

| <b>Net Assets (Liabilities) Procedure</b> |   |                       |                    |
|---|---|-----------------------|--------------------|
| <b>Parent Policy</b>                      | Net Asset (Liabilities) Policy                  |                       |                    |
| <b>Policy Sponsor</b>                     | Vice President Finance and Administration & CFO | <b>Category</b>       | Board              |
| <b>Policy Contact</b>                     | Vice President Finance and Administration & CFO | <b>Effective Date</b> | March 31, 2020     |
| <b>Procedure Contact</b>                  | Director, Financial Services                    | <b>Review Date</b>    | September 13, 2024 |

### 1. Purpose

The Net Assets (Liabilities) Procedure provides direction on the operational steps to be taken in the management, administration, and accounting of Net Assets of the University.

### 2. Scope

This procedure applies to all funds defined as Net Assets of the University and establishes the operational steps to ensure prudent financial management.

### 3. Definitions

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| <b>Accumulated Remeasurement Gains (Losses)</b>      | Unrealized changes in fair value of financial instruments and unrealized foreign exchange gains and losses. Remeasurement gains and losses on unrestricted funds are accumulated in the statement of remeasurement gains and losses until the associated financial instrument is sold. The realized gains (losses) are then recognized in the statement of operations. |
| <b>Accumulated Surplus (Deficit)</b>                 | Consists of: Accumulated Surplus (Deficit) from Operations; Investment in Tangible Capital Assets; and Endowments.   |
| <b>Accumulated Surplus (Deficit) from Operations</b> | Consists of: Unrestricted Surplus (Deficit) from Operations and Internally Restricted Funds.   |
| <b>Board</b>   | The Governors of Athabasca University.   |
| <b>Capital Carry-forward</b>                         | The amount of previously approved internally funded capital associated with unexpected project delays beyond management's control that result in deliverables extending over the March 31 year end.  |

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| <b>Endowments</b>                            | Externally restricted donations received by the University that are required to be maintained intact and held in perpetuity.<br><br>Income earned on endowments must be used for specific educational purposes and in accordance with the various purposes established by the donors.   |
| <b>Finance and Property Committee (FPC)</b>  | Assists the Board in its oversight of financial plans, policies, investments, practices, and performance of the University and approved capital projects, including information technology.   |
| <b>Future Student Awards Fund</b>            | An Internally Restricted Fund established to fund future student awards.  |
| <b>Internally Restricted Funds</b>           | Funds for which the balance has been restricted for specific purposes and where any change to the fund balance requires Board approval. Consists of: Student Awards Fund; Internally Restricted Risk Reserve; and Pension Plan Liability Fund.  |
| <b>Internally Restricted Risk Reserve</b>    | The internally restricted account which holds the funds necessary to mitigate risk while the University reacts to disruptive changes or strategic opportunities, including significant changes in funding, cost structures, technology, environmental or political changes. This fund plays a significant role in the University's future as a going concern. |
| <b>Investment in Tangible Capital Assets</b> | Those net assets that represent the net book value of tangible capital assets acquired with University funds (excludes the net- book value of capital assets acquired either by funds contributed by third parties or through debt).  |
| <b>Net Assets (Liabilities)</b>              | The total of Accumulated Surplus (Deficit) and Accumulated Remeasurement Gains (Losses).  |
| <b>Pension Plan Liability Fund</b>           | An Internally Restricted Fund established to segregate unfunded pension liability from other Internally Restricted Funds.   |

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| <b>Tangible Capital Assets</b>                        | <p>A non-financial asset having a physical substance (e.g. that can be seen, touched or measured) that:</p> <ul style="list-style-type: none"> <li>• Is held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other capital assets,</li> <li>• has value or useful economic life recognized over more than one fiscal year, and,</li> <li>• has a cost exceeding the prescribed threshold amount.</li> </ul> <p>They may be acquired directly by the University, donated (contributed) to the University, or produced as a result of a building project or part of a Digital Initiative. Tangible Capital Assets include such items as land, building, equipment, furniture, computer hardware and software, and vehicles.</p> <p>They do not include such items as inventories held for consumption or resale; intangible assets like goodwill, patents and copyrights or assets acquired by right such as forests, water and mineral resources; collections; or assets below the threshold amount.</p> |
| <b>Unrestricted Surplus (Deficit) from Operations</b> | <p>The balance of accumulated annual surpluses/deficits that have not been set aside for specific purposes by the Board.</p>  |
| <b>University</b>                                     | <p>Athabasca University</p>   |

