



Royal Roads
UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2016

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Statement of Management Responsibility

The University is responsible for the preparation of the financial statements as at March 31, 2016 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, 2016 have been reported on by KPMG LLP, Chartered Accountants. The accompanying 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 blue ink, appearing to read "Dan Tulip".

Dan Tulip
Vice President & Chief Financial Officer

May 13, 2016



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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, 2016, 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, 2016, 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a horizontal line.

Chartered Professional Accountants

May 13, 2016
Victoria, Canada

Royal Roads University
Consolidated Statement of Financial Position
As at March 31, 2016 with comparative information for 2015

	March 31, 2016	March 31, 2015
Financial assets		
Cash	\$ 5,222,379	\$ 4,836,325
Investments - portfolio (note 3)	58,830,674	51,003,833
Accounts receivable	3,609,564	2,161,786
Inventories	396,481	365,826
	<u>68,059,098</u>	<u>58,367,770</u>
Liabilities		
Accounts payable and accrued liabilities	9,313,312	6,334,514
Employee future benefits (note 4)	616,490	613,292
Deferred revenue (note 5)	17,165,477	14,289,922
Deferred contributions (note 6)	6,512,897	6,562,096
Deferred capital contributions (note 7)	31,059,614	28,931,090
	<u>64,667,790</u>	<u>56,730,914</u>
Net financial assets	3,391,308	1,636,856
Non-financial assets		
Tangible capital assets (note 8)	36,700,711	34,656,288
Investments - endowments (note 3)	4,885,775	4,517,522
Inventory of supplies	142,982	-
Prepaid expenses	620,969	535,908
	<u>42,350,437</u>	<u>39,709,718</u>
Accumulated surplus	\$ 45,741,745	\$ 41,346,574
Accumulated surplus is comprised of:		
Operating (note 11)	\$ 45,052,254	\$ 39,865,256
Remeasurement gains and losses	689,491	1,481,318
	<u>\$ 45,741,745</u>	<u>\$ 41,346,574</u>

Commitments (notes 9, 10)

See accompanying notes to consolidated financial statements



Wayne Strandlund
Chancellor & Board Chair



Allan Cahoon
President & Vice Chancellor

Royal Roads University
Consolidated Statement of Operations
Year ended March 31, 2016 with comparative information for 2015

	Annual Budget	March 31, 2016	March 31, 2015
Revenue			
Tuition and other student fees	\$ 37,679,384	\$ 37,294,881	\$ 33,374,420
Provincial grants	16,992,710	17,175,259	17,152,559
Research grants	1,554,429	1,807,306	1,880,021
Deferred capital contributions	1,489,456	1,473,848	1,454,625
Ancillary revenue	2,724,487	2,718,516	3,034,903
Investment income	1,170,565	1,462,890	1,517,832
Donations and other revenue	484,887	334,624	426,130
	62,095,918	62,267,324	58,840,490
Expenses (note 12)			
Instructional and program delivery	22,425,876	20,430,261	19,168,614
Academic and student support	17,966,821	17,008,222	15,819,903
Campus services	1,547,360	1,672,568	1,668,034
Facilities operation and maintenance	7,636,608	7,511,373	7,975,436
Corporate and operating support	7,030,279	8,130,724	7,867,012
Research	2,071,479	2,269,225	2,384,808
Fundraising	608,923	426,206	423,923
	59,287,346	57,448,579	55,307,730
Annual operating surplus before endowed contributions	2,808,572	4,818,745	3,532,760
Endowed contributions	200,155	354,447	54,475
Annual surplus	3,008,727	5,173,192	3,587,235
Accumulated surplus, beginning of year	39,865,256	39,865,256	36,278,021
Interfund transfers	-	13,806	-
Accumulated operating surplus, end of year	\$ 42,873,983	\$ 45,052,254	\$ 39,865,256

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Remeasurement Gains and Losses
Year ended March 31, 2016 with comparative information for 2015

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Accumulated remeasurement gains, beginning of year	\$ 1,481,318	\$ 1,326,901
Unrealised gains (losses) attributable to:		
Foreign exchange	(12,742)	63,823
Portfolio Investments (equity instruments)	(798,506)	179,620
Amounts reclassified to the statement of operations:		
Portfolio Investments (equity instruments)	(3,096)	(89,026)
Designated fair value financial instruments	22,517	-
Net remeasurement gains and losses for the year	<u>(791,827)</u>	<u>154,417</u>
Accumulated remeasurement gains, end of year	\$ <u>689,491</u>	\$ <u>1,481,318</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Change in Net Financial Assets
Year ended March 31, 2016 with comparative information for 2015

