRANTS (2016/17: 53.4%)

24% STUDENT TUITION AND RELATED FEES (2016/17: 23.5%)

10.2% SALES, RENTALS AND SERVICES (2016/17: 10.2%)

6.2% EXPENDED CAPITAL RECOGNIZED AS REVENUE (2016/17: 5.7%)

3% INVESTMENT INCOME (2016/17: 4.8%)

1.6% DONATIONS AND OTHER CONTRIBUTIONS (2016/17: 1.7%)

0.6% FEDERAL AND OTHER GOVERNMENT GRANTS (2016/17: 0.6%)

NAIT ended the year with a decrease in revenues, with the main revenue highlights noted below:

GOVERNMENT OF ALBERTA GRANTS

Government of Alberta operating grants, which include the Campus Alberta Grant and a number of conditional and one-time grants, decreased from the prior year by \$1,585 (0.8%). A brief summary is as follows:

- Campus Alberta Grant as a proportion of total revenue is 42.8% compared to the previous year's level of 40.7%.
- Overall, the base grant increased by \$3,504 (2.3%) from \$153,919 in 2016/17 to \$157,423 in 2017/18, which related to a 2% increase for inflation and additional funding to cover the amount estimated to be lost from the tuition freeze.
- Apprenticeship grant funding decreased by \$8,069 as NAIT was funded for 3,100 fewer apprenticeship seats from 15,121 in 2016/17 to 12,021 in 2017/18. Some of the larger changes in seats were in Welder (-780 seats), Electrician (-631 seats), Heavy Equipment Technician (-264 seats), Millwright (-220 seats), Steamfitter/Pipefitter (-192 seats), Instrumentation and Control Technician (-192 seats), Powerline Technician (-168 seats), Plumber (-144 seats) and Machinist (-140 seats). Other smaller increases and decreases were seen across all other trades.
- NAIT receives a grant from government for infrastructure renewal each year and recognizes this grant as revenue when they are spent on the projects. Infrastructure renewal grants used in 2017/18 increased by \$2,336 from \$2,967 in 2016/17 to \$5,303 in 2017/18.

INVESTMENT REVENUE

Investment revenue decreased by \$7,213 (-39.5%). The portfolio investment balances dropped by \$62,394 (-16.5%) from 2016/17 of \$377,635 to \$315,241 in 2017/18. This decrease reflects the continued investment into capital, specifically related to the Productivity and Innovation Centre construction and renovations of older facilities during 2017/18. While non-endowment fund balances decreased year over year, the endowment funds continued to grow.

Further information on cash and portfolio investments are in Notes 4 and 5 to the consolidated financial statements.

FEDERAL AND OTHER GOVERNMENT GRANTS

Federal and other government grants increased by \$108 (5.0%) from \$2,159 in 2016/17 to \$2,267 in 2017/18. This increase is a direct result of increased applied research activity. Additional increases in applied research funding are captured in the Government of Alberta grants as well as sales, rentals and services revenue.

STUDENT TUITION AND RELATED FEES

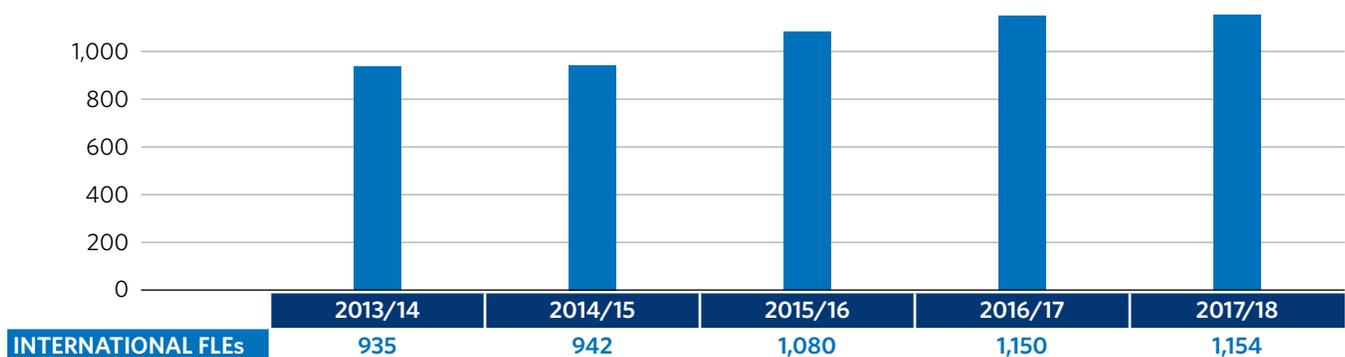
Student tuition and related fees revenue decreased by \$592 (0.7%) from \$88,930 in 2016/17 to \$88,338 in 2017/18. The majority of the decrease was due to the reduced number of apprenticeship seats and continuing education students. Student tuitions and fees represent 24.0% of NAIT's overall revenue, increasing slightly in proportion from 23.5% of total revenue in 2016/17.

- There are a number of factors that can influence the average tuition per FLE, such as individual course mix, full-time versus part-time and average number of courses per student. While 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 above noted reasons.
- Degree, diploma and certificate program revenues increased by \$946 (1.8%) from \$51,553 in 2016/17 to \$52,499 in 2017/18. Tuition fee rates remained frozen at 2014/15 levels as directed by the Government of Alberta. 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 195 (1.8%) from 10,746 in 2016/17 to 10,941 in 2017/18.
- Student tuition and related fees from apprenticeship training decreased by \$2,186 (-19.3%) from \$11,346 in 2016/17 to \$9,160 in 2017/18. This change was directly related to the decrease in funded apprenticeship seats, which was the equivalent of -678 FLEs (-19.5%). (3,485 FLE in 2016/17 to 2,807 FLE in 2017/18.)

FLE TREND	ACTUAL				CHANGE	BUDGET	VARIANCE
	2014/15	2015/16	2016/17	2016/17	2017/18	2017/18	2017/18
DEGREE, DIPLOMA, CERTIFICATE	9,008	9,947	10,746	10,941	195	11,123	(182)
APPRENTICESHIP	3,757	3,861	3,485	2,807	(678)	2,764	43
TOTAL	12,765	13,808	14,231	13,748	(483)	13,887	(139)

- Overall tuition fees for continuing education decreased by \$953 (-6.7%) from \$14,279 in 2016/17 to \$13,326 in 2017/18. Enrolment in the continuing education courses related to trades, which generally have higher tuition rates than other courses, were down significantly, resulting in decreased tuition revenues.
- Revenue from the international student surcharge increased from the prior year by \$1,601 (13.6%) from \$11,752 in 2016/17 to \$13,353 in 2017/18. The international surcharge is the portion of tuition charged to international students above the domestic rate, which is meant to cover the full cost of the program. General growth of international student FLEs was small, increasing from 1,150 in 2016/17 to 1,154 in 2017/18 (0.3%). However, we are seeing a higher proportion of new students at the new 3.15 surcharge rate versus continuing students at the old 2.35 surcharge rate, resulting in overall higher surcharge dollar amounts.

INTERNATIONAL FLEs



SALES, RENTALS AND SERVICES REVENUE

- Ancillary operations revenues decreased \$1,164 (4.54%) from \$25,641 in 2016/17 to \$24,477, resulting from the reduction in the number of apprenticeship students and lower per student purchases. Ancillary operations consist of:
 - Parking - 20% of ancillary revenue \$4,848, increased \$168 (3.6%) from prior year.
 - eat AT NAIT - 37% of ancillary revenue \$9,089, decreased \$362 (-3.8%) from prior year.
 - shop AT NAIT (Bookstore) operations - 43% of ancillary revenue \$10,486, decreased \$981 (-8.6%) from prior year.
 - one AT NAIT (One Card) and Athletics make up the balance of ancillary revenue.
- Training contracts decreased \$1,274 (-16.5%) down from \$7,726 in 2016/17 to \$6,452 in 2017/18, reflecting significant reductions in business from sectors connected to the economic slowdown in the apprenticeship and trades economy in Alberta.
- Other sales, rentals and services revenue, which includes various amounts such as a share of PanGlobal management fees, locker rentals, conference room rentals, event revenues and one-time revenues such as gain on disposal of assets increased by \$1,388 (26.7%) from \$5,198 to \$6,586 due mainly to insurance proceeds received for fire damages incurred in 2016/17 which had offsetting costs in 2017/18.