#### 4. Guiding Principles

##### 4.1 Accounting and Reporting Procedure

- a. The accounting records of the University, including those related to Net Assets (Liabilities), are the responsibility of the Director, Financial Services. These accounting records are maintained in Financial Services.
- b. Public Sector Accounting Standards are to be applied in the effective determination and administration of the University's Net Assets (Liabilities).
- c. Annual changes and closing balances in Net Assets (Liabilities) will be reported by the Vice President Finance and Administration & CFO (or designate) in the University's annual, audited Financial Statements, and where appropriate in the Management Discussion and Analysis section of the Annual Report.
- d. The University will track the amount of approved Capital Carryforwards

- within Unrestricted Surplus (Deficit) from Operations. Appendix 1 provides the criteria and request process for Capital Carryforwards.
- e. Internally Restricted Funds are tracked and reported internally for Board and management purposes. They are not included in the year-end financial statements.
  - f. The target value for each internally restricted fund should be reviewed periodically.
  - g. The appropriate amount (if any) to recommend to the Board to adjust each Internally Restricted Fund should be assessed annually, based upon the year end results, the University's plans, and the financial risks facing the University. (Appendix 2).
  - h. Proposed adjustments to Internally Restricted Fund balances will be brought forward for the Board's consideration at the same time that the audited Financial Statements are being considered for approval.
  - i. Proposals to make adjustments to Internally Restricted Fund balances should include discussion of variances to target values (if any) and how and when funds which are below the target values can be brought up to the target values.

#### **4.1. Development Objectives – by Category**

- a. Endowment Development
  - i. The University Endowment Management Policy and the University's Donations Acceptance Policy will direct and inform endowment development.
- b. Investment in Tangible Capital Assets
  - i. Capital asset acquisition will normally be budgeted with consideration for the estimated amount of amortization, related to internally funded assets for the year, and infrastructure maintenance funding, plus any Board approved investments in Tangible Capital Assets from Accumulated Surplus (Deficit) from Operations.
  - ii. The objective is to ensure the net investment in capital asset infrastructure is, at a minimum, maintained.
  - iii. Planned capital asset acquisitions will be identified in a Summary Capital and Infrastructure Plan that is updated annually and approved by the Board.
  - iv. Accounting for this category will be in accordance with Public Sector Accounting Standards and in accordance with the Capital Asset Accounting Policy, and will include such considerations as amortization of internally funded assets (depreciation), acquisitions of internally funded capital assets, and any principal portions of payments on capital debt.
- c. Internally Restricted Funds

- i. The following procedure applies to all Internally Restricted Funds
  - The Board, at its discretion, may approve changes to or repurposing of any of the Internally Restricted Funds.
  - There are three Internally Restricted Funds under Net Assets (Liabilities) Policy as listed below.
- ii. Pension Plan Liability Fund
  - The Pension Plan Liability Fund is maintained to track pension liability, per actuarial reports, that exceeds the University's ability to fund from Accumulated Surplus (Deficit) from Operations.
  - The Pension Plan Liability Fund balance must be adjusted annually to reflect changes in the liability as determined by actuarial calculations, and the extent to which the liability is supported by Accumulated Surplus (Deficit) from Operations. The Fund balance is zero if the allocated Accumulated Surplus (Deficit) from Operations fully provides for the liability.
- iii. Internally Restricted Risk Reserve Fund
  - All uses of Internally Restricted Risk Reserve Fund or changes in the fund balance require approval of the Board.
  - The Internally Restricted Risk Reserve Fund is maintained to mitigate risk by serving as a resource to absorb the financial impact of unanticipated events, or fund either operating or capital strategic investment that are critical to the University's ongoing sustainability and to cover unexpected events where management is unable to mitigate the event within the current fiscal or future year's budget without the use of funds from the Internally Restricted Risk Reserve Fund.
  - The target value for the Internally Restricted Risk Reserve this Fund will be reviewed periodically based upon a detailed review of the University's Enterprise Risk Management primary exposures.
  - When circumstances require the use of the fund, , management will make a recommendation to the Finance and Property Committee and onward to the Board for transfers from the Internally Restricted Risk Reserve as appropriate. Such recommendation will be based on a supporting analysis and timing of transfers will be in accordance with the nature and duration of these circumstances.

