UNIVERSITY OF ALBERTA

Consolidated Financial Statements

For the Year Ended
March 31, 2018

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FINANCIAL REPORTING

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STATEMENT OF MANAGEMENT RESPONSIBILITY
YEAR ENDED MARCH 31, 2018

The consolidated financial statements of the University of Alberta have been prepared by management in accordance with Canadian public sector accounting standards. The consolidated financial statements present fairly the financial position of the university as at March 31, 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 university 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 its responsibility for review of the consolidated financial statements principally through its Audit Committee. With the exception of the President, all members of the Audit Committee are not employees of the university. The Audit Committee meets with management and the external auditors and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Audit Committee, with and without the presence of management.

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

Original signed by David H. Turpin

President

Original signed by Gitta Kulczycki

Vice-President (Finance & Administration)
Chief Financial Officer

Independent Auditor's Report

To the Board of Governors of the University of Alberta

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the University of Alberta, which comprise the consolidated statement of financial position as at March 31, 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 University of Alberta as at March 31, 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]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 28, 2018
Edmonton, Alberta

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2018
(thousands of dollars)

	Note		2018		2017
Financial assets excluding portfolio investments restricted for endowments					
Cash and cash equivalents	4	**$**	**74,078**	$	18,768
Portfolio investments - non-endowment	5		**872,516**		849,115
Accounts receivable			**153,177**		143,216
Inventories held for sale			**2,340**		2,642
			1,102,111		1,013,741
Liabilities					
Accounts payable and accrued liabilities			**179,497**		179,148
Employee future benefit liabilities	7		**237,774**		251,060
Debt	8		**350,306**		250,562
Deferred revenue	9		**548,016**		560,420
			1,315,593		1,241,190
Net debt excluding portfolio investments restricted for endowments			**(213,482)**		(227,449)
Portfolio investments - restricted for endowments	5		**1,379,534**		1,304,254
Net financial assets			**1,166,052**		1,076,805
Non-financial assets					
Tangible capital assets	10		**2,732,029**		2,710,920
Prepaid expenses			**7,981**		7,199
			2,740,010		2,718,119
Net assets before spent deferred capital contributions			**3,906,062**		3,794,924
Spent deferred capital contributions	11		**1,900,241**		1,921,756
Net assets	12	**$**	**2,005,821**	$	1,873,168

Net assets is comprised of:				
Accumulated surplus	**$**	**1,729,849**	$	1,623,869
Accumulated remeasurement gains		**275,972**		249,299
	$	**2,005,821**	$	1,873,168

Contingent assets and contractual rights (note 13 and 15)

Contingent liabilities and contractual obligations (note 14 and 16)

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

(thousands of dollars)

	Note	Budget (Note 18)	2018	2017
Revenue				
Government of Alberta grants	19	$ 980,958	**$ 955,344**	$ 946,630
Federal and other government grants	19	216,832	**196,782**	208,276
Student tuition and fees		329,954	**336,129**	319,181
Sales of services and products		206,144	**215,471**	205,509
Donations and other grants		116,989	**153,900**	119,451
Investment income		68,196	**72,098**	68,924
		1,919,073	**1,929,724**	1,867,971
Expense				
Learning		1,170,107	**1,150,308**	1,145,558
Research		474,856	**463,422**	469,436
Facility operations and maintenance		159,329	**175,062**	140,411
Ancillary services		98,363	**88,132**	87,489
		1,902,655	**1,876,924**	1,842,894
Annual operating surplus		16,418	**52,800**	25,077
Endowment contributions		18,630	**25,440**	31,996
Endowment capitalized investment income		-	**27,740**	26,277
		18,630	**53,180**	58,273
Annual surplus		35,048	**105,980**	83,350
Accumulated surplus, beginning of year		1,623,869	**1,623,869**	1,540,519
Accumulated surplus, end of year	12	$ 1,658,917	**$ 1,729,849**	$ 1,623,869

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

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
YEAR ENDED MARCH 31, 2018
(thousands of dollars)

	Budget (Note 18)	**2018**	2017
Annual surplus	$ 35,048	**$ 105,980**	$ 83,350
Acquisition of tangible capital assets, net of proceeds on disposals	(185,304)	**(197,691)**	(142,280)
Amortization of tangible capital assets	178,519	**172,139**	173,556
Loss on disposal of tangible capital assets	-	**4,443**	3,356
	(6,785)	**(21,109)**	34,632
Change in prepaid expenses	1,122	**(782)**	1,318
Change in spent deferred capital contributions	(36,295)	**(21,515)**	(70,684)
Change in remeasurement gains and losses	-	**26,673**	112,493
(Decrease) increase in net financial assets	(6,910)	**89,247**	161,109
Net financial assets, beginning of year	1,076,805	**1,076,805**	915,696
Net financial assets, end of year	$ 1,069,895	**$ 1,166,052**	$ 1,076,805

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

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES
YEAR ENDED MARCH 31, 2018
(thousands of dollars)

	Note	2018	2017
Accumulated remeasurement gains, beginning of year		**$ 249,299**	$ 136,806
Unrealized gains attributable to:			
Portfolio investments - non-endowment:			
Quoted in an active market		**11,509**	19,157
Designated at fair value		**3,160**	7,502
Portfolio investments - restricted for endowments:			
Quoted in an active market		**61,838**	126,099
Designated at fair value		**7,681**	17,074
Amounts reclassified to consolidated statement of operations:			
Portfolio investments - non-endowment:			
Quoted in an active market		**(7,177)**	(7,120)
Designated at fair value		**(1,220)**	(639)
Portfolio investments - restricted for endowments:			
Quoted in an active market		**(43,691)**	(43,667)
Designated at fair value		**(5,427)**	(5,913)
Net change for the year		**26,673**	112,493
Accumulated remeasurement gains, end of year	12	**$ 275,972**	$ 249,299

Accumulated remeasurement gains is comprised of:		
Portfolio investments - non-endowment	**$ 43,363**	$ 37,091
Portfolio investments - restricted for endowments	**232,609**	212,208
	$ 275,972	$ 249,299

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

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2018
(thousands of dollars)