DONATION AND OTHER CONTRIBUTION REVENUE

Donation and other contribution revenue includes the amount of revenue that is necessary to cover the fundraising costs of projects of NAIT's Advancement Services; gifts in kind that are expensed; and scholarships, bursaries and other expenses funded by donations. Donation revenues raised in a given year are not recognized as revenue until they are spent, so the financial statements only reflect those donations which were spent this year and not all the fundraising activity for the year. The recognized donation and other contributions decreased by \$605 (9.3%) from \$6,499 in 2016/17 to \$5,894 in 2017/18. Revenue was still higher than the planned \$5,542 which anticipated normal donation levels that excluded one-time efforts related to the CAT building.

EXPENSES

Total actual expenses decreased by \$3,720 (-1.0%) from \$384,105 in 2016/17 to \$380,385 in 2017/18.

The distribution of total expenses by function for the 2017/18 fiscal year is presented in the following chart along with the comparative percentage for the previous year, shown in brackets.



NAIT EXPENSES

2017/18: \$380.4 MILLION (2016/17: \$384.1 million)

42.1% INSTRUCTIONAL DELIVERY (2016/17: 44.2%)

18.9% FACILITIES OPERATIONS AND MAINTENANCE (2016/17: 17.4%)

16.2% ACADEMIC AND STUDENT SUPPORT (2016/17: 15.7%)

13.4% INSTITUTIONAL SUPPORT (2016/17: 13.7%)

6.3% ANCILLARY SERVICES (2016/17: 6.4%)

2.9% APPLIED RESEARCH (2016/17: 12.6%)

0% FUNDRAISING (2016/17: 0%)

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

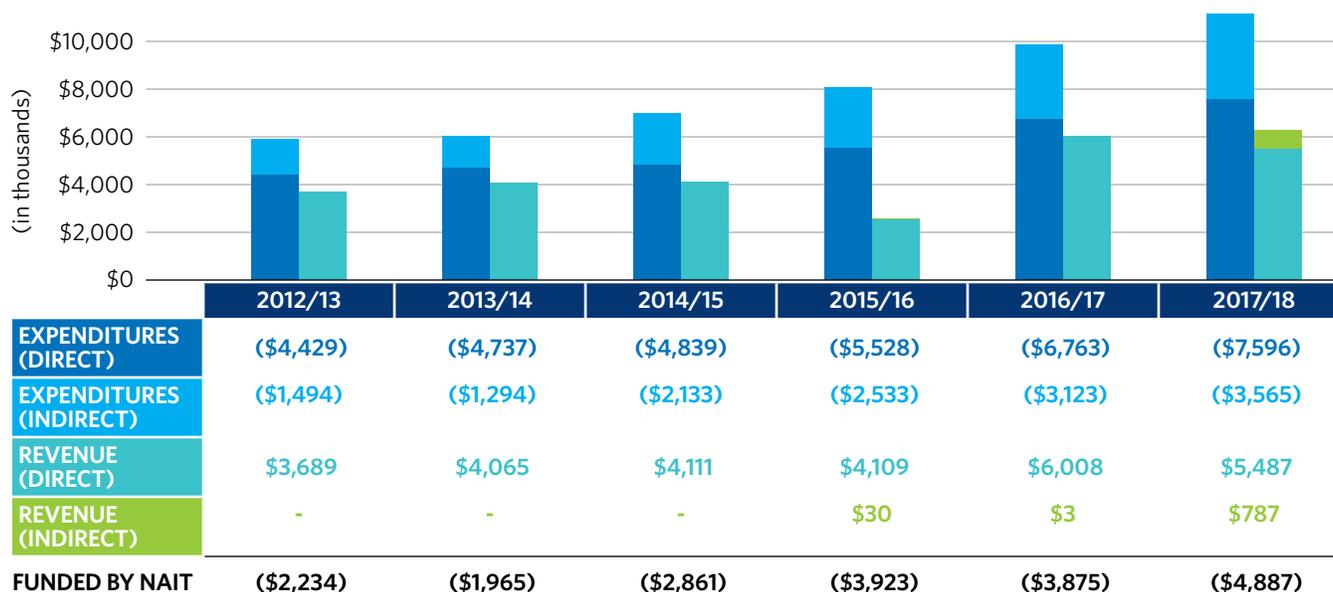
INSTRUCTIONAL DELIVERY

Instructional delivery decreased by \$9,335 (-5.5%) from \$169,973 in 2016/17 to \$160,638 in 2017/18. The largest decreases were in the School of Skilled Trades, where staffing levels were permanently reduced by \$7,011. The severances paid in 2017/18 were \$950 lower than what was paid out in the prior year. Additionally, there was \$7,093 in savings in temporary staff vacancies and other non-staff savings. These savings were partially offset by grid step increases for NAIT Academic Staff Association (NASA) members of \$5,719.

APPLIED RESEARCH

Applied research expenses grew, reflecting the planned growth in research activities and revenues. Applied research expenses increased by \$1,275 (12.9%) from \$9,886 in 2016/17 to \$11,161 as a direct result of research revenue growth and spending from prior years' reserves. As part of NAIT's vision, the area of applied research will continue to grow significantly over the next few years as part of the Productivity and Innovation Centre and NAIT's Industry Solutions model. NAIT's contribution to applied research activities is expected to decrease from current levels and will continue to be supported by increased funding for indirect research costs into the future.

NAIT APPLIED RESEARCH REVENUES AND EXPENDITURES



FACILITIES OPERATIONS AND MAINTENANCE

Facilities operations and maintenance expenses, while lower than planned, increased over the prior year by \$5,022 (7.5%) from \$66,714 in 2016/17 to \$71,736 in 2017/18. The increase is mainly due to higher amortization costs of \$1,716, which is a direct result of the construction of new buildings and higher maintenance spending of \$2,720, which was supported by increased infrastructure renewal grants.

ACADEMIC AND STUDENT SUPPORT

Academic and student support expense increased by \$1,499 (2.5%) from \$60,142 in 2016/17 to \$61,641 in 2017/18. The major increase was due to support staff cost of living and grid step increases of \$1,226.

INSTITUTIONAL SUPPORT

Institutional support decreased by \$1,328 (-2.5%) from \$52,438 in 2016/17 to \$51,110 in 2017/18. This decrease mainly relates to one-time costs incurred in 2016/17 in order to renegotiate the terms of our CAT building loan.

ANCILLARY SERVICES

Ancillary operations consist mainly of parking, *eat AT NAIT* (food services), and *shop AT NAIT* (bookstore) operations. Ancillary services expense decreased by \$769 (-3.1%) from \$24,763 in 2016/17 to \$23,994 in 2017/18. This is a direct result of lower sales volumes and related lower cost of goods sold.

OPERATING RESULTS COMPARED TO BUDGET

The Consolidated Statement of Operations reports an operating deficit in the amount of (\$12,213), which arises from actual revenue being less than budgeted by \$23,302 (6.0%) and actual expense being less than budgeted by \$10,917 (2.8%), as follows:

	BUDGET 2017/18	ACTUAL 2017/18	DOLLAR VARIANCE	PERCENTAGE VARIANCE
Total Revenue	\$391,474	\$368,172	(23,302)	-6.0%
Total Expense	\$391,302	\$380,385	(\$10,917)	-2.8%
OPERATING SURPLUS (DEFICIT)	\$172	(\$12,213)	(\$12,385)	

REVENUE

The overall actual revenue was below budget for the following reasons:

- The budgeted revenue included \$14,000 expected for a land transfer grant from the Alberta Government that did not occur in 2017/18 but is expected to occur in 2018/19.
- Student tuition and related fees were below budget by \$8,000 as degree, diploma and certificate tuition revenues, although higher than last year, were less than planned by 182 FLEs. As well, the Apprenticeship fill rate of 86% was below the budgeted fill rate of 90%, resulting in tuition equating to 78 FLEs less than planned.
- Investment revenue was below plan due to lower than anticipated overall returns of \$3,730. NAIT planned for a 4.11% return on its investments but only realized 3.36% due to volatility of the markets.
- Retail sales were lower than planned by \$3,052 due to the decline in apprenticeship enrolments and lower average student purchase volumes, which almost meant lower than planned costs.
- Applied research revenues were above those of the prior year, but below growth plans by \$3,269, offset by lower than planned costs.