Illustration of the target value calculation (based on March 31, 2019 balances):

| Category                                 | Variance magnitude  | Response Time | Fiscal 2020 reserve target in millions |
|--|---|---------------|--|
| Student Tuition and Fees                 | 5% of Tuition and Fee budget                                      | Two years     | 7.89                                   |
| Grants                                   | 10% of Campus Alberta Grant                                       | Two years     | 8.97                                   |
| Salaries and Benefits                    | 5% of Salary and Benefit budget                                   | Two years     | 10.50                                  |
| Capital Budget                           | 30% of the 5-year average Summary Capital and Infrastructure Plan |               | 2.67                                   |
| Total Internally Restricted Risk Reserve |   |               | 30.03                                  |

iv. The Internally Restricted Future Student Awards Fund

- The Internally Restricted Future Student Awards Fund will be maintained to track internally restricted student awards balances and disbursements.
- Investment income earned on the balance (calculated at the rate of return realized for the University's long-term investments as reported by the investment fund manager), will be added to the fund each year.
- Disbursements will be based on awards granted each year.

**2. Applicable Legislation and Regulations**

[Financial Administration Act](#)  
[Post-Secondary Learning Act](#)

**3. Related Procedures/Documents**

[Athabasca University Donation Acceptance Policy](#)  
[Tangible Capital Asset Accounting Policy](#)  
[Investment Policy](#)  
[Net Assets \(Liabilities\) Policy](#)  
[Public Sector Accounting Standards](#)

**History**

| <i>Date</i>    | <i>Action</i>   |
|----------------|---|
| March 31, 2020 | Procedures and Definitions Revised  |
| March 27, 2020 | Procedure revised   |
| Sept 13, 2019  | Associated Revised Policy Approved (The Governors of Athabasca University Motion #240-06) |
| May 27, 2016   | Associated Policy Approved (The Governors of Athabasca University Motion #210-02)         |

***Appendix 1: Criteria and Request Process for Capital Carryforward*****CAPITAL CARRYFORWARD CRITERIA:**

- Only applicable to capital; AND
- Only internally funded project funds are eligible; AND
- Must evidence that specific deliverables were unexpectedly delayed resulting in these deliverables extending over March 31<sup>st</sup> year-end; AND
- Such delays must be beyond management's control; AND
- Carryforward amount can be no greater than the previously approved budget remaining at year end that relates to delayed deliverables; AND
- Cannot be in respect of a new project or new deliverables within the same project planned for the following year.

**REQUESTS FOR CAPITAL CARRYFORWARD:**

- Timeline for requests to carry forward capital are included in year-end guidelines which are provided annually from Financial Services.
- Requests will be made to Financial Services in accordance with the year-end guidelines and will include:
  - Specifics of the deliverables for which the carryforward is requested;
  - Rationale/reasons that these deliverables were delayed, demonstrating the criteria requirements; and
  - Amount of carryforward requested and available unspent budget.
- Upon completion of the year-end accounting for Tangible Capital Assets, Financial Services will confirm the funding available for eligible carryforwards.
- Applications for carryforwards will be reviewed by the Director, Financial Services to ensure compliance with the eligibility criteria. A summary of eligible carryforwards will be provided to the Executive Team for information and the total required for eligible carryforwards will be included in the year-end Recommendation of Approval to Transfer Funds presented to the Board.



**Appendix 2: Accounting Treatment and Disclosure Methodology**

The following chart identifies the current accounting treatment and disclosure methodology for Net Assets as reflected in our audited Financial Statements.