	2018	2017
Operating transactions		
Annual surplus	**$ 105,980**	$ 83,350
Add (deduct) non-cash items:		
Amortization of tangible capital assets	**172,139**	173,556
Expended capital recognized as revenue	**(111,753)**	(114,315)
Gain on sale of portfolio investments	**(57,515)**	(57,339)
Loss on disposal of tangible capital assets	**4,443**	3,356
Decrease in employee future benefit liabilities	**(13,286)**	(8,040)
Change in non-cash items	**(5,972)**	(2,782)
Increase in accounts receivable	**(9,961)**	(11,653)
Decrease in inventories held for sale	**302**	683
Increase in accounts payable and accrued liabilities	**349**	4,177
(Decrease) increase in deferred revenue	**(12,404)**	50,692
(Increase) decrease in prepaid expenses	**(782)**	1,318
Cash provided by operating transactions	**77,512**	125,785
Capital transactions		
Acquisition of tangible capital assets, net of proceeds on disposals	**(194,994)**	(139,358)
Cash applied to capital transactions	**(194,994)**	(139,358)
Investing transactions		
Purchases of portfolio investments	**(351,972)**	(385,980)
Proceeds on sale of portfolio investments	**337,479**	360,771
Cash applied to investing transactions	**(14,493)**	(25,209)
Financing transactions		
Debt repayment	**(13,956)**	(13,750)
Debt - new financing	**113,700**	17,500
Increase in spent deferred capital contributions, less in kind donations	**87,541**	40,709
Cash provided by financing transactions	**187,285**	44,459
Increase in cash and cash equivalents	**55,310**	5,677
Cash and cash equivalents, beginning of year	**18,768**	13,091
Cash and cash equivalents, end of year	**$ 74,078**	$ 18,768

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

1. Authority and purpose

The Governors of The University of Alberta is a corporation that manages and operates the University of Alberta (the university) 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 Chancellor and President, who are ex officio members. Under the *Post-secondary Learning Act*, Campus Alberta Sector Regulation, the university is a comprehensive academic and research institution offering undergraduate and graduate degree programs as well as a full range of continuing education programs and activities. The university is a registered charity, and under section 149 of the *Income Tax Act* (Canada), is exempt from the payment of income tax.

2. Summary of significant accounting policies and reporting practices

(a) General – Canadian public sector accounting standards (PSAS) and use of estimates

These 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. Management uses judgment to determine such estimates. Employee future benefit liabilities and amortization of tangible capital assets 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 consolidated financial statements and, together with the following notes, should be considered an integral part of the consolidated financial statements.

(b) Valuation of financial assets and liabilities

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

Portfolio investments - fair value and amortized cost
Cash and cash equivalents, Accounts receivable, Accounts payable and accrued liabilities, Debt - amortized cost
Inventories held for sale - lower of cost and expected net realizable value

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 changes in fair value create a liability, unrealized gains and losses are recognized as deferred revenue.

All financial assets are assessed annually for impairment. Impaired financial losses are recognized as a decrease in revenue, except for the restricted amount which is recognized as a decrease in deferred revenue. A write-down of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

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

Management evaluates contractual obligations for the existence of embedded derivatives and elects to either measure the entire contract at fair value or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the university's normal course of business are not recognized as financial assets or liabilities.

(c) Revenue recognition

All revenue is reported on an accrual basis. Cash received for which services and products have not been provided is recognized as deferred revenue.

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

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

2. Summary of significant accounting policies and reporting practices (continued)

(c) Revenue recognition (continued)

Government grants without terms for the use of the grant are recognized as revenue when the university is eligible to receive the funds. Non-government grants and donations with no restrictions are recognized as revenue in the year received or in the year the funds are committed to the university if the amount can be reasonably estimated and collection is reasonably assured.

In kind donations of services and materials are recognized at fair value when a fair value can be reasonably determined.

Grants and donations related to land
Grants and donations for the purchase of land are recognized as deferred revenue when received and recognized as revenue when the land is purchased. An in kind grant or donation of land is recognized as revenue at the fair value of the land when a fair value can be reasonably determined. When the fair value cannot be reasonably determined, the in kind grant or donation is recognized 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 and losses on the sale of portfolio investments. Investment income from restricted grants and donations is recognized as deferred revenue when the terms for use create a liability, and is recognized as revenue when the terms of the grant or donation are met.

The endowment spending allocation portion of investment income earned by endowments is recognized as deferred revenue when the terms for use by the endowment create a liability. Investment income earned by endowments in excess of the endowment spending allocation is recognized as revenue in the consolidated statement of operations (realized income) and the consolidated statement of remeasurement gains and losses (unrealized gains and losses), and is capitalized and maintained intact in perpetuity.

(d) Endowments

Endowments consist of:

- Externally restricted donations received by the university and internal allocations by the university's Board of Governors, the principal of which is required to be maintained intact in perpetuity.
- Investment income earned (excluding unrealized income) by the endowments in excess of the amount required for spending allocation is capitalized to maintain and grow the real value of the endowments. Benefactors as well as university policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended and by reinvesting unexpended income.

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

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

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is funded from the accumulated capitalized investment income. However, for individual endowments without sufficient accumulated capitalized investment income, endowment principal is used in that year and is expected to be recovered by future investment income.

(e) Inventories held for sale

Inventories held for sale are measured using the weighted average method.

2. Summary of significant accounting policies and reporting practices (continued)

(f) Tangible capital assets

Tangible capital asset acquisitions are recognized at cost, which includes amounts that are directly related, such as design, construction, development, improvement or betterment of the assets, and costs associated with asset retirement obligations. Cost includes overhead directly attributable to construction and development. Construction in progress is not amortized until after the project is complete and the asset is in service.

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

Buildings and utilities	10 - 40 years
Equipment, furnishings and systems	3 - 10 years
Learning resources	10 years

Tangible capital asset write-downs are recognized when conditions indicate the asset no longer contributes to the university's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. Net write-downs are recognized as expense.

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 are 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 obligations are 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 exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities and non-monetary items included in the fair value category reflect the exchange rates at the consolidated statement of financial position date. Unrealized foreign exchange gains and losses are recognized in the consolidated statement of remeasurement gains and losses.