EXPENSE

The major variance between budget and actual expenses was due to lower than planned spending on Applied Research \$3,039, which was also reflected in the lower than planned revenues. NAIT leadership implemented a hiring chill this year which resulted in many vacant positions remaining unfilled. As well, as part of the financial sustainability strategy, NAIT leaders have been undertaking reviews of their business units to find efficiencies, creating savings from budget. Overall, staffing costs were \$6,373 below plan across multiple functions at NAIT in an effort to react to the reduced revenues and the implementation of financial sustainability strategies.

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 Assets section. 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:

The total of cash and cash equivalents and portfolio investments (non-endowment) decreased by \$85,996 from \$357,021 in 2016/17 to \$271,025 in 2017/18. This decrease reflects the continued investment into capital, specifically related to the L and T building renovations and the Productivity and Innovation Centre construction during 2017/18. While non-endowment fund balances decreased year over year, endowment funds continued to grow, increasing by \$1,869 from \$51,257 in 2016/17 to \$53,126 in 2017/18. Further information on cash and portfolio investments is in Notes 4 and 5 to the consolidated financial statements.

ACCOUNTS RECEIVABLE

The accounts receivable balance is made up of amounts owing from students, government, government agencies and industry partners. There was a decrease of \$415 in accounts receivable from \$8,063 in 2016/17 to \$7,648 in 2017/18 due to outstanding vendor credits for returned books and materials which were \$620 higher in 2016/17.

INVENTORIES FOR SALE

The majority of the inventory of goods held for sale is at shop AT NAIT and also includes smaller inventory balances for eat AT NAIT. The overall inventory decreased by \$527 from \$3,453 in 2016/17 to \$2,926 in 2017/18 due to lower sales levels requiring lower inventory levels.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

NAIT's accounts payable and accrued liabilities include outstanding vendor invoices, construction holdbacks, payroll remittances and amounts set aside to pay employees who are currently on self-funded leaves. The majority of the change in accounts payable and accrued liabilities of \$4,117 (-10.6%) was due to timing of year end cut-off and payroll remittances being released.

EMPLOYEE FUTURE BENEFIT LIABILITIES

Employee future benefit liabilities include supplemental retirement plans, long-term disability, vacation entitlements and employee self-funded future leaves. The employee future benefit liabilities decreased by \$655 due mainly to actuarial assumptions used in valuing these future liabilities.

DEBT

NAIT has two outstanding sources of debt: \$20,603 for the construction of the parkade, which matures in 2042, and \$150,000 for the construction of the Centre for Applied Technology building, which matures in June 2019. The small decrease of \$529 was due to the current year's repayment of the loan for the parkade construction.

UNEARNED REVENUE

Unearned revenue includes amounts collected in advance from students for future terms or courses. Tuition is reported as unearned revenue until revenue is recognized in the period in which the classes are offered. Unearned revenue decreased by \$257 (-1.7%) from \$15,338 in 2016/17 to \$15,081 in 2017/18. The decrease mainly relates to a continued reduction in apprenticeship registrations for 2018/19, which were lower than the registrations at the end of the previous year.

DEFERRED CONTRIBUTIONS

Deferred contributions are targeted amounts received that are intended for specific purposes that will be spent in the future. These include endowment interest, conditional grants, research grants and restricted donations. The decrease of \$5,435 in 2017/18 is primarily due to increased spending of donations and capital and facility infrastructure grants within the year. Further details about Deferred Contributions can be found in Note 9 to the consolidated financial statements.

TANGIBLE CAPITAL ASSETS

The overall increase in the value of the capital assets of \$61,925 is primarily due to construction of the Productivity and Innovation Centre and the L and T building renovations. Further information on tangible capital assets is disclosed in Note 10 to the consolidated financial statements.

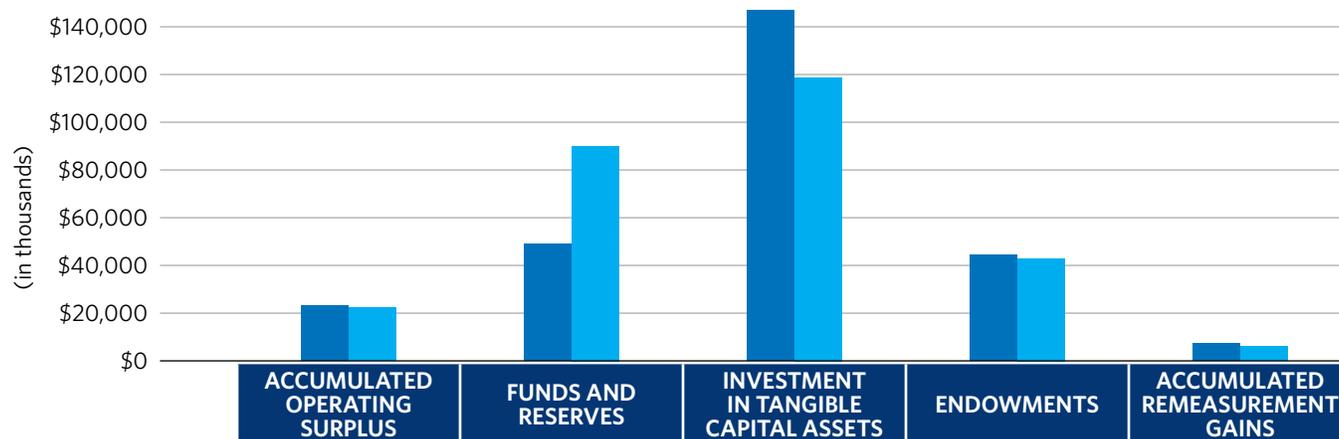
SPENT DEFERRED CAPITAL CONTRIBUTIONS

This category represents amounts spent on capital assets that have not been recognized as revenue. The majority of the balance of \$345,064 in 2017/18 (\$348,133 in 2016/17) relates to donations and grants that have been spent on the construction of the CAT and PIC buildings, which will be recognized over the life of the buildings as they are amortized. Details are disclosed in Notes 9 and 11 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 12 to the consolidated financial statements. The Net Assets decreased by \$9,570 (3.4%) from \$280,322 in 2016/17 to \$270,752 in 2017/18 and is further disclosed as follows:

NET ASSETS



	2017/18	2016/17	INCREASE (DECREASE)	% CHANGE
ACCUMULATED OPERATING SURPLUS	\$23,273	\$22,424	\$849	3.8%
FUNDS AND RESERVES	\$48,936	\$90,043	(\$41,107)	-45.7%
INVESTMENT IN TANGIBLE CAPITAL ASSETS	\$146,806	\$118,761	\$28,045	23.6%
ENDOWMENTS	\$44,511	\$42,950	\$1,561	3.6%
ACCUMULATED REMEASUREMENT GAINS	\$7,226	\$6,144	\$1,082	17.6%
TOTAL	\$270,752	\$280,322	(\$9,570)	-3.4%

ACCUMULATED OPERATING SURPLUS

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

FUNDS AND RESERVES

Funds and reserves decreased by \$41,107, mainly from the use of reserves for main campus renovations of \$27,276 that resulted from the opening of the CAT building in 2016/17 and the L and T building renovations. As well, reserves were used to cover the majority, \$11,854, of the current year operating deficit of \$12,213. This reserve was originally \$18,000, which was set aside in past years to cover short-term deficits. This reserve has now been fully depleted. The details of the changes in Funds and Reserves can be found in Note 12 to the consolidated financial statements.

INVESTMENT IN TANGIBLE CAPITAL ASSETS

The tangible capital assets of \$559,287 are funded by the following sources:

	2018	2017
Internally funded (invested in tangible capital assets)	\$ 146,806	\$ 118,761
Externally financed (debt)	67,417	30,468
Externally funded (expended capital contributions)	345,064	348,133
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 559,287	\$ 497,362

The internally funded portion of \$146,806 in 2017/18 represents NAIT's internally funded portion of its assets. This increased by \$28,045 in 2017/18, as the new acquisitions, primarily the L and T building renovations, exceeded the net amortization of existing assets. See note 10 to the consolidated financial statements for additional information on tangible capital assets.

ENDOWMENTS

Endowments have increased by \$1,561 from \$42,950 in 2016/17 to \$44,511 in 2017/18. The increase is due to the new contributions from generous donors to the endowments and additional investment income earned from the endowments held to support inflation-proofing the endowments for future spending. The details of changes to endowments can be found in Note 12 to the consolidated financial statements.

