



Royal Roads
UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2015

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Statement of Management Responsibility

The University is responsible for the preparation of the financial statements as at March 31, 2015 and for the year then ended; in accordance with the financial reporting provisions of Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal controls 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 financial statements.

The Board of Governors carries out its responsibility for review of the financial statements. The Board of Governors 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 Board of Governors with and without the presence of management.

The consolidated financial statements for the year ended March 31, 2015 have been reported on by KPMG LLP, Chartered Accountants. The auditors' report outlines the scope of their examination and provides their opinion on the financial statements.

A handwritten signature in black ink, appearing to read "Allan Cahoon".

Allan Cahoon
President & Vice Chancellor

A handwritten signature in black ink, appearing to read "Dan Tulip".

Dan Tulip
Vice President & Chief Financial Officer

May 14, 2015



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Royal Roads University, and the Minister of Advanced Education

We have audited the accompanying consolidated financial statements of Royal Roads University, which comprise the consolidated statement of financial position as at March 31, 2015, the consolidated statements of operations, change in net debt, cash flow and remeasurement gains and losses for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our 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, we consider internal control relevant to the entity's preparation 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements of Royal Roads University as at March 31, 2015, and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(a) to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

May 14, 2015
Victoria, Canada

Royal Roads University
Consolidated Statement of Financial Position
As at March 31, 2015 with comparative information for 2014

	March 31, 2015	March 31, 2014
Financial assets		
Cash	\$ 4,836,325	\$ 11,811,700
Investments - portfolio (note 3)	51,003,833	35,439,931
Accounts receivable	2,161,786	2,044,410
Inventories	365,826	415,443
	<u>58,367,770</u>	<u>49,711,484</u>
Liabilities		
Accounts payable and accrued liabilities	6,334,514	6,327,260
Employee future benefits (note 4)	613,292	587,355
Deferred revenue (note 5)	14,289,922	13,499,255
Deferred contributions (note 6)	6,562,096	1,673,644
Deferred capital contributions (note 7)	28,931,090	29,565,175
	<u>56,730,914</u>	<u>51,652,689</u>
Net financial assets (debt)	1,636,856	(1,941,205)
Non-financial assets		
Tangible capital assets (note 8)	34,656,288	34,655,348
Investments - endowments (note 3)	4,517,522	4,463,047
Prepaid expenses	535,908	427,732
	<u>39,709,718</u>	<u>39,546,127</u>
Accumulated surplus	\$ 41,346,574	\$ 37,604,922
Accumulated surplus is comprised of:		
Operating (note 11)	39,865,256	36,278,021
Remeasurement gains and losses	1,481,318	1,326,901
	<u>\$ 41,346,574</u>	<u>\$ 37,604,922</u>

Commitments (notes 9, 10)

See accompanying notes to consolidated financial statements



Wayne Strandlund
Chancellor and Board Chair



Allan Cahoon
President and Vice Chancellor

Royal Roads University
Consolidated Statement of Operations
Year ended March 31, 2015 with comparative information for 2014

	Annual Budget	March 31, 2015	March 31, 2014
Revenue			
Tuition and other student fees	\$ 32,902,662	\$ 33,374,420	\$ 31,773,702
Provincial grants	16,995,695	17,152,559	17,820,923
Research grants	1,605,455	1,880,021	1,913,393
Deferred capital contributions	1,362,939	1,454,625	1,442,821
Ancillary revenue	2,711,732	3,034,903	2,942,035
Investment income	1,139,649	1,517,832	1,272,257
Donations and other revenue	839,621	426,130	901,062
	57,557,753	58,840,490	58,066,193
Expenses (note 12)			
Instructional and program delivery	19,724,330	19,168,614	19,545,751
Academic and student support	15,793,453	15,819,903	15,431,211
Campus services	1,664,540	1,668,034	1,607,118
Facilities operation and maintenance	7,467,347	7,975,436	8,392,656
Corporate and operating support	7,379,950	7,867,012	7,586,284
Research	2,189,730	2,384,808	2,487,454
Fundraising	482,307	423,923	356,119
	54,701,657	55,307,730	55,406,593
Annual operating surplus before endowed contributions	2,856,096	3,532,760	2,659,600
Net endowed contributions	60,000	54,475	92,916
Annual surplus	2,916,096	3,587,235	2,752,516
Accumulated surplus, beginning of year	36,278,021	36,278,021	33,525,505
Accumulated operating surplus, end of year	\$ 39,194,117	\$ 39,865,256	\$ 36,278,021