(i) Employee future benefits

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

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

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

2. Summary of significant accounting policies and reporting practices (continued)

(i) Employee future benefits (continued)

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

Early retirement
The cost of providing accumulating post-employment benefits under the university's early retirement plans is charged to expense over the period of service provided by the employee. The cost of these benefits is actuarially determined using the projected benefit method prorated on services, a discount rate based on the university's cost of borrowing and management's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

Supplementary retirement plans
The university provides non-contributory defined benefit supplementary retirement benefits to executive based on years of service and earnings. The expense for this plan is actuarially determined using the projected benefit method prorated on service. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

The university provides non-contributory defined contribution supplementary retirement benefits to eligible executive and academic staff based on years of service and earnings. The expense for these plans is the employer's current year contribution to the plan as calculated in accordance with the plan rules.

Administrative/professional leave
The university provides for executive to accrue a paid leave of absence at the end of their executive appointment. The expense for this plan is actuarially determined using the projected benefit method prorated on service. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

General illness
The cost of providing non-vesting and non-accumulating compensated absences to a maximum of 26 weeks (academic staff) or 120 days (support staff) under the university's general illness plan is charged to expense in full when the event occurs which obligates the university to provide the benefit. The cost of this benefit is actuarially determined using the accumulated benefit method and management's best estimate of the period of employee disability.

(j) Investment in government partnerships

Proportionate consolidation is used to recognize the university's share of the following government partnerships:

- Northern Alberta Clinical Trials and Research Centre (50% interest) - a joint venture with Alberta Health Services to support the shared missions of Alberta Health Services and the university for collaborative clinical research.
- TEC Edmonton (50% interest) - a joint venture with Edmonton Economic Development Corporation to stimulate entrepreneurialism, advance corporate development and accelerate commercialization of new ideas and technologies that benefit society.
- Tri-University Meson Facility (TRIUMF) (7.69% interest) - a joint venture with twelve other universities to operate a sub-atomic physics research facility.
- Western Canadian Universities Marine Sciences Society (20% interest) - provides research infrastructure in the marine sciences for member universities and the world-wide scientific community.

These government partnerships are not material to the university's consolidated financial statements; therefore, separate condensed financial information is not presented.

2. Summary of significant accounting policies and reporting practices (continued)

(k) Expense by function

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

Learning
Expenses relating to support for the academic functions of the university both directly and indirectly. This function includes expenses incurred by faculties for their scholarly activities and learning administrative services. Other expenses associated with this function include student awards and bursaries, other programs involving teaching and learning, and community service specifically funded by restricted grants and donations.

Research
Expenses for research activities funded by externally sponsored research funds intended for specific research purposes as well as internal funds designated for research related spending. Other expenses associated with this function include costs such as research administration and research related amortization.

Facility operations and maintenance
Expenses relating to maintenance and renewal of facilities that house the teaching, research and administrative activities within the university. These include utilities, facilities administration, building maintenance, custodial services, landscaping and grounds keeping, as well as major repairs and renovations.

Ancillary services
Expenses relating to services and products provided to the university community and to external individuals and organizations. Services include the university bookstore, parking services, utilities and student residences.

(l) 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. 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. 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 new standards on the consolidated financial statements.

3. Adoption of new accounting standards

The university has prospectively adopted standards from April 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 for contractual rights.

The effect of adopting these standards results in changing disclosure of Note 2, Note 13, Note 15, and Note 17.

(thousands of dollars)

4. Cash and cash equivalents

	2018	2017
Cash	**$ 11,697**	$ 3,789
Money market funds	**62,381**	14,979
	$ 74,078	$ 18,768

Money market funds also include short-term notes and treasury bills with a maturity less than three months from the date of acquisition.

5. Portfolio investments

	2018	2017
Portfolio investments - non-endowment	**$ 872,516**	$ 849,115
Portfolio investments - restricted for endowments	**1,379,534**	1,304,254
	$ 2,252,050	$ 2,153,369

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

	2018				2017			
	Level 1 (1)	**Level 2 (2)**	**Level 3 (3)**	**Total**	Level 1	Level 2	Level 3	Total
Cash and money market funds	**$ 23,857**	**$ 531,274**	**$ 385**	**$ 555,516**	$ 25,923	$ 537,363	$ 403	$ 563,689
Canadian government and corporate bonds	**-**	**266,520**	**-**	**266,520**	-	244,609	-	244,609
Canadian equity	**304,714**	**-**	**-**	**304,714**	374,432	-	-	374,432
Foreign equity	**952,767**	**-**	**-**	**952,767**	791,130	-	-	791,130
Private equity	**-**	**-**	**57,661**	**57,661**	-	-	39,970	39,970
Pooled hedge funds	**-**	**30,552**	**-**	**30,552**	-	52,064	-	52,064
Real estate funds	**-**	**-**	**83,277**	**83,277**	-	-	80,689	80,689
	1,281,338	**828,346**	**141,323**	**2,251,007**	1,191,485	834,036	121,062	2,146,583
Other at amortized cost				**1,043**				6,786
	$ 1,281,338	**$ 828,346**	**$ 141,323**	**$ 2,252,050**	$ 1,191,485	$ 834,036	$ 121,062	$ 2,153,369

The fair value measurements are those derived from:
(1) Quoted prices in active markets for identical assets.
(2) Inputs other than quoted prices included within level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
(3) Valuation techniques that include inputs for the assets that are not based on observable market data.

As at March 31, 2018, the average effective yields and the terms to maturity are as follows:

- Money market funds: 1.49% (2017 - 1.09%); term to maturity: less than one year.
- Canadian government and corporate bonds: 1.98% (2017 - 1.19%); terms to maturity: range from less than one year to more than 10 years.