ACCUMULATED REMEASUREMENT GAINS

NAIT's investment portfolio continues to have remeasurement gains. Remeasurement gains are an instrument to adjust the investment portfolio to fair market value. As at June 30, 2018, the investment portfolio had a net remeasurement gain of \$10,564 (\$9,306 in 2016/17), of which \$3,338 (\$3,162 in 2016/17) was allocated to endowments and recorded in deferred contributions; the remaining \$7,226 (\$6,144 in 2016/17) was recorded as accumulated remeasurement gains. The effect of the remeasurement gains is disclosed in the last table in Note 5 to the consolidated financial statements.

DETAILED FINANCIAL INFORMATION

The following provides information on NAIT's 2017/18 key operating indicators, leading to the calculation of the tuition revenue and net program cost per full-load equivalent student for the degree, diploma and certificate programs; apprenticeship training programs; and other programs and services.

	Note	Degree, Diploma and Certificate Programs - full-time and part-time studies	Apprenticeship Training Programs	Other Programs and Services	TOTAL
a) Full-load equivalent students (FLE)	(i)	10,941	2,807	-	13,748
b) Tuition and training revenue	(ii)				
Degree, diploma and certificate programs		\$ 47,958	\$ -	\$ 4,541	\$ 52,499
Apprenticeship training		-	8,301	859	9,160
Continuing education		-	-	13,326	13,326
International student surcharge		-	-	13,353	13,353
Training contracts		349	-	6,103	6,452
		\$ 48,307	\$ 8,301	\$ 38,182	\$ 94,790
c) Net program cost	(iii)				
Expenses per financial statements		\$ 222,408	\$ 104,067	\$ 53,910	\$ 380,385
Less cost recoveries		(1,274)	(107)	-	(1,381)
		\$ 221,134	\$ 103,960	\$ 53,910	\$ 379,004
d) Tuition revenue per FLE (in dollars)		\$ 4,415	\$ 2,957		
e) Net program cost per FLE (in dollars)		\$ 20,211	\$ 37,036		
f) Tuition revenue as a percentage of net program cost		21.8%	8.0%		

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: 8.0% in 2017/18, down from 8.9% in 2016/17. This change is directly related to the decrease in approved seats by the government and the tuition freeze 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 Degree, Diploma and Certificate 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 Degree, Diploma and Certificate 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 (2015-2021) outlines goals and targets based on four strategic themes:

- International engagement and intercultural competence
- International student enrolments and pathways
- Human capital and knowledge mobility
- 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 2017/18, NAIT focused on expanding its strong international foundation of existing partnerships and programs, providing targeted supports and services for newcomer students and increasing the number of opportunities for inbound and outbound student exchanges.

NAIT signed two exchange agreements, one with Metro Edmonton Post-Secondary Coalition with the German Consortium, OWL, and one with VIA University College in Denmark. We realized 50 outbound exchange students to various locations and quadrupled our inbound exchange students (based on year over year) with students coming from partner institutions in both the Netherlands (HAN University) and Mexico (IPN). NAIT participated in two instructor-led international experiences which provided added value to students, namely the Alternative Energy program's trip to Peru with Light Up the World, and Instrumentation's trip to Germany. This was the second edition of each trip, again with great success and positive comments from students and instructors alike. Students involved in international learning opportunities benefited from workshops and development inventories.

NAIT International expanded the population it serves to intentionally include Permanent Resident and Refugee students in all community-building activities. Embedded counseling and Newcomer academic supports have proven to be popular sources of support for students, underscoring the value of holistic student success.

NAIT has completed its English as a Second Language (ESL) program application process which will greatly increase the ability to manage relationships between the institute and prospective ESL learners, facilitating improved transition into ESL studies. The application process also supports institutional planning as we are able to better anticipate student needs, specific to the various ESL levels we offer, and can more effectively assign resources.

OFF-SHORE DELIVERY

NAIT offers its two-year Digital Media and Information Technology 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 in NAIT's 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 with a total unduplicated head count of 289.

NAIT is finalizing the negotiations with HUST for a new contract for a joint offering of the Digital Media and IT program using the same 4+0 model. This contract will be for four cohorts of students, with the last group graduating in 2023/2024.

INFORMATION TECHNOLOGY

Throughout 2017/18, NAIT enhanced its information and technology services to meet the needs of students, staff and the Department of Advanced Education. Several foundational elements were implemented to enable financial sustainability and future growth.

2017/18 highlights include:

IT INITIATIVE	HIGHLIGHT
OneCard implementation	Completed implementation of OneCard for staff/students for services and access at NAIT.
NAIT mobile application	Implemented a student-centred experience that supports and inspires lifelong success.
Improved applied research tracking	Augment the use of PeopleSoft Financials to track and monitor research in an effective and efficient manner by simplifying and standardizing the processes - on target for April 2019.
NAIT customer relationship management system	Implemented an Industry Services Customer Relationship Management (CRM) solution to support NAIT in engaging and growing its industry and business customer base.
Hyperion upgrade	Completed upgrade which allows new functionality to support the budget and forecasting processes.
Confirmation of Registration for Government of Alberta student loans	Review, redesign and automate how NAIT confirms student registration for Government of Alberta student loans.
Student Financial Aid - Phase 2	Built an online student application process and streamlined the evaluation process for scholarships and bursaries.
Post-secondary Electronic Standards Council (PESC) Upgrade	Completed PESC upgrade which facilitates the flexibility in requesting and obtaining Alberta high school transcripts.
Cybersecurity	An information security policy framework was formalized with additional governance documents approved for data classification and incident handling. A reporting mechanism to include the Ministry of Advanced Education notification for major incidents was also completed. Risk management for cybersecurity has been integrated into our Enterprise Risk Management framework.
Payment card industry standard	Designed and installed a Payment Card Industry Data Security Standard (PCI-DSS) compliant environment to support NAIT's cardholder data environment.
Update and enhance wireless functionality	Replaced aging radios and expanded signal throughout the campuses with a focus on renovated spaces and primary axial hallways.
Bandwidth expansion and upgrades	Replaced aging switches, routers and structured cable throughout the campus and in the data centre.
Classroom technology upgrades	Renewed aging AV classroom technology and computers in NAIT's teaching spaces.
Upgrade infrastructure	Replaced and added storage arrays and computing power to support legacy systems.

CAPITAL PLAN

The table below represents the updates of NAIT's priority projects as indicated in the 2017/18 – 2019/20 Comprehensive Institutional Plan.

PRIORITY PROJECTS

TYPE	DESCRIPTION	STATUS	EXPECTED COMPLETION DATE (FROM CIP)	PROGRESS MADE IN THE LAST 12 MONTHS	REVISED EXPECTED COMPLETION DATE
New	Main Campus Expansion Land Acquisition	-	Ongoing	Negotiations for land acquisition are complex and ongoing. The agreement to purchase the Westwood Bus Barn (11.89 acres) is in place and is expected to close in January 2019. Current projections for the conclusion of an agreement on Blatchford lands is in late 2018.	Land agreements in place in late 2018 or early 2019.
New	NAIT Skills Centre	Occupancy for fall 2023 term	Waiting for Government of Alberta approval	The agreement to purchase the Westwood Bus Barn is in place and is expected to close in January 2019.	Fall 2024. Project is not yet approved.
Preservation	Main Campus Space Optimization	Fall 2019	Waiting for Government of Alberta approval	Since the 2015 Campus Plan was completed, significant changes have occurred which required the Main Campus Space Optimization (MCSO) to be revisited. The changes include the impacts of academic restructuring, the new Productivity and Innovation Centre and the retention and renovation of the L and T buildings. The outcomes of the 2018 MCSO are better utilization of existing space in order to accommodate growth and the enhancement of the student and staff experience while also reducing deferred maintenance.	Fall 2022. Revised schedule due to updated 2018 MCSO plan.
New	Student Housing	To be confirmed once the City's plans are finalized	Delayed	This project is contingent upon NAIT's successful acquisition of expansion land at Blatchford. While construction of student residences on Blatchford remains a key part of NAIT's Campus Development Plan, NAIT is also investigating other opportunities to advance the development of student housing.	-

TYPE	DESCRIPTION	STATUS	EXPECTED COMPLETION DATE (FROM CIP)	PROGRESS MADE IN THE LAST 12 MONTHS	REVISED EXPECTED COMPLETION DATE
Preservation	Capital Maintenance and Rehabilitation	If full funding is available, it could be completed by fall 2022	Waiting for Government of Alberta approval	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 BLIMS in 2018.	Fall 2023. Project is not yet approved.
New	Acquisition of Crane and Hoisting Facility and Land in Spruce Grove	Fall 2021	Waiting for Government of Alberta approval	The option to purchase can be exercised only starting July 2021.	-
New	Productivity and Innovation Centre (PIC)	Substantial completion by Apr. 30, 2018	Operational	Occupancy permit was received on April 12, 2018 and Substantial Completion was achieved on Apr. 30, 2018. Staff started to move in July and Prime Minister Justin Trudeau officially opened the building on September 5, 2018.	-
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.	-



INDUSTRY SOLUTIONS

Timely construction of the Productivity and Innovation Centre (PIC) is edging NAIT closer to opening its new front door for industry.