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Change in Net Debt
Year ended March 31, 2015 with comparative information for 2014

	Annual Budget	March 31, 2015	March 31, 2014
Annual surplus	\$ 2,916,096	\$ 3,587,235	\$ 2,752,515
Acquisition of tangible capital assets	(3,885,000)	(2,325,856)	(2,041,513)
Amortization of tangible capital assets	1,962,994	2,115,500	2,117,288
Write downs on tangible capital assets	-	209,415	-
	(1,922,006)	(941)	75,775
Endowment contributions received	(60,000)	(54,475)	(92,916)
Changes in prepaid expense	-	(108,174)	132,446
	(60,000)	(162,649)	39,530
Net remeasurement gains	-	154,417	11,413
Decrease in net debt	934,090	3,578,062	2,879,233
Net debt, beginning of year	(1,941,205)	(1,941,205)	(4,820,438)
Net debt, end of year	\$ (1,007,115)	\$ 1,636,857	\$ (1,941,205)

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Cash Flow
Year ended March 31, 2015 with comparative information for 2014

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Cash provided by (used in):		
Operating activities		
Annual surplus	\$ 3,587,235	\$ 2,752,515
Items not affecting cash:		
Revenue recognized from deferred capital contributions	(1,454,625)	(1,442,821)
Amortization of tangible capital assets	2,115,500	2,117,288
Change in employee future benefits	25,937	24,465
Loss on write down of capital assets	209,415	-
Decrease in deferred contributions related to operations	(351,511)	(758,501)
Changes in non-cash working capital (note 13)	621,986	1,683,864
Net change in cash from operating activities	<u>4,753,937</u>	<u>4,376,810</u>
Capital activities		
Tangible capital asset acquisitions	(2,325,856)	(2,041,513)
Decrease in deferred contributions related to capital projects	-	-
Net change in cash from capital activities	<u>(2,325,856)</u>	<u>(2,041,513)</u>
Investing activities		
Net increase in portfolio investments	(15,409,484)	(1,230,306)
Increase in endowment investments	(54,475)	(92,916)
Net change in cash from investing activities	<u>(15,463,959)</u>	<u>(1,323,222)</u>
Financing activities		
Federal and Provincial capital contributions received	968,433	1,639,963
Contributions received from other sources	5,092,070	226,868
Net change in cash from financing activities	<u>6,060,503</u>	<u>1,866,831</u>
Increase (decrease) in cash	(6,975,375)	2,878,906
Cash and cash equivalents, beginning of year	11,811,700	8,932,794
Cash and cash equivalents, end of year	<u>\$ 4,836,325</u>	<u>\$ 11,811,700</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Remeasurement Gains and Losses
Year ended March 31, 2015 with comparative information for 2014

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Accumulated remeasurement gains, beginning of year	\$ 1,326,901	\$ 1,315,488
Unrealized gains (losses)	243,443	141,903
Amounts reclassified to the statement of operations	(89,026)	(130,490)
Net remeasurement gains and losses for the year	<u>154,417</u>	<u>11,413</u>
Accumulated remeasurement gains (losses), end of year	\$ <u>1,481,318</u>	\$ <u>1,326,901</u>

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

1. Authority and purpose

Royal Roads University (the “University”) operates under the authority of the *Royal Roads University Act*, Province of British Columbia. The University is a Board-governed undergraduate and graduate degree granting institution dedicated solely to studies and research activities that support the applied and professional fields. The University is a registered charity and exempt from income taxes under section 149 of the *Income Tax Act*.