	<u>Annual Budget</u>	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Annual operating surplus	\$ 3,008,727	\$ 5,173,192	\$ 3,587,235
Acquisition of tangible capital assets	(6,448,000)	(4,125,292)	(2,325,856)
Amortization of tangible capital assets	2,265,417	2,080,869	2,115,500
Write downs on tangible capital assets	-	-	209,415
	(4,182,583)	(2,044,423)	(941)
Endowment contributions received	(200,155)	(354,447)	(54,475)
Changes in supplies inventory	-	(142,982)	-
Changes in prepaid expense	-	(85,061)	(108,175)
	(200,155)	(582,490)	(162,650)
Net remeasurement gains / (losses)	-	(791,827)	154,417
(Increase) / decrease in net financial assets (debt)	(1,374,011)	1,754,452	3,578,061
Net financial assets / (debt), beginning of year	1,636,856	1,636,856	(1,941,205)
Net assets, end of year	\$ 262,845	\$ 3,391,308	\$ 1,636,856

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Cash Flows
Year ended March 31, 2016 with comparative information for 2015

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Cash provided by (used in):		
Operating activities		
Annual operating surplus	\$ 5,173,192	\$ 3,587,235
Items not affecting cash:		
Revenue recognized from deferred capital contributions	(1,473,847)	(1,454,625)
Amortization of tangible capital assets	2,080,869	2,115,500
Change in employee future benefits	3,198	25,937
Loss on write down of capital assets	-	209,415
Decrease in deferred contributions related to operations	(288,474)	(351,511)
Changes in non-cash working capital (note 13)	4,147,877	621,986
Net change in cash from operating activities	<u>9,642,815</u>	<u>4,753,937</u>
Capital activities		
Tangible capital asset acquisitions	(4,125,292)	(2,325,856)
Net change in cash from capital activities	<u>(4,125,292)</u>	<u>(2,325,856)</u>
Investing activities		
Net increase in portfolio investments	(8,618,668)	(15,409,484)
Increase in endowment investments	(354,447)	(54,475)
Net change in cash from investing activities	<u>(8,973,115)</u>	<u>(15,463,959)</u>
Financing activities		
Federal and Provincial capital contributions received	3,841,646	968,433
Contributions received from other sources	-	5,092,070
Net change in cash from financing activities	<u>3,841,646</u>	<u>6,060,503</u>
Increase (decrease) in cash	386,054	(6,975,375)
Cash and cash equivalents, beginning of year	4,836,325	11,811,700
Cash and cash equivalents, end of year	<u>\$ 5,222,379</u>	<u>\$ 4,836,325</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2016

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.

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.

- (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.

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 and bond 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 equity 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. Unrealized 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. Transaction costs are a component of cost for financial instruments measured using cost and are expensed for financial instruments measured at fair value.

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

d) Inventories

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

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2016

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.

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 tangible 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 endowed contributions on the Consolidated Statement of Financial Position 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 ended March 31, 2016

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 consolidated financial statements.

h) Use of estimates

The preparation of these consolidated financial statements 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 and valuation of receivables. 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 as approved by the University's Board of Governors on March 27, 2015 and restated in September 2016 have been provided for comparative purposes. The budget restatement incorporates the change in management contract for the International Study Centre of \$1.3M in additional tuition revenue and expenditure. The budget is reflected in the Consolidated Statement of Operations as well as the Consolidated Statement of Change in Net Assets.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2016

3. Investments

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Cash and cash equivalents	\$ 1,226,189	\$ 8,499,681
Short-term cash deposits	16,201,967	9,024,038
Equities:		
Canadian	3,665,754	2,658,510
Foreign	902,962	617,959
	<u>4,568,716</u>	<u>3,276,469</u>
Bonds - Canadian	41,719,577	34,721,167
	<u>\$ 63,716,449</u>	<u>\$ 55,521,355</u>
Classified as:		
Investments - portfolio	\$ 58,830,674	\$ 51,003,833
Investments - endowments	4,885,775	4,517,522
	<u>\$ 63,716,449</u>	<u>\$ 55,521,355</u>

Long-term bonds have an average maturity term of seven years, with yields of 2% to 4%. Equity and bond investments are recorded at fair value based on unadjusted quoted market prices in an active market for the specific instrument.

4. Employee future benefits

a) Pension benefits

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trustee pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plans are multi-employer defined benefit pension plans. Basic pension benefits provided are based on a formula.