With \$34.9 million from the Government of Canada Post-Secondary Institutions Strategic Investment Fund, PIC will bring together NAIT's diverse services and solutions for industry. "The funding provided by the Government of Canada will be transformative for our institution, our province and our country," says Dr. Glenn Feltham, NAIT president and CEO. "It allows us to invite industry in to become more productive and help industry go from small to big."

Scheduled to open in fall 2018, PIC will play a significant role in further enabling NAIT to continue fulfilling its promise to conduct industry-driven research that creates globally competitive enterprises. Services will span the following:

- introducing new technologies to business;
- imagining, developing and testing new products and improving existing ones;
- developing applied research solutions for issues facing industry;
- assessing and improving business practices;
- providing workforce education, with a focus on productivity; and
- hosting conferences and events.

The 17,650-square metre building is being constructed to LEED certification standards in keeping with the polytechnic's commitment to environmental sustainability. With a focus on productivity enhancement, prototype development and applied research and innovation, this newest addition to Main Campus will be home to testing laboratories, simulation equipment and applied research centres, including the Centre for Oil Sands Sustainability and the Centre for Sensors and System Integration.

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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, 2018, 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, 2018, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General
October 9, 2018
Edmonton, Alberta

STATEMENT OF MANAGEMENT RESPONSIBILITY

FOR THE YEAR ENDED JUNE 30, 2018

The consolidated financial statements of the Northern Alberta Institute of Technology (NAIT) have been prepared in accordance with Canadian public sector accounting standards. The consolidated financial statements present fairly the financial position of NAIT as at June 30, 2018 and the results of its operations, remeasurement gains and losses, changes in net financial assets and cash flows for the year then ended.

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

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

The Board of Governors carries out their responsibility for review of the consolidated financial statements principally through its Audit Committee. All members of the Audit Committee are not employees of NAIT. The Audit Committee meets with management and the external auditors to discuss the results of audit examinations and financial reporting matters. The external auditors have full access to the Audit Committee, with and without the presence of management.

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



President and CEO



Vice-President Administration and CFO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2018 (IN THOUSANDS OF DOLLARS)

	2018	2017
Financial assets excluding portfolio investments restricted for endowments		
Cash and cash equivalents (Note 4)	\$ 8,910	\$ 30,643
Portfolio investments - non-endowment (Note 5)	262,115	326,378
Accounts receivable	7,648	8,063
Inventories for sale	2,926	3,453
	<u>281,599</u>	<u>368,537</u>
Liabilities		
Accounts payable and accrued liabilities	34,744	38,861
Employee future benefit liabilities (Note 7)	27,686	28,341
Debt (Note 8)	170,603	171,132
Deferred revenue		
Unearned revenue	15,081	15,338
Deferred contributions (Note 9)	34,486	39,921
	<u>282,600</u>	<u>293,593</u>
(Net debt) net financial assets excluding portfolio investments restricted for endowments	(1,001)	74,944
Portfolio investments - restricted for endowments (Note 5)	<u>53,126</u>	<u>51,257</u>
Net financial assets	<u>\$ 52,125</u>	<u>\$ 126,201</u>
Non-financial assets		
Tangible capital assets (Note 10)	\$ 559,287	\$ 497,362
Inventories of supplies	370	471
Prepaid expenses	4,034	4,421
	<u>563,691</u>	<u>502,254</u>
Net assets before spent deferred capital contributions	615,816	628,455
Spent deferred capital contributions (Note 11)	<u>345,064</u>	<u>348,133</u>
Net assets	<u>\$ 270,752</u>	<u>\$ 280,322</u>
Net assets is comprised of:		
Accumulated surplus (Note 12)	263,526	274,178
Accumulated remeasurement gains and losses (Note 5)	7,226	6,144
	<u>\$ 270,752</u>	<u>\$ 280,322</u>

Contingent assets and contractual rights (Notes 13 and 15)
 Contingent liabilities and contractual obligations (Notes 14 and 16)
 Approved by the Board of Governors (Note 24):



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, 2018 (IN THOUSANDS OF DOLLARS)

	2018		2017
	Budget (Note 23)	Actual	Actual
Revenue:			
Government of Alberta grants			
Operating grants (Note 21)	\$ 210,474	\$ 200,283	\$ 201,868
Expended capital recognized as revenue	16,929	17,977	16,922
Federal and other government grants			
Operating grants (Note 21)	3,829	2,267	2,159
Expended capital recognized as revenue	1,276	1,045	1,221
Student tuition and related fees			
Degree, diploma, and certificate programs	55,723	52,499	51,553
Apprenticeship training	9,924	9,160	11,346
Continuing education	17,033	13,326	14,279
International student surcharge	13,658	13,353	11,752
Sales, rentals and services			
Ancillary operations	27,484	24,477	25,641
Training contracts	7,958	6,452	7,726
Other	4,120	6,586	5,198
Donations and other contributions			
Donations and operating grants	5,542	5,894	6,499
Expended capital recognized as revenue	2,754	3,813	3,542
Investment income (Note 17)	14,770	11,040	18,253
	<u>391,474</u>	<u>368,172</u>	<u>377,959</u>
Expense (Notes 2(I), 18):			
Instructional delivery	162,158	160,638	169,973
Applied research	14,200	11,161	9,886
Facilities operations and maintenance	70,862	71,736	66,714
Academic and student support	65,047	61,641	60,142
Institutional support	54,381	51,110	52,438
Ancillary services	24,536	23,994	24,763
Fundraising	118	105	189
	<u>391,302</u>	<u>380,385</u>	<u>384,105</u>
Annual operating deficit	<u>\$ 172</u>	(12,213)	(6,146)
Endowment contributions (Note 12)		1,000	1,022
Endowment capitalized investment income (Note 12)		561	470
		<u>1,561</u>	<u>1,492</u>
Annual deficit		(10,652)	(4,654)
Accumulated surplus, beginning of year (Note 12)		274,178	278,832
Accumulated surplus, end of year (Note 12)		<u>\$ 263,526</u>	<u>\$ 274,178</u>

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED JUNE 30, 2018 (IN THOUSANDS OF DOLLARS)

	2018		2017
	Budget	Actual	Actual
Annual surplus (deficit)	\$ 172	\$ (10,652)	\$ (4,654)
Acquisition of tangible capital assets	(97,196)	(96,626)	(62,094)
Net proceeds from disposal of tangible capital assets	1,540	117	97
Amortization of tangible capital assets	31,887	34,599	32,383
(Gain) on disposal of tangible capital assets	(500)	(15)	(74)
Decrease in inventories of supplies	-	101	99
Decrease (increase) in prepaid expenses	(100)	387	(662)
(Decrease) increase in spent deferred capital contributions		(3,069)	57,693
Increase (decrease) in accumulated remeasurement gains		1,082	(1,868)
(Decrease) increase in net financial assets		(74,076)	20,920
Net financial assets, beginning of year		126,201	105,281
Net financial assets, end of year		\$ 52,125	\$ 126,201

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES

FOR THE YEAR ENDED JUNE 30, 2018 (IN THOUSANDS OF DOLLARS)

	<u>2018</u>	<u>2017</u>
Accumulated remeasurement gains, beginning of year	\$ 6,144	\$ 8,012
Unrealized gains attributable to:		
Portfolio investments (Note 5)		
Non-endowment	2,690	3,019
Amount recognized in consolidated statement of operations:		
Portfolio Investments (Note 5)		
Non-endowment	<u>(1,608)</u>	<u>(4,887)</u>
Accumulated remeasurement gains, end of year	<u>\$ 7,226</u>	<u>\$ 6,144</u>