2. Summary of significant accounting policies

a) Basis of accounting

Budget Transparency and Accountability Act

These consolidated financial statements have been prepared in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia supplemented by certain regulations (257/2010 and 198/2011) issued by the Province of British Columbia Treasury Board.

The *Budget Transparency and Accountability Act* requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

The issued regulations require all taxpayer supported organizations in the school, university, college and hospital sectors to adopt Canadian public sector accounting standards without any PS4200 elections, effective their first fiscal year commencing after January 1, 2012.

The regulations require that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are recorded and, referred to as deferred capital contributions, recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

- (ii) Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

For British Columbia taxpayer-supported organizations, these contributions include government transfers and externally restricted contributions.

Public sector accounting standards

The accounting policy requirements under the Regulations are significantly different from the requirements of Canadian public sector accounting standards which require that:

- (i) Government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and certain eligibility criteria have been met, and
- (ii) Externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified.

As a result, revenue recognized in the Consolidated Statement of Operations and certain related deferred capital contributions, would be recorded differently under Canadian public sector accounting standards.

b) Basis of consolidation

The Consolidated Financial Statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by the University. Inter-organizational transactions, balances, and activities have been eliminated on consolidation.

The Royal Roads University Foundation is controlled by the University and fully consolidated in these financial statements.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

c) Financial instruments

(i) Cash and cash equivalents

Cash and cash equivalents include cash on-hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash, and that are subject to an insignificant risk of change in value. These short-term investments generally have a maturity of three months or less at acquisition.

(ii) Investments

The University invests in short and long duration, fixed-term investments, publicly traded equities on a segregated basis (held directly), and through pooled-fund products.

Equity instruments quoted in an active market are measured at fair value. All other financial assets and financial liabilities are measured at cost or amortized cost.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the Consolidated Statement of Remeasurement Gains and Losses. Upon settlement, the cumulative gain or loss is reclassified from this statement, and recognized in the Consolidated Statement of Operations. Realized gains and losses from the endowment principal, where the use of income is stipulated by the donor, are deferred to the year in which the related expense is incurred.

Interest and dividends attributable to financial instruments are reported in the Consolidated Statement of Operations, except where amounts are required to be reflected in restricted contributions.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

d) Inventories

Inventories of merchandise held for resale are recorded at the lower of cost and net realizable value.

e) Non-financial assets

Non-financial assets are not available to discharge existing liabilities, and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost (less residual value) of the tangible capital assets, excluding land, is amortized on a straight line or declining balance basis over their estimated useful life as shown below.

Tangible capital assets received as contributions are recorded at fair value at the date of receipt if the fair value of the asset can be reasonably estimated. Contributions of tangible capital assets where fair value cannot be reasonably estimated are recorded at a nominal value of \$1.

Asset	Basis	Rate
Leasehold improvements	Declining Balance	3.3% - 20.0%
Learning and Innovation Centre		
Building	Straight Line	40 years
Furnishings and equipment	Straight Line	10 years
Furnishings and equipment	Declining Balance	10.0%
Technology and library assets	Declining Balance	10.0% - 33.3%
Automotive equipment	Declining Balance	20.0%

Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the University's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

Works of art and cultural historic assets are not recorded as assets in these consolidated financial statements

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

f) Employee future benefits

The University and its employees make contributions to the College Pension Plan and Municipal Pension Plan which is a multi-employer joint trustee plan. This plan is a defined benefit plan, providing a pension on retirement, based on the member's age at retirement, length of service, and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as a defined contribution plan and any contributions by the University to the plan are expensed as incurred.

Sick leave benefits are also available to the University's employees. The costs of these benefits are determined based on usage. The accrued future obligation is estimated, based on the historical average of sick time used, to record a liability consistent with the projected benefit method pro-rated on service.

g) Recognition of revenue

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts are to be used for the purposes designated by the contributors.