As at August 31, 2015, the College Pension Plan has about 14,000 active members, and approximately 6,500 retired members. As at December 31, 2014, the Municipal Pension Plan has about 185,000 active members, including approximately 5,800 from colleges.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2016

The most recent actuarial valuation for the College Pension Plan as at August 31, 2012, indicated a \$105 million funding deficit for basic pension benefits. The next valuation will be August 31, 2015, with results available in 2016. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2012, indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be 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, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

The University made \$2,276,526 in employer contributions to the plans for fiscal 2016 (2015 - \$2,177,405).

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, 2016</u>	<u>March 31, 2015</u>
Accrued employee future benefits, beginning of year	\$ 613,292	\$ 587,355
Net change in current service costs	3,198	25,937
Accrued employee future benefits, end of year	\$ 616,490	\$ 613,292

5. Deferred Revenue

Deferred tuition relates to tuition fees for future periods. Donations are for future, directed 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, 2016</u>	<u>March 31, 2015</u>
Deferred tuition	\$ 12,592,115	\$ 10,158,240
Deferred donations	2,850,644	2,535,441
Other deferred revenue	1,722,718	1,596,241
\$	17,165,477	\$ 14,289,922

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2016

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, 2016</u>	<u>March 31, 2015</u>
Balance, beginning of year	\$ 6,562,096	\$ 1,673,644
Provincial capital grants received during the year	239,275	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	<u>(288,474)</u>	<u>(351,511)</u>
Balance, end of year	<u>\$ 6,512,897</u>	<u>\$ 6,562,096</u>

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, 2016</u>	<u>March 31, 2015</u>
Balance, beginning of year	\$ 28,931,090	\$ 29,565,175
Acquisitions funded by provincial and federal capital contributions	3,602,371	728,470
Acquisitions funded by other capital contributions	-	92,070
Amortization of deferred capital contributions	<u>(1,473,847)</u>	<u>(1,454,625)</u>
Balance, end of year	<u>\$ 31,059,614</u>	<u>\$ 28,931,090</u>

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2016

8. Tangible Capital Assets

	Leasehold Improvements	Learning and Innovation Centre	Equipment	Assets under construction	Total 2016	Total 2015
Cost:						
Balance, beginning of year	\$ 32,173,656	20,077,593	16,910,992	82,854	\$ 69,245,095	\$ 67,777,293
Additions	71,787	-	240,703	3,895,656	4,208,146	2,325,856
Transfers from work in progress	-	-	-	(82,854)	(82,854)	-
Disposals	-	-	-	-	-	(858,054)
Balance, end of year	32,245,443	20,077,593	17,151,695	3,895,656	73,370,387	69,245,095
Accumulated amortization:						
Balance, beginning of year	19,423,761	2,524,768	12,640,278	-	34,588,807	33,121,945
Disposals	-	-	-	-	-	(648,638)
Amortization	898,930	631,192	550,747	-	2,080,869	2,115,500
Balance, end of year	20,322,691	3,155,960	13,191,025	-	36,669,676	34,588,807
Net book value, end of year	\$ 11,922,752	16,921,633	3,960,670	3,895,656	36,700,711	34,656,288

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:

2017	\$ 686,509
2018	528,279
2019	330,290
2020	139,431
2021	57,084

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2016

11. Accumulated Operating Surplus

Accumulated operating surplus consists of the following:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Internally restricted infrastructure fund	\$ 9,879,973	\$ 9,879,973
Unrestricted	30,286,506	25,467,761
Endowments	4,885,775	4,517,522
	<u>\$ 45,052,254</u>	<u>\$ 39,865,256</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, 2016</u>	<u>March 31, 2015</u>
Salaries and benefits	\$ 33,667,280	\$ 32,553,763
Professional and contracted services	7,486,233	7,253,807
Instruction and program delivery	1,659,931	1,857,409
IT and telecommunications	1,650,220	1,509,987
Marketing and business development	3,521,539	2,708,964
Awards and scholarships	931,320	868,571
Supplies and services	4,084,084	3,965,707
Grounds, facilities and equipment	1,368,620	1,328,465
Utilities	572,277	639,791
Amortization	2,080,869	2,115,500
Fundraising	426,206	505,766
	<u>\$ 57,448,579</u>	<u>\$ 55,307,730</u>

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13. Supplemental Cash Flow Information

Changes in non-cash working capital:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Accounts receivable	\$ (1,447,778)	\$ (117,376)
Inventories	(173,637)	49,617
Prepaid expenses	(85,061)	(108,176)
Accounts payable and accrued liabilities	2,978,798	7,254
Deferred revenue	2,875,555	790,667
	<u>\$ 4,147,877</u>	<u>\$ 621,986</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.