The changes in fair value of level 3 portfolio investments are as follows:

	2018	2017
Balance, beginning of year	**$ 121,062**	$ 99,907
Unrealized gains	**6,587**	531
Purchases	**22,760**	35,432
Proceeds on sale	**(9,086)**	(14,808)
	$ 141,323	$ 121,062

(thousands of dollars)

6. Financial risk management

The university is exposed to the following risks:

Market price risk
Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or general market factors affecting all securities. To manage this risk, the university has policies and procedures in place governing asset mix, diversification, exposure limits, credit quality and performance measurement. The university's Investment Committee, a subcommittee of the Board of Governors, has the delegated authority for oversight of the university's portfolio investments. The university's management of this risk has not changed from prior year.

The university assesses its portfolio sensitivity to a percentage increase or decrease in the market prices. The sensitivity rate is determined using the historical annualized standard deviation for the total University Endowment Pool over a four year period as determined by the BNY Mellon Asset Servicing Global Risk Solutions consulting report. At March 31, 2018, if market prices had a 5.1% (2017 - 5.2%) increase or decrease, with all other variables held constant, the increase or decrease in accumulated remeasurement gains for the year would be \$70,356 (2017 - \$67,821).

Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The university is exposed to foreign exchange risk on portfolio investments that are denominated in foreign currencies. The university does not hedge its foreign currency exposure with currency forward contracts or any other type of derivative financial instruments.

The impact of a change in value of the Canadian dollar against all foreign currencies is as follows:

Currency	Fair Value	2.5% decrease	1.0% decrease	1.0% increase	2.5% increase
Foreign Currency Assets	$ 1,056,146	$ (26,404)	$ (10,561)	$ 10,561	$ 26,404

Credit risk
Counterparty credit risk is the risk of loss arising from the failure of a counterparty, debtor or issuer to fully honor its financial obligations with the university. The university 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 low as the majority of balances are due from government agencies and corporate sponsors.

The distribution of money market funds by risk rating area is as follows:
- Money market funds: R-1(high) 75.9% (2017 - 59.2%); R-1(mid) 24.1% (2017 - 40.8%).
- Bonds: AAA 86.6% (2017 - 85.3%); AA 11.4% (2017 - 12.5%); A 1.8% (2017 - 2.0%); not rated 0.2% (2017 - 0.2%).

Liquidity risk
Liquidity risk is the risk that the university will encounter difficulty in meeting obligations associated with its financial liabilities. The university maintains a portfolio of short-term investments with rolling maturity dates to manage short-term cash requirements. The university maintains a short-term line of credit to ensure that funds are available to meet current and forecasted financial requirements. In 2018, the line of credit was not drawn upon (2017 - not drawn upon).

Interest rate risk
Interest rate risk is the risk to the university's earnings that will be affected by the fluctuation and degree of volatility in interest rates. This risk is managed by investment policies that limit the term to maturity of certain fixed income instruments that the university holds. If interest rates increase by 0.3%, and all variables are held constant, the potential loss in fair value to the university would be approximately \$2,995 of total investments (2017 - \$2,968). Interest rate risk on the university's debt is managed through fixed rate agreements with Alberta Capital Finance Authority (note 8).

The maturity and effective market yield of interest bearing investments are as follows:

	< 1 year	1 - 5 years	> 5 years	Average effective market yield
	%	%	%	%
Money market funds	100.0	-	-	1.5
Canadian government and corporate bonds	-	64.8	35.2	2.0

(thousands of dollars)

7. Employee future benefit liabilities

	2018			2017		
	Academic staff	**Support staff**	**Total**	Academic staff	Support staff	Total
Universities Academic Pension Plan	**$ 141,695**	**$ -**	**$ 141,695**	$ 157,557	$ -	$ 157,557
Long-term disability	**7,122**	**24,441**	**31,563**	7,211	21,710	28,921
Early retirement	**-**	**26,325**	**26,325**	-	26,404	26,404
SRP (defined contribution)	**25,805**	**-**	**25,805**	22,339	-	22,339
SRP (defined benefit)	**7,785**	**-**	**7,785**	9,694	-	9,694
Administrative/professional leave	**2,715**	**-**	**2,715**	3,916	-	3,916
General illness	**1,018**	**868**	**1,886**	1,387	842	2,229
	$ 186,140	**$ 51,634**	**$ 237,774**	$ 202,104	$ 48,956	$ 251,060

(a) Defined benefit plans accounted for on a defined benefit basis

Universities Academic Pension Plan (UAPP)
The UAPP is a multi-employer contributory joint defined benefit pension plan for academic staff members. An actuarial valuation of the UAPP was carried out as at December 31, 2016 and was then extrapolated to March 31, 2018, resulting in a UAPP deficit of $446,722 (2017 - $763,861) consisting of a pre-1992 deficit of $735,624 and a post-1991 surplus of $288,902. The university's portion of the UAPP deficit has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficit for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2017 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.90% (2017 - 3.54%) of salaries required to eliminate the unfunded deficit by December 31, 2043. The Government of Alberta's obligation for the future additional contributions is $244,241 at March 31, 2018.

Long-term disability (LTD) and general illness (GI)
The university provides long-term disability and general illness defined benefits to its academic and support staff. An actuarial valuation of these benefits was carried out as at March 31, 2018. The long-term disability plan provides pension and non-pension benefits after employment, but before the employee's normal retirement date. The general illness plan provides similar benefits but for a maximum of 26 weeks (academic staff) or 120 days (support staff).

Early retirement
The early retirement benefits for support staff include a bridge benefit (2018 - $19,209; 2017 - $19,511) and a retirement allowance (2018 - $7,116; 2017 - $6,893). An actuarial valuation of these benefits was carried out as at March 31, 2018. The bridge benefit allows eligible employees who retire early to continue participating in several staff benefit programs between the date of early retirement and the end of the month in which the former employee turns 65. Benefits include group life insurance, employee family assistance program, supplementary health care and dental care. The support staff retirement allowance provides eligible employees (those with 20 years of pensionable service at retirement date) one week's base pay per full year of employment to a maximum 25 days pay.

Supplementary retirement plan (SRP)
The university provides a non-contributory defined benefit supplementary retirement benefit to executive. The SRP obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries. An actuarial valuation of these benefits was carried out as at March 31, 2018. The SRP was closed to new members effective June 30, 2014, as part of the approval of the new defined contribution SRP for executives.