Externally restricted capital contributions for the improvement and acquisition of tangible capital assets are recorded as deferred contributions (see note 6). Once the amount is invested, it is transferred to deferred capital contributions. Deferred capital contributions are recognized as earned revenue over the remaining useful life of the related capital assets (see note 7) on the same basis as the related cost.

Government operating grants that are not restricted as to their use are recognized as revenue when receivable. Such grants, if contributed for future periods, are reported as deferred contributions until that future period. Other unrestricted revenues include tuition fees and sales of products and services. Tuition revenues are recognized on a pro-rata basis, aligned with course credits completed by the year-end. Revenues received for the provision of goods and services are recognized in the period in which the goods are provided or the services are rendered.

Contributions restricted to be retained in perpetuity, allowing only the income earned thereon to be spent, are recorded as donations and other revenue on the Consolidated Statement of Operations for the portion to be held in perpetuity and as deferred contributions for the investment income earned thereon.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

Donations of materials and services that would have otherwise been purchased are recorded at their fair market value. Other gifts-in-kind are not recorded in these financial statements.

h) Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures. Key areas where management has made estimates and assumptions include those related to the carrying value of tangible capital assets, provisions for employee future benefits, valuation of receivables, and the determination of fair value of financial instruments. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

i) Asset retirement obligations

The University recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the life of the asset. At this time, the University has determined that there are no significant retirement obligations with respect to its assets.

j) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2014/15 Operating Plan approved by the Royal Roads University Board of Governors on April 12, 2014. The budget is reflected in the Consolidated Statement of Operations as well as the Consolidated Statement of Change in Net Debt.

k) Contaminated sites

Effective April 1, 2014, the Public Sector Accounting Board (PSAB) issued PS 3260: *Liability for Contaminated Sites*, to establish recognition, measurement and disclosure standards for liabilities associated with the remediation of contaminated sites. Contaminated sites are the result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material, or live organism that exceeds an environmental standard. A liability for remediation of a contaminated site is recognized when all the following criteria are met:

- (i) An environmental standard exists;
- (ii) Contamination exceeds the environmental standard;
- (iii) Royal Roads University is directly responsible or accepts responsibility; and
- (iv) A reasonable estimate of the amount can be made.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

The University adopted the standard on April 1 2014, and its application has not resulted in any adjustments to financial liabilities, tangible capital assets or the accumulated surplus of the University.

l) Future accounting standards:

- (i) In March 2015, PSAB issued PS 2200, *Related Party Disclosures*. PS 2200 defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when the transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated, and the transactions have, or could have, a material financial effect on the financial statements. PS 2200 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 2200 on the consolidated financial statements of the University.
- (ii) In March 2015, PSAB issued PS 3420, *Inter-entity Transactions*. PS 3420 establishes standards of how to account for and report transactions between public- sector entities that comprise a government reporting entity from both a provider and a recipient perspective. The main features of the standard are as follows:
- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis
 - Transactions are measured at the carrying amount, except in specific circumstances
 - A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice
 - The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.

Requirements of this standard are considered in conjunction with requirements of PS 2200. PS 3420 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3420 on the consolidated financial statements of the University.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

3. Investments

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Cash and cash equivalents	\$ 8,499,681	\$ 7,074,201
Short-term cash deposits	9,024,038	-
Equities:		
Canadian	2,658,510	2,587,071
Foreign	617,959	509,157
	<u>3,276,469</u>	<u>3,096,228</u>
Bonds - Canadian	34,721,167	29,732,549
	<u>\$ 55,521,355</u>	<u>\$ 39,902,978</u>
Classified as:		
Investments - portfolio	51,003,833	35,439,931
Investments - endowments	4,517,522	4,463,047
	<u>\$ 55,521,355</u>	<u>\$ 39,902,978</u>

a) Long-term bonds

An average maturity term for bonds is seven years, with yields of 2% to 4%.

4. Employee future benefits

a) Pension benefits

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trusted pension plans. The Boards of Trustees for these plans represent plan members and employers, and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are based on a formula.