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018 (IN THOUSANDS OF DOLLARS)

	2018	2017
OPERATING TRANSACTIONS		
Annual deficit	\$ (10,652)	\$ (4,654)
Add (deduct) non-cash items:		
Amortization of tangible capital assets	34,599	32,383
Expended capital recognized as revenue	(22,835)	(21,685)
(Gain) on disposal of portfolio investments	(2,759)	(735)
(Gain) on disposal of tangible capital assets	(15)	(74)
(Decrease) increase in employee future benefit liabilities	(655)	637
Decrease (increase) in accounts receivable	415	(566)
Decrease in inventories held for sale	527	628
(Decrease) in accounts payable and accrued liabilities	(4,117)	(5,335)
(Decrease) in unearned revenue	(257)	(1,373)
(Decrease) in deferred contributions	(5,611)	(3,338)
Decrease in inventories of supplies	101	99
Decrease (increase) in prepaid expenses	387	(662)
Cash applied to operating transactions	(10,872)	(4,675)
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(95,938)	(61,679)
Net proceeds from disposal of tangible capital assets	117	97
Cash applied to capital transactions	(95,821)	(61,582)
INVESTING TRANSACTIONS		
Purchase of portfolio investments	(75,547)	(123,686)
Proceeds from disposal of portfolio investments	141,959	126,281
Cash provided by investing transactions	66,412	2,595
FINANCING TRANSACTIONS		
Debt repayment	(530)	(512)
Increase in spent deferred capital contributions, less expended capital recognized as revenue, less in-kind donations	19,078	78,963
Cash provided by financing transactions	18,548	78,451
Net (decrease) increase in cash and cash equivalents	(21,733)	14,789
Cash and cash equivalents, beginning of year	30,643	15,854
Cash and cash equivalents, end of year	\$ 8,910	\$ 30,643

The accompanying notes are part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018 (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 polytechnic 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, 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 and amortized cost
Accounts receivable	Amortized cost
Inventories held for sale	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

Government transfers are referred to as government grants.

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 (excluding unrealized income) 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 accumulated 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 held for sale 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.

Intangible assets, works of art, historical treasures and collections are expensed when acquired and not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

(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 June 2015, the Public Sector Accounting Board issued PS 3430 Restructuring Transactions. This accounting standard is effective for fiscal years starting on or after April 1, 2018. PS 3430 Restructuring Transactions defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction.

In March 2018, the Public Sector Accounting Board approved PS 3280 Asset Retirement Obligations. This accounting standard is effective for fiscal years starting on or after April 1, 2021. PS 3280 Asset Retirement Obligations provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

Management is currently assessing the impact of these standards on the consolidated financial statements.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

NAIT has prospectively adopted standards from July 1, 2017:

- 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.

4. CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
Cash	\$ 16,575	\$ 37,434
Less: Funds held on behalf of others (Note 19)	(7,665)	(6,791)
	<u>\$ 8,910</u>	<u>\$ 30,643</u>

5. PORTFOLIO INVESTMENTS

	<u>2018</u>	<u>2017</u>
Non-endowment	\$ 262,115	\$ 326,378
Restricted for endowments	53,126	51,257
Total portfolio investments	<u>\$ 315,241</u>	<u>\$ 377,635</u>

As at June 30, 2018, the average effective bond and dividend yields and the terms to maturity are as follows:

- Fixed income: ranging from 2.04% to 2.91% (2017: 1.28% to 2.29%); weighted-average yield 2.67% (2017: 1.89%); terms to maturity range from less than one year to greater than 10 years
- Canadian equity: 3.22% (2017: 3.03%)
- All World equity: 3.31% (2017: 3.03%)

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

	2018			
	Level 1	Level 2	Level 3	Total
Portfolio investments at fair value:				
Fixed income *	\$ -	\$ 149,540	\$ -	\$ 149,540
Canadian equity	41,929	-	-	41,929
All World equity **	122,198	231	-	122,429
Other	-	-	1,343	1,343
	\$ 164,127	\$ 149,771	\$ 1,343	\$ 315,241
	52.1%	47.5%	0.4%	100.0%
	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
	\$ 153,123	\$ 223,222	\$ 1,290	\$ 377,635
	40.6%	59.1%	0.3%	100.0%

2018 level composition is based on December 31, 2017 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 10.0% (2017: 9.9%) of the Fund at December 31, 2017.

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:

	2018	2017
Balance, beginning of year	\$ 1,290	\$ 1,211
Investment income	58	84
Funds disbursed to NAIT	(4)	(4)
Expenses	(1)	(1)
Balance, end of year	\$ 1,343	\$ 1,290

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 9)	Accumulated remeasurement gains and losses	Total
Balance as at July 1, 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
Unrealized gains attributable to portfolio investments	1,719	2,690	4,409
Amounts reclassified to statement of operations	(1,543)	(1,608)	(3,151)
Balance as at June 30, 2018	\$ 3,338	\$ 7,226	\$ 10,564

6. 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.

	2018	2017
Canadian equity	\$ 1,300	\$ 1,523
All World equity *	4,775	3,672

* All World equity includes investments in Canadian markets, equating to 10.0% (2017: 9.9%) of the Fund at December 31, 2017.

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:

- 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 \$4,530 (2017: \$3,962) 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:

	2018	2017
AAA	22.4%	28.7%
AA	26.7%	38.4%
A	33.3%	18.7%
BBB	16.5%	12.9%
Short-term investments and other net assets (liabilities)	1.1%	1.3%
	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 in the most cost effective manner. At June 30, 2018, NAIT has committed borrowing facilities of \$2,500 (2017: \$2,500), none of which has been drawn.

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. If interest rates increased by 1%, and all other variables were held constant, the potential loss in fair value would be approximately 2.5% (2017: 2.6%) of total investments. Interest risk on NAIT's debt is managed through fixed-rate agreements with Alberta Capital Finance Authority (Note 8).

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

	<u>2018</u>	<u>2017</u>
< 1 year	12.8%	16.8%
1 - 5 years	54.6%	58.3%
> 5 years	32.6%	24.9%
	<u>100.0%</u>	<u>100.0%</u>
Average effective yield	2.67%	1.89%

7. EMPLOYEE FUTURE BENEFIT LIABILITIES

Employee future benefit liabilities are comprised of the following:

	<u>2018</u>	<u>2017</u>
Accrued vacation pay	\$ 21,406	\$ 21,334
Long-term disability	3,959	5,003
Supplementary retirement plan	1,713	1,420
Special leave plan	554	533
Management retirement plan	54	51
	<u>\$ 27,686</u>	<u>\$ 28,341</u>

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, 2018. 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, 2018.

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 \$134 (2017: \$419), and has been discounted at a rate of 0.0% (2017: 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, 2017, the LAPP reported an actuarial surplus of \$4,835,515 (2016: \$637,357 deficiency). As at June 30, 2018, NAIT recorded 2,421 (2017: 2,362) pensionable contributors comprising 1.52% (2017: 1.50%) of active LAPP membership. NAIT is not responsible for the funding of any future plan deficit other than through contribution increases. The pension expense recorded in these financial statements is \$25,293 (2017: \$25,068).

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 3.45% (2017: 2.70%).

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

	2018			
	LTD	SRP	Special Leave	Management Retiring
Expense				
Current service cost	\$ (427)	\$ 207	\$ 151	\$ 3
Interest cost	112	45	-	-
Amortization of actuarial (gains) losses	-	50	-	-
	<u>\$ (315)</u>	<u>\$ 302</u>	<u>\$ 151</u>	<u>\$ 3</u>
Financial Position				
Accrued benefit obligation:				
Balance, beginning of year	\$ 5,003	\$ 1,420	\$ 533	\$ 51
Current service cost	(427)	207	151	3
Interest cost	112	45	-	-
Benefits paid	(729)	(9)	(130)	-
Actuarial (gain) loss	-	50	-	-
Balance, end of year	<u>\$ 3,959</u>	<u>\$ 1,713</u>	<u>\$ 554</u>	<u>\$ 54</u>

	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>

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:

	2018		2017	
	LTD	SRP	LTD	SRP
Accrued benefit obligation:				
Discount rate	3.10%	3.10%	2.45%	2.45%
Long-term average compensation increase	1.60%	2.57%	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	7	5	12

8. DEBT

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

	2018			2017	
	Collateral	Maturity Date	Interest rate	Amortized Cost	Amortized Cost
Debentures payable to Alberta Capital Finance Authority:					
Parkade	Cashflows	December 2042	3.426%	\$ 20,603	\$ 21,132
Centre for Applied Technology	(1)	June 2019	1.373%	150,000	150,000
				<u>\$ 170,603</u>	<u>\$ 171,132</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
2019	\$ 150,548	\$ 2,761	\$ 153,309
2020	567	682	1,249
2021	587	662	1,249
2022	607	642	1,249
2023	628	621	1,249
Thereafter	17,666	6,698	24,364
	<u>\$ 170,603</u>	<u>\$ 12,066</u>	<u>\$ 182,669</u>

Interest expense on debt is \$2,778 (2017: \$4,547) and is included in the consolidated statements of operations.