Administrative/professional leave (leave)
The university provides for certain executive to accrue a paid leave at the end of their executive appointment. Upon completing their term of service, the individual's salary and benefits in effect at the end of the service are paid for the duration of the leave. The leave obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries, which management has adopted as their best estimate. An actuarial valuation of these benefits was carried out as at March 31, 2018.

(thousands of dollars)

7. Employee future benefit liabilities (continued)

(a) Defined benefit plans accounted for on a defined benefit basis (continued)

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

	2018				2017			
	UAPP	**LTD, GI** (1)	**Early retirement** (1)	**SRP, leave** (1)	UAPP	LTD,GI (1)	Early retirement (1)	SRP, leave (1)
Expense								
Current service cost	**$ 44,080**	**$ 18,904**	**$ 845**	**$ 754**	$ 42,135	$ 16,393	$ 1,019	$ 1,066
Interest cost, net of earnings	**7,740**	**1,897**	**856**	**570**	9,222	1,735	1,055	656
Amortization of actuarial (gains) losses	**(3,842)**	**671**	**(552)**	**140**	(2,609)	376	(280)	(455)
	$ 47,978	**$ 21,472**	**$ 1,149**	**$ 1,464**	$ 48,748	$ 18,504	$ 1,794	$ 1,267
Liability								
Accrued benefit obligation								
Balance, beginning of year	**$ 1,147,756**	**$ 33,766**	**$ 19,202**	**$ 14,048**	$ 1,071,971	$ 30,317	$ 23,099	$ 14,326
Current service cost	**44,080**	**18,904**	**845**	**754**	42,135	16,393	1,019	1,066
Interest cost	**69,987**	**1,897**	**856**	**570**	65,463	1,735	1,055	656
Benefits paid	**(50,780)**	**(19,173)**	**(1,228)**	**(4,575)**	(46,125)	(16,374)	(1,354)	(2,832)
Actuarial (gains) losses	**(9,211)**	**3,986**	**4,535**	**(379)**	14,312	1,695	(4,617)	832
Balance, end of year	**1,201,832**	**39,380**	**24,210**	**10,418**	1,147,756	33,766	19,202	14,048
Plan assets	**(1,152,028)**	**-**	**-**	**-**	(1,030,922)	-	-	-
Plan deficit	**49,804**	**39,380**	**24,210**	**10,418**	116,834	33,766	19,202	14,048
Unamortized actuarial gains (losses)	**91,891**	**(5,931)**	**2,115**	**82**	40,723	(2,616)	7,202	(438)
Accrued benefit liability	**$ 141,695**	**$ 33,449**	**$ 26,325**	**$ 10,500**	$ 157,557	$ 31,150	$ 26,404	$ 13,610

(1) The university 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		
	UAPP	**SRP, leave**	**LTD, GI, early retirement**	UAPP	SRP, leave	LTD, GI, early retirement
	%	%	%	%	%	%
Accrued benefit obligation						
Discount rate	**6.0**	**4.3**	**4.3**	6.0	4.4	4.4
Long-term average compensation increase	**3.0**	**3.0**	**3.0**	3.0	2.0	3.0
Benefit cost						
Discount rate	**6.0**	**4.4**	**4.3**	6.0	4.5	4.4
Long-term average compensation increase	**3.0**	**2.0**	**3.0**	3.0	2.0	3.0
Alberta inflation (long-term)	**2.0**	**1.3**	**2.0**	2.0	2.2	2.0
Estimated average remaining service life	**10.6 yrs**	**Note(1)**	**1 - 13 yrs**	10.8 yrs	Note(1)	1 - 14 yrs

(1) SRP actuarial gains and losses are amortized over the remaining contract terms of the participants.

(thousands of dollars)

7. Employee future benefit liabilities (continued)

(b) Defined benefit plan accounted for on a defined contribution basis

Public Service Pension Plan (PSPP)
The PSPP is a multi-employer contributory defined benefit pension plan for support staff members. As the university does not have sufficient information to follow the accounting standards for defined benefit plans, it is accounted for on a defined contribution basis. The pension expense recognized in these consolidated financial statements is $32,915 (2017 - $32,769).

An actuarial valuation of the PSPP was carried out as at December 31, 2016 and was then extrapolated to December 31, 2017. At December 31, 2017, the PSPP reported an actuarial surplus of $1,275,843 (2016 - surplus of $302,975). For the year ended December 31, 2017 PSPP reported employer contributions of $363,748 (2016 - $350,083). For the 2017 calendar year, the university's employer contributions were $33,572 (2016 calendar year - $32,256).

(c) Defined contribution plans

Supplementary retirement plans (SRP)
The university provides non-contributory defined contribution supplementary retirement benefits to eligible executive and academic staff members. The expense recognized in these consolidated financial statements is $3,466 (2017 - $4,068).

8. Debt

The following debt is with Alberta Capital Finance Authority and is measured at amortized cost:

	Maturity Date	**Interest rate %**		**2018**		2017
Collateral						
Title to land, building	August 2024 - March 2048	2.815 - 6.000	**$**	**199,477**	$	129,565
Cash flows from facility	May 2020 - December 2047	4.814 - 6.250		**47,126**		49,988
General Security Agreement	December 2028 - June 2042	2.420 - 3.623		**86,850**		50,959
None	March 2019 - September 2036	2.599 - 5.353		**16,853**		20,050
Balance, end of year			**$**	**350,306**	$	250,562

Interest expense on debt recognized in these consolidated financial statements is $10,538 (2017 - $9,585).

Land and buildings pledged as collateral have a net book value of $296,150 (2017 - $239,294).