As at August 31, 2014, the College Pension Plan has approximately 14,000 active members from college senior administration and instructional staff, and approximately 6,000 retired members. As at December 31, 2013, the Municipal Pension Plan has approximately 182,000 active members, with an estimated 5,800 members from the post-secondary sector. The most recent actuarial at valuation for the College Pension Plan as at August 31, 2012, indicated a \$105 million funding

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

deficit for basic pension benefits. The next valuation will be as at August 31, 2015, with results available in 2016. The most recent actuarial valuation for the Municipal Pension Plan as December 31, 2012, indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015, with results available in 2016.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for the plans in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

The University made \$2,177,405 in employer contributions to the plans for fiscal 2015 (2014 - \$2,042,078).

b) Accumulated sick leave benefit

Employees of the University are entitled to sick leave in accordance with the terms and conditions of their employment contracts. The University recognizes a liability and an expense for sick leave in the period in which employees provide services. The accumulated sick leave benefit liability is shown in the following table.

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Accrued employee future benefits, beginning of year	\$ 587,355	\$ 562,890
Net change in current service costs	25,937	24,465
Accrued employee future benefits, end of year	\$ 613,292	\$ 587,355

5. Deferred Revenue

Deferred tuition relates to tuition fees for future periods. Donations are for future, specific-purpose disbursements such as scholarships, bursaries, research and other specific projects. Other deferred revenue relates to non-credit tuition, other student fees, conference and event deposits, and deferred research grants.

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Deferred tuition	\$ 10,158,240	\$ 9,685,443
Deferred donations	2,535,441	1,731,257
Other deferred revenue	1,596,241	2,082,555
	\$ 14,289,922	\$ 13,499,255

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

6. Deferred Contributions

Deferred contributions represent externally restricted contributions that will be used in current and future years for capital improvements and acquisitions, as well as academic program requirements.

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Balance, beginning of year	\$ 1,673,644	\$ 2,255,596
Provincial capital grants received during the year	239,963	239,963
Other capital and donations received during the year	5,000,000	-
Funds used during the year for minor capital, maintenance and related expenses	(351,511)	(821,915)
Balance, end of year	\$ 6,562,096	\$ 1,673,644

7. Deferred Capital Contributions

Contributions expended on tangible capital assets are referred to as deferred capital contributions. Amounts are recognized into revenue over the useful life of the asset. Note 2 outlines the Treasury Board direction on this accounting treatment. Changes in the balance of deferred capital contributions are shown in the following table.

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Balance, beginning of year	\$ 29,565,175	\$ 29,317,714
Acquisitions funded by provincial and federal capital contributions	728,470	1,463,414
Acquisitions funded by other capital contributions	92,070	226,868
Amortization of deferred capital contributions	(1,454,625)	(1,442,821)
Balance, end of year	\$ 28,931,090	\$ 29,565,175

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2015

8. Tangible Capital Assets

	Leasehold Improvements	Learning and Innovation Centre - Building	Learning and Innovation Centre - Furnishings	Furnishings and equipment	Technology and library assets	Automotive equipment	Assets under construction	Total 2015	Total 2014
Cost:									
Balance, beginning of year	\$ 28,931,158	18,354,233	1,723,360	8,643,204	8,338,545	313,014	1,473,779	\$ 67,777,293	\$ 65,856,562
Additions	1,768,719	-	-	326,870	62,928	84,485	82,854	2,325,856	2,050,087
Transfers from work in progress	1,473,779	-	-	-	-	-	(1,473,779)	-	-
Disposals	-	-	-	-	(858,054)	-	-	(858,054)	(129,356)
Balance, end of year	32,173,656	18,354,233	1,723,360	8,970,074	7,543,419	397,499	82,854	69,245,095	67,777,293
Accumulated amortization:									
Balance, beginning of year	18,536,515	1,376,568	517,008	5,152,731	7,392,306	146,817	-	33,121,945	31,125,439
Disposals	-	-	-	-	(648,638)	-	-	(648,638)	(120,780)
Amortization	887,246	458,856	172,336	371,780	180,753	44,529	-	2,115,500	2,117,286
Balance, end of year	19,423,761	1,835,424	689,344	5,524,511	6,924,421	191,346	-	34,588,807	33,121,945
Net book value, end of year	\$ 12,749,895	16,518,809	1,034,016	3,445,563	618,998	206,153	82,854	\$ 34,656,288	\$ 34,655,348