9. 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:

	Unspent Operating Contributions	Unspent Capital Contributions	Total
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 17)	3,234	24	3,258
Unearned capital acquisition transfers (Note 11)	-	(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 5)	(12)	-	(12)
Balance as at June 30, 2017	\$ 35,390	\$ 4,531	\$ 39,921
Grants and donations received	46,569	18,297	64,866
Investment income (Note 17)	2,421	-	2,421
Unearned capital acquisition transfers (Note 11)	-	(19,846)	(19,846)
Recognized as revenue	(52,582)	-	(52,582)
Transferred to endowment	(470)	-	(470)
Change in unrealized gain on investments relating to endowments (Note 5)	176	-	176
Balance as at June 30, 2018	\$ 31,504	\$ 2,982	\$ 34,486

10. TANGIBLE CAPITAL ASSETS

	2018						2017	
	Land	Buildings, Leasehold and Site Improvements	Furnishings, Equipment and Systems	Vehicles	Library holdings	Work in progress	Total	Total
Cost								
Beginning of year	\$ 40,829	\$ 551,623	\$ 150,368	\$ 2,793	\$ 3,630	\$ 34,206	\$ 783,449	\$ 725,678
Acquisitions	4,223	94,033	10,505	-	117	(12,251)	96,627	62,094
Disposals	-	(889)	(3,554)	(169)	-	-	(4,612)	(4,323)
	<u>45,052</u>	<u>644,767</u>	<u>157,319</u>	<u>2,624</u>	<u>3,747</u>	<u>21,955</u>	<u>875,464</u>	<u>783,449</u>
Accumulated Amortization								
Beginning of year	-	(181,465)	(99,831)	(2,038)	(2,753)	-	(286,087)	(258,004)
Amortization expense	-	(19,360)	(14,787)	(224)	(228)	-	(34,599)	(32,383)
Disposals	-	885	3,457	167	-	-	4,509	4,300
	<u>-</u>	<u>(199,940)</u>	<u>(111,161)</u>	<u>(2,095)</u>	<u>(2,981)</u>	<u>-</u>	<u>(316,177)</u>	<u>(286,087)</u>
Net book value at								
June 30, 2018	<u>\$ 45,052</u>	<u>\$ 444,827</u>	<u>\$ 46,158</u>	<u>\$ 529</u>	<u>\$ 766</u>	<u>\$ 21,955</u>	<u>\$ 559,287</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>	<u>\$ 497,362</u>

No interest was capitalized in 2018 (2017: \$0).

Cost includes work-in-progress totaling \$21,955 (2017: \$34,206), comprised of land \$20 (2017: \$0), buildings \$18,350 (2017: \$31,297), site improvements \$936 (2017: \$1,424), equipment \$1,208 (2017: \$1,096) and software \$1,441 (2017: \$389).

Acquisitions during the year include in-kind contributions in the amount of \$688 (2017: \$415).

11. SPENT DEFERRED CAPITAL CONTRIBUTIONS

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

	2018	2017
Balance, beginning of year	\$ 348,133	\$ 290,440
Transfers from unspent deferred capital contributions (Note 9)	19,846	79,393
Expended capital recognized as revenue	(22,835)	(21,685)
Net book value of asset disposals	(80)	(15)
Balance, end of year	<u>\$ 345,064</u>	<u>\$ 348,133</u>

12. NET ASSETS

	Accumulated Operating Surplus	Funds and Reserves	Investment in Tangible Capital Assets	Endowments	Total Accumulated Surplus
Balance as at July 1, 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
Annual operating deficit	(12,213)	-	-	-	(12,213)
Endowments					
Contributions	-	-	-	1,000	1,000
Capitalized investment income	-	-	-	561	561
Tangible capital assets					
Amortization of tangible capital assets	11,764	-	(11,764)	-	-
Acquisition of tangible capital assets	(47,025)	(30,608)	77,633	-	-
Debt - expenditures from funds received in prior years	38,331	-	(38,331)	-	-
Debt - repayment	(530)	-	530	-	-
Net book value of tangible capital asset disposals	23	-	(23)	-	-
Operating expenses funded from funds and reserves	14,965	(14,965)	-	-	-
Net Board appropriation to funds and reserves	(4,466)	4,466	-	-	-
Change in accumulated remeasurement gains and losses	1,082	-	-	-	1,082
Balance as at June 30, 2018	\$ 30,499	\$ 48,936	\$ 146,806	\$ 44,511	\$ 270,752
Net assets is comprised of:					
Accumulated surplus	\$ 23,273	\$ 48,936	\$ 146,806	\$ 44,511	\$ 263,526
Accumulated remeasurement gains and losses	7,226	-	-	-	7,226
	\$ 30,499	\$ 48,936	\$ 146,806	\$ 44,511	\$ 270,752

(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:				
Main Campus Renovations	\$ 14,251	\$ 22,263	\$ (12,504)	\$ 24,010
Student Housing	10,000	-	-	10,000
Capital Renewal	2,088	227	-	2,315
Centre for Applied Technology	1,772	(84)	(220)	1,468
Centre for Applied Technology Cascading Reserve	36,731	(23,480)	(13,251)	-
Strategic Investment Fund	-	4,450	(4,450)	-
General Research Fund	-	166	(166)	-
Academic Incentive Plan	-	17	(17)	-
	<u>64,842</u>	<u>3,559</u>	<u>(30,608)</u>	<u>37,793</u>
Appropriation for operating activities:				
Academic Development Fund	3,871	125	(33)	3,963
Strategic Investment Fund	5,938	(1,391)	(730)	3,817
General Research Fund	1,087	383	(41)	1,429
Department of Corporate, International and Continuing Education Course Development	1,384	500	(578)	1,306
Academic Incentive Plan	1,067	(17)	(422)	628
Centre for Applied Technology Cascading Reserve	-	1,217	(1,217)	-
Centre for Applied Technology	-	84	(84)	-
Capital Renewal	-	6	(6)	-
	<u>13,347</u>	<u>907</u>	<u>(3,111)</u>	<u>11,143</u>
Appropriation for programs, operations and equipment	11,854	-	(11,854)	-
	<u>\$ 90,043</u>	<u>\$ 4,466</u>	<u>\$ (45,573)</u>	<u>\$ 48,936</u>

13. CONTINGENT ASSETS

NAIT initiated legal matters and insurance claims where possible assets are being sought. These matters give rise to contingent assets. The outcomes from these matters may result in recognition of assets.

14. CONTINGENT LIABILITIES

- (a) 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.

- (b) 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 2019. Management estimates remediation costs of \$94 (2017: \$489) based on contractual obligations and current industry costs. This amount has been recorded in the financial statements.

15. CONTRACTUAL RIGHTS

Contractual rights are rights of NAIT to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

	<u>2018</u>	<u>2017</u>
Operating leases, contracts and programs	\$ 14,718	\$ 10,493
Operations and maintenance	1,042	455
Other contracts	5,534	19,061
	<u>\$ 21,294</u>	<u>\$ 30,009</u>

Estimated amounts that will be received or receivable for each of the next five years are as follows:

	<u>Operating Leases, Contracts and Programs</u>	<u>Operations and Maintenance</u>	<u>Other Contracts</u>	<u>Total</u>
2019	\$ 5,822	\$ 1,042	\$ 5,534	\$ 12,398
2020	3,469	-	-	3,469
2021	2,557	-	-	2,557
2022	1,389	-	-	1,389
2023	1,063	-	-	1,063
Thereafter	418	-	-	418
	<u>\$ 14,718</u>	<u>\$ 1,042</u>	<u>\$ 5,534</u>	<u>\$ 21,294</u>

16. 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.