Principal and interest payments are as follows:

		Principal		**Interest**		**Total**
2019	$	14,509	$	13,408	$	27,917
2020		14,703		12,792		27,495
2021		15,337		12,159		27,496
2022		14,491		11,496		25,987
2023		15,092		10,896		25,988
Thereafter		276,174		102,899		379,073
	$	350,306	$	163,650	$	513,956

(thousands of dollars)

9. Deferred revenue

	2018			2017
	Unspent externally restricted grants and donations	**Student tuition and other revenue**	**Total**	Total
Balance, beginning of year	**$ 534,448**	**$ 25,972**	**$ 560,420**	$ 509,728
Net change for the year				
Grants, donations, endowment spending allocation and tuition	**581,152**	**345,008**	**926,160**	957,298
Transfers to spent deferred capital contributions	**(90,238)**	**-**	**(90,238)**	(43,631)
Recognized as revenue	**(507,425)**	**(340,901)**	**(848,326)**	(862,975)
Net change for the year	**(16,511)**	**4,107**	**(12,404)**	50,692
Balance, end of year	**$ 517,937**	**$ 30,079**	**$ 548,016**	$ 560,420

10. Tangible capital assets

	2018					2017
	Buildings and utilities	**Equipment, furnishings and systems**	**Learning resources**	**Land**	**Total**	Total
Cost						
Beginning of year	**$ 3,485,283**	**$ 1,331,763**	**$ 429,694**	**$ 83,957**	**$ 5,330,697**	$ 5,229,985
Acquisitions	**125,577**	**49,430**	**22,783**	**70**	**197,860**	145,275
Disposals	**-**	**(144,197)**	**-**	**-**	**(144,197)**	(44,563)
	3,610,860	**1,236,996**	**452,477**	**84,027**	**5,384,360**	5,330,697
Accumulated amortization						
Beginning of year	**1,253,947**	**1,049,628**	**316,202**	**-**	**2,619,777**	2,484,433
Amortization expense	**84,307**	**67,143**	**20,689**	**-**	**172,139**	173,556
Disposals	**-**	**(139,585)**	**-**	**-**	**(139,585)**	(38,212)
	1,338,254	**977,186**	**336,891**	**-**	**2,652,331**	2,619,777
Net book value, March 31, 2018	**$ 2,272,606**	**$ 259,810**	**$ 115,586**	**$ 84,027**	**$ 2,732,029**	$ 2,710,920
Net book value, March 31, 2017	$ 2,231,336	$ 282,135	$ 113,492	$ 83,957	$ 2,710,920	

Included in buildings and utilities is $149,114 (2017 - $107,711) recognized as construction in progress, which is not amortized as the assets are not in service.

Acquisitions include in kind donations in the amount of $2,697 (2017 - $2,922).

The university holds library permanent collections and other permanent collections which include works of art, museum specimens, archival materials and maps. These collections are expensed and therefore are not included in tangible capital assets.

(thousands of dollars)

11. Spent deferred capital contributions

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

		2018		2017
Balance, beginning of year	**$**	**1,921,756**	$	1,992,440
Net change for the year				
Transfers from unspent externally restricted grants and donations		**90,238**		43,631
Expended capital recognized as revenue		**(111,753)**		(114,315)
Net change for the year		**(21,515)**		(70,684)
Balance, end of year	**$**	**1,900,241**	$	1,921,756

12. Net assets

	2018				2017			
	Accumulated (deficit) surplus from operations	**Investment in tangible capital assets**	**Endowments**	**Total**	Accumulated deficit from operations	Investment in tangible capital assets	Endowments	Total
Net assets, beginning of year	**$ (16,066)**	**$ 584,980**	**$ 1,304,254**	**$ 1,873,168**	$ (23,782)	$ 551,391	$ 1,149,716	$ 1,677,325
Annual operating surplus	**52,800**	**-**	**-**	**52,800**	25,077	-	-	25,077
Endowments								
New donations	**-**	**-**	**25,440**	**25,440**	-	-	31,996	31,996
Capitalized investment income	**-**	**-**	**27,740**	**27,740**	-	-	26,277	26,277
Transfer to endowments	**(1,699)**	**-**	**1,699**	**-**	(2,672)	-	2,672	-
Tangible capital assets								
Acquisitions	**(103,063)**	**103,063**	**-**	**-**	(97,494)	97,494	-	-
Debt repayment	**(12,864)**	**12,864**	**-**	**-**	(10,551)	10,551	-	-
Debt - new financing	**88,394**	**(88,394)**	**-**	**-**	15,215	(15,215)	-	-
Amortization	**60,386**	**(60,386)**	**-**	**-**	59,241	(59,241)	-	-
Change in accumulated remeasurement gains	**6,272**	**-**	**20,401**	**26,673**	18,900	-	93,593	112,493
Net assets, end of year	**$ 74,160**	**$ 552,127**	**$ 1,379,534**	**$ 2,005,821**	$ (16,066)	$ 584,980	$ 1,304,254	$ 1,873,168

Net assets is comprised of:								
Accumulated surplus	**$ 30,797**	**$ 552,127**	**$ 1,146,925**	**$ 1,729,849**	$ (53,157)	$ 584,980	$ 1,092,046	$ 1,623,869
Accumulated remeasurement gains [(1)]	**43,363**	**-**	**232,609**	**275,972**	37,091	-	212,208	249,299
	$ 74,160	**$ 552,127**	**$ 1,379,534**	**$ 2,005,821**	$ (16,066)	$ 584,980	$ 1,304,254	$ 1,873,168

(1) Accumulated remeasurement gains are unrealized gains which are not recognized as revenue until realized.

(thousands of dollars)

13. Contingent assets

The university has initiated a number of insurance claims arising in the normal course of business in which the outcomes may result in assets in the future. While the outcomes of these claims cannot be reasonably estimated at this time, the university believes that any settlement will not have a material effect on the financial position or the results of operations of the university. These contingent assets are not recognized in the consolidated financial statements.

14. Contingent liabilities

(a) The university is a defendant in a number of legal proceedings arising in the normal course of business. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the university believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the university. Management has concluded that none of the claims meet the criteria for recognizing a liability.

(b) The university has identified a potential liability 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, the university may be required to take appropriate remediation procedures to remove the asbestos. As the university 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 facilities will be recognized in the period in which there is certainty that the renovation or demolition project will proceed and there is sufficient information to estimate fair value of the obligation.

15. Contractual rights

Contractual rights are rights of the university 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.