9. Capital Assets Lease

The University leases the Royal Roads property and related assets and infrastructure from the Government of Canada for \$1 per annum. This lease covers approximately 59.5 hectares and is for a term of 50 years, commencing December 1, 2000 and terminating November 30, 2050, plus two renewal options of 25 years and 24 years respectively, for a total of 99 years. The University also manages the adjacent lands. The related memorandum of understanding covers approximately 169.34 hectares. The initial term of five years commenced December 1, 2005. The University subsequently re-negotiated the term for 25 years, and has the option to renew for terms of five years each thereafter. The fair value of the property and related assets could not be reasonably estimated at the inception of the lease and accordingly has been recorded in tangible capital assets at a nominal value of \$1.

10. Commitments

The University has operating lease commitments for computer equipment; future minimum lease payments are:

2016	\$553,678
2017	366,847
2018	205,619
2019	55,782
2020	29,039

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11. Accumulated Operating Surplus

Accumulated operating surplus consists of the following:

	<u>March 31, 2015</u>		<u>March 31, 2014</u>
Internally restricted infrastructure fund	\$ 9,879,973	\$	9,879,973
Unrestricted	25,467,761		21,935,001
Endowments	4,517,522		4,463,047
	<u>\$ 39,865,256</u>	<u>\$</u>	<u>36,278,021</u>

a) Internally restricted infrastructure fund

The purpose of the Infrastructure Fund is to finance major capital improvements.

12. Expense by Object

The following is a summary of expenses by object:

	<u>March 31, 2015</u>		<u>March 31, 2014</u>
Salaries and benefits	\$ 32,553,764	\$	31,813,017
Professional and contracted services	7,253,807		8,288,469
Instruction and program delivery	1,857,409		1,660,605
IT and telecommunications	1,509,987		1,591,437
Marketing and business development	2,708,964		2,417,615
Awards and scholarships	868,571		851,652
Supplies and services	3,965,707		4,134,493
Grounds, facilities and equipment	1,328,465		1,450,798
Utilities	639,791		725,099
Amortization	2,115,500		2,117,288
Fundraising	505,766		356,119
	<u>\$ 55,307,731</u>	<u>\$</u>	<u>55,406,593</u>

Note: Prior year figures have been reclassified to be consistent with current year presentation.

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13. Supplemental Cash Flow Information

Changes in non-cash operating capital:

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Accounts receivable	\$ (117,376)	\$ 1,129,352
Inventories	49,617	(31,323)
Prepaid expenses	(108,176)	132,446
Accounts payable and accrued liabilities	7,254	762,945
Deferred revenue	790,667	(309,556)
	<u>\$ 621,986</u>	<u>\$ 1,683,864</u>

14. Financial Risk Management

The University has exposure to the following risks from its use of financial instruments:

a) Credit risk

Credit risk is the financial loss to the University if a customer fails to meet contractual obligations. Such risks arise principally from certain financial assets held by the University consisting of cash, accounts receivable and investments. The University closely monitors customer accounts to mitigate credit risk exposure.

b) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the University's income. Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. Canadian market risk is managed by controlling risk exposures within acceptable parameters while optimizing investment returns (note 3).

c) Liquidity risk

The University manages liquidity risk by continually monitoring actual and forecasted cash flows from operations, anticipated investing, and financial activities to ensure that its financial obligations are met.

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15. Related Organizations

The University is related through common ownership to all Province of British Columbia ministries, school districts, health authorities, universities, and crown corporations. Transactions with these entities, unless disclosed separately are considered to be in the normal course of operations and are recorded at the amount of consideration established and agreed to by the parties.