	<u>2018</u>	<u>2017</u>
Capital projects	\$ 10,282	\$ 71,757
Long-term leases	19,695	21,657
	<u>\$ 29,977</u>	<u>\$ 93,414</u>

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

	Capital Projects	Long-term Leases	Total
2019	\$ 10,282	\$ 2,662	\$ 12,944
2020	-	2,250	2,250
2021	-	2,036	2,036
2022	-	2,044	2,044
2023	-	1,256	1,256
Thereafter	-	9,446	9,446
	\$ 10,282	\$ 19,695	\$ 29,977

As at June 30, 2018, NAIT has contractual commitments for capital projects as follows:

Productivity and Innovation Centre	\$ 3,832
L Building and T Building Renovations	2,207
Patricia Campus Renovation	1,405
Various other projects	2,838
	\$ 10,282

17. INVESTMENT INCOME

	2018	2017
Investment earnings	\$ 11,807	\$ 18,378
Less transferred to Deferred Contributions (Note 9)	(2,421)	(3,258)
Investment earnings from unrestricted sources	9,386	15,120
Add transfers from Deferred Contributions	1,654	3,133
Investment income	\$ 11,040	\$ 18,253

Investment earnings include an accrual of \$4,463 (2017: \$5,469). 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)).

18. EXPENSE BY OBJECT

The following is a summary of expenses by object:

	2018		2017
	Budget	Actual	Actual
Salaries and employee benefits	\$ 268,718	\$ 258,189	\$ 264,565
Materials, supplies and services			
Cost of goods sold	14,940	13,943	15,086
Purchased labour and services	15,654	14,517	14,617
Classroom, lab and general supplies	11,710	13,987	13,592
Other materials, supplies and services	10,877	8,264	9,111
Maintenance and repairs	23,550	23,293	19,698
Utilities	8,352	7,746	7,568
Scholarships, bursaries and prizes	2,836	3,069	2,938
Interest expense	2,778	2,778	4,547
Amortization of capital assets	31,887	34,599	32,383
	\$ 391,302	\$ 380,385	\$ 384,105

19. 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.

	2018	2017
Alberta Post-Secondary Application System Society	\$ 6,157	\$ 5,274
NAIT Student's Association	1,508	1,517
	\$ 7,665	\$ 6,791

20. RELATED PARTIES

NAIT is a related party with organizations within the Government of Alberta reporting entity. Key management personnel of NAIT and their close family members are also considered related parties. NAIT may enter into transactions with these entities and individuals in the normal course of operations and on normal terms.

In 2017/18, NAIT's key management personnel and their close family members did not have any material transactions with NAIT, the NAIT Foundation, or other Government of Alberta reporting entities that occurred at a value that was different from that which would have been arrived at if the parties were unrelated.

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 transactions 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.

NAIT has liabilities with Alberta Capital Finance Authority as described in Note 8.

21. GOVERNMENT TRANSFERS

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.

	<u>2018</u>	<u>2017</u>
Grants from Government of Alberta		
Advanced Education		
Campus Alberta	\$ 157,423	\$ 153,919
Apprenticeship	18,739	28,170
Infrastructure Maintenance Program	6,365	4,375
Capital - Centre for Applied Technology	-	55,300
Capital - Productivity and Innovation Centre	13,439	17,168
Targeted enrolment expansion	8,710	8,710
Lights-on funding	-	4,245
Other	3,132	2,546
Total Advanced Education	<u>207,808</u>	<u>274,433</u>
Other Post-secondary Institutions	<u>7</u>	<u>7</u>
Other Government of Alberta departments and agencies		
Economic Development and Trade (including Alberta Innovates)	2,878	1,024
Labour	112	71
Health (including Alberta Health Services)	26	16
Total Other Government of Alberta departments and agencies	<u>3,016</u>	<u>1,111</u>
Total contributions received and receivable	210,831	275,551
Less deferred contributions	(10,548)	(73,683)
Total Government of Alberta operating grant revenue	<u>\$ 200,283</u>	<u>\$ 201,868</u>
Grants from federal and other governments		
Federal government	\$ 2,775	\$ 2,442
Other government	48	130
Total contributions received and receivable	<u>2,823</u>	<u>2,572</u>
Less deferred contributions	(556)	(413)
Total federal and other government operating grant revenue	<u>\$ 2,267</u>	<u>\$ 2,159</u>

22. SALARY AND EMPLOYEE BENEFITS

	2018			
	Base Salary ⁽⁵⁾	Other Cash Benefits ⁽⁶⁾	Other Non-Cash Benefits ⁽⁷⁾⁽⁸⁾	Total
Governance ⁽¹⁾				
Chair of the Board of Governors	\$ -	\$ -	\$ -	\$ -
Members of the Board of Governors	-	-	5	5
Executive				
President and CEO	375	124	252	751
Provost ⁽²⁾	224	51	75	350
Vice President Academic ⁽²⁾	224	51	59	334
Vice President Administration and CFO	245	105	10	360
Vice President External Relations and CDO ⁽³⁾	105	50	45	200

	2017			
	Base Salary ⁽⁵⁾	Other Cash Benefits ⁽⁶⁾	Other Non-Cash Benefits ⁽⁷⁾⁽⁸⁾	Total
Governance				
Chair of the Board of Governors	\$ -	\$ -	\$ -	\$ -
Members of the Board of Governors	-	-	5	5
Executive				
President and CEO	376	120	236	732
Provost and Vice President Academic ⁽⁴⁾	68	132	(195)	5
Provost	175	27	43	245
Vice President Academic	172	26	28	226
Vice President Administration and CFO	246	101	-	347
Vice President External Relations and CDO	246	66	149	461

- (1) 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.
- (2) The past incumbent Provost and Vice President Academic left the position in October 2016 and the role was separated into two positions.
- (3) The past incumbent Vice President External Relations and CDO left the position in December 2017. The vacant position will be filled in September 2018.
- (4) The Provost and Vice President Academic positions were previously filled on an interim basis. Effective December 2017, these positions were made permanent.
- (5) Base salary includes pensionable base pay.
- (6) Other cash benefits include variable compensation payments, vacation payouts by special approval or upon retirement/termination, car allowance and pay in lieu of employee benefits.

(7) 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.
- The tuition fee for the two student representatives on the Board of Governors.

(8) 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, 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.

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:

	Accrued Obligation June 30, 2017	Service Cost	Interest Cost	Benefits Paid	Actuarial Loss (Gain)	Accrued Obligation June 30, 2018
President and CEO	\$ 959	\$ 151	\$ 27	-	\$ (361)	\$ 776
Provost and Vice President Academic						
Past incumbent	195	-	5	(9)	(15)	176
Provost	-	13	-	-	-	13
Vice President Academic	-	14	-	-	-	14
Vice President External Relations and CDO						
Past incumbent	859	28	13	-	(209)	691

The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in Note 7.

23. BUDGET

NAIT's 2018 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 2017/18 to 2019/20 Comprehensive Institutional Plan.

24. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Governors of the Northern Alberta Institute of Technology on October 9, 2018.

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 (JULY 1, 2017 - JUNE 30, 2018)

BOARD OF GOVERNORS

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Retired

Vi Becker

Consultant

Valerie Berger

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ATCO Group

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Yasmin Jivraj

Director
Dexcent

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CEO
Simmax Corp.

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Operations Partner
Reynolds Mirth Richards & Farmer LLP

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Priti Laderoute

Senior Manager, Training and Development
EPCOR Utilities

Tara Chahl

Project Manager, C.E.T
Keymay Industries Ltd.

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Dr. Glenn Feltham

President and CEO

Dr. Annemarieke Hoekstra

Academic Representative

Silvie Forest

Academic Representative

NAIT STUDENT MEMBERS

Joel Benitez

Student Representative

Callie-Rae Barker-Poole

Student Representative

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VICE PRESIDENT ACADEMIC

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PROVOST

Kevin Shufflebotham

VICE PRESIDENT ADMINISTRATION AND CHIEF FINANCIAL OFFICER

Dr. Ray Block

VICE PRESIDENT EXTERNAL RELATIONS AND CHIEF DEVELOPMENT OFFICER

George Andrews (until December 1, 2017)

Vacant (December 2017 – June 30, 2018)

NAIT FOUNDATION

Valerie Berger (Chair)