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

	Operating leases	**Other contracts**	**Total**
2019	$ 1,890	$ 1,279	**$ 3,169**
2020	1,573	1,262	**2,835**
2021	1,222	1,256	**2,478**
2022	957	1,250	**2,207**
2023	527	1,220	**1,747**
Thereafter	140	5,990	**6,130**
	$ 6,309	**$ 12,257**	**$ 18,566**
Total at March 31, 2017	$ 8,320	$ 13,463	$ 21,783

(thousands of dollars)

16. Contractual obligations

(a) The university has contractual obligations that will result in liabilities in the future when the terms of the contracts are met. The estimated aggregate amount payable for the unexpired terms of these contractual obligations are as follows:

	Capital projects	Service contracts	Long-term leases	Total
2019	$ 97,906	$ 86,836	$ 4,312	**$ 189,054**
2020	39,753	32,652	3,010	**75,415**
2021	30,521	10,845	2,352	**43,718**
2022	27,914	3,632	1,720	**33,266**
2023	34,675	360	1,656	**36,691**
Thereafter	-	-	4,397	**4,397**
	$ 230,769	**134,325**	**$ 17,447**	**$ 382,541**
Total at March 31, 2017	$ 190,351	$ 139,566	$ 19,023	$ 348,940

The significant service contracts are as follows:

- In order to manage its exposure to the volatility in the electrical industry, the university has entered into contracts to fix a portion of its electrical cost. The five contracts (2017 - six contracts) with expenditures totaling $33,683 (2017 - $44,032) expire over the next four years.
- Effective August 1, 2015, the university entered into an agreement with an external party for dining and catering services. The agreement has two years remaining with a total estimated cost of $24,267 (2017 - $34,667).
- The university entered into agreements with two external parties for information technology support. The first agreement, effective July 1, 2015 for infrastructure management services, has three years remaining with a cost of $10,125 (2017 - $14,625). The second agreement, effective July 1, 2017 for application management services, has two years remaining with a cost of $4,057 (2017 - $1,125, three months remaining).
- Effective August 1, 2017, the university entered into an agreement with an external party for custodial services. The agreement has two years remaining with a cost of $12,960 (2017 - $3,000, four months remaining).

(b) The university is one of 61 members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2017, CURIE had an accumulated surplus of $81,232 (2016 - $84,907), of which the university's pro rata share is approximately 7.33% (2017 - 7.23%). This accumulated surplus is not recognized in the consolidated financial statements.

17. Related parties

The university's accounts are consolidated with the Government of Alberta and is therefore related to all organizations within that government reporting entity. Related parties also include key management personnel (KMP), and their close family members, of the university. Transactions with these entities and individuals are considered to be in the normal course of operations and are recorded at the exchange amount, which approximates fair value.

The university utilizes space provided by other related parties, mainly with Alberta Health Services. This space is provided at a nominal cost. Due to the unique physical and operating arrangements in place, the specialized nature of the space and the integrated nature of operations, the fair value of these lease arrangements cannot be reasonably determined.

(thousands of dollars)

18. Budget

The university's 2017-18 budget was approved by the Board of Governors and was presented to the Minister of Advanced Education as part of the university's submission of its 2017-18 Comprehensive Institutional Plan.

19. Government transfers

	2018	2017
Government of Alberta grants		
Advanced Education - Campus Alberta grant	**$ 640,512**	$ 628,276
Advanced Education - other grants	**112,116**	128,775
Economic Development and Trade	**83,569**	61,019
Alberta Health Services - Academic Medicine and Health Services Program	**45,648**	-
Alberta Health Services - other grants	**5,234**	9,448
Health - other grants	**22,497**	23,940
Health - Academic Alternative Relationship Plans	**-**	73,000
Other departments and agencies	**13,716**	10,725
	923,292	935,183
Expended capital recognized as revenue	**67,270**	71,351
Deferred revenue	**(35,218)**	(59,904)
	$ 955,344	$ 946,630

	2018	2017
Federal and other government grants		
Natural Sciences and Engineering Research Council	**$ 53,132**	$ 52,002
Canadian Institutes of Health Research	**34,521**	36,604
Social Sciences and Humanities Research Council	**28,044**	27,774
Canada Research Chairs	**13,352**	17,077
Canada Foundation for Innovation	**10,896**	14,091
Other	**47,382**	40,704
	187,327	188,252
Expended capital recognized as revenue	**20,122**	18,895
Deferred revenue	**(10,667)**	1,129
	$ 196,782	$ 208,276

The university holds $6,180 (2017 - $6,347) on behalf of Government of Alberta agencies and $3,572 (2017 - $5,492) on behalf of federal and other government agencies. These amounts are not recognized in the university's consolidated financial statements.

20. Expense by object

	2018 Budget (Note 18)	2018	2017
Salaries	$ 962,800	**$ 944,064**	$ 938,672
Employee benefits	182,605	**192,156**	182,949
Materials, supplies and services	311,281	**270,994**	294,276
Maintenance and repairs	123,490	**125,318**	95,561
Scholarships and bursaries	89,160	**120,039**	108,066
Utilities	54,800	**52,214**	49,814
Amortization of tangible capital assets	178,519	**172,139**	173,556
	$ 1,902,655	**$ 1,876,924**	$ 1,842,894

(thousands of dollars)

21. Salaries and employee benefits

2018														
		Base salary (5)		**Other cash benefits (6)**		**Non-cash benefits (7)**		**Non-cash benefits (DB SRP) (8)**		**Non-cash benefits (DC SRP) (9)**		**Non-cash benefits (leave) (10)**		**Total**
Governance (1)														
Board of Governors	$	-	$	-	$	-	$	-	$	-	$	-	$	-
Executive														
President		**500**		**95**		**50**		**27**		**47**		**97**		**816**
Provost and Vice-President (Academic) (11)		**415**		**-**		**42**		**-**		**28**		**-**		**485**
Vice-President (Research) (2)		**334**		**-**		**32**		**36**		**12**		**39**		**453**
Vice-President (Facilities and Operations)		**370**		**9**		**41**		**-**		**14**		**35**		**469**
Vice-President (Finance and Administration)		**375**		**10**		**51**		**-**		**21**		**37**		**494**
Vice-President (University Relations) (3)		**313**		**22**		**40**		**-**		**14**		**23**		**412**
Vice-President (Advancement)		**375**		**9**		**41**		**-**		**26**		**35**		**486**

2017														
		Base salary (5)		Other cash benefits (6)		Non-cash benefits (7)		Non-cash benefits (DB SRP) (8)		Non-cash benefits (DC SRP) (9)		Non-cash benefits (leave) (10)		Total
Governance (1)														
Board of Governors	$	-	$	-	$	-	$	-	$	-	$	-	$	-
Executive														
President		500		95		48		25		65		91		824
Provost and Vice-President (Academic) (11)		415		-		41		-		37		-		493
Vice-President (Research)		520		-		7		115		-		104		746
Vice-President (Facilities and Operations) (4)		425		5		43		64		13		41		591
Vice-President (Finance and Administration) (4)		442		5		44		85		16		46		638
Vice-President (University Relations) (3)		313		40		45		50		-		38		486
Vice-President (Advancement)		375		9		42		-		24		33		483

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

(2) In 2018, two individuals held this position. The interim Vice-President (Research) did not participate in any executive benefit programs except the DC SRP.

(3) In 2017, two individuals held this position. The interim Vice-President (University Relations) did not participate in any executive benefit programs until becoming Vice-President (University Relations) in July 2017.

(4) In 2017, two individuals held this position.

(5) Base salary includes pensionable base pay for all executive. In 2017, certain base salary amounts also include a retroactive salary settlement and a reduction for the optional personal leave program (days off without pay).

(6) Other cash benefits include academic executive allowances, performance pay, market supplements, car allowances, honoraria and relocation allowances.

(7) Non-cash benefits include the university's share of all employee benefits and contributions or payments made on behalf of employees including pension, group life insurance, employee and family assistance program, critical illness, supplementary health care, short and long-term disability plans, and dental plan. Benefits for some of the executive also include supplemental life insurance, forgivable housing loans, reimbursement for legal fees and club dues.

(thousands of dollars)

21. Salaries and employee benefits (continued)

(8) Under the terms of the Defined Benefit Supplementary Retirement Plan (DB SRP), the executive may receive supplemental payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total estimated cost to provide supplementary retirement benefits. The DB SRP provides future 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 service, a market interest rate, and other assumptions included in the Canadian Institute of Actuaries' lump sum commuted value standard. Net actuarial gains and losses of the benefit obligations are amortized over the remaining terms of the participants' contracts. Current service cost is the actuarial present value of the benefits earned in the current year. The DB SRP was closed to new members effective June 30, 2014.

The DB SRP current service cost and accrued benefit obligation is as follows:

		2017	**2018**			
	Years of eligible University of Alberta service	Accrued benefit obligation	**Service costs**	**Interest and other costs**	**Actuarial (gain) loss**	**Accrued benefit obligation** (8c)
President (8a)	2.8	$ 30	**$ 25**	**$ 2**	**$ 12**	**$ 69**
Former Vice-President (Research) (8b)	10.0	971	**25**	**11**	**-**	**1,007**

(8a) The DB SRP was closed to new members effective June 30, 2014. However, a portion of the supplementary retirement benefit for the current President is calculated on a defined benefit basis, and the liability will be disclosed on this basis as service is provided.

(8b) Includes service to June 30, 2017 and the accrued benefit obligation shown is at June 30, 2017.

(8c) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 7).

(9) Under the terms of the executive Defined Contribution Supplementary Retirement Plan (DC SRP), the executive may receive supplemental payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total cost to provide supplementary retirement benefits. The DC SRP provides future benefits to participants based on the value of the contributions at the end of their service. The cost of these benefits is calculated based on pensionable salary multiplied by a factor based on age and service. The DC SRP was introduced effective July 1, 2014, for all executives commencing employment on or after that date.

The DC SRP current service cost and obligation is as follows:

		2017	**2018**		
	Years of eligible University of Alberta service	DC SRP obligation	**Service costs**	**Interest and investment earnings** (9a)	**DC SRP obligation**
President	2.8	$ 86	**$ 43**	**$ 4**	**$ 133**
Provost and Vice-President (Academic)	2.8	55	**25**	**3**	**83**
Interim Vice-President (Research)	0.8	-	**12**	**-**	**12**
Vice-President (Facilities and Operations)	1.6	13	**14**	**-**	**27**
Vice-President (Finance and Administration)	1.4	16	**21**	**-**	**37**
Vice-President (University Relations)	0.8	-	**14**	**-**	**14**
Vice-President (Advancement)	2.5	31	**25**	**1**	**57**

(9a) Contributions are made on an annual basis at the end of the plan (calendar) year. Interest is paid in lieu of contributions being made every month. Investment earnings are distributed to each plan participant based on the overall return of the plan's investments.

(thousands of dollars)

21. Salaries and employee benefits (continued)

(10) The administrative/professional leave (leave) plan current service cost and accrued benefit obligation is as follows:

	2017		**2018**			
	Years of eligible University of Alberta service	Accrued benefit obligation	**Service costs**	**Interest and other costs**	**Actuarial (gain) loss**	**Accrued benefit obligation** (10b)
President	2.8	$ 159	**$ 91**	**$ 6**	**$ 8**	**$ 264**
Former Vice-President (Research) (10a)	10.0	1,047	**27**	**12**	**-**	**1,086**
Vice-President (Facilities and Operations)	1.6	19	**33**	**2**	**6**	**60**
Vice-President (Finance and Administration)	1.4	15	**35**	**2**	**4**	**56**
Vice-President (University Relations)	0.8	-	**22**	**1**	**3**	**26**
Vice-President (Advancement)	2.5	50	**33**	**2**	**9**	**94**

(10a) Includes service to June 30, 2017 and the accrued benefit obligation shown is at June 30, 2017.

(10b) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 7).

(11) The Provost and Vice-President (Academic) participates in the administrative leave program available to faculty members in eligible administrative positions. Under that administrative leave program, an individual must apply for and receive approval for a leave; therefore, there is no leave accrual.

22. Approval of financial statements

The consolidated financial statements were approved by the Board of Governors.

23. Comparative figures

Certain comparative figures have been reclassified to confirm to the current year presentation.