



## **CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED MARCH 31, 2018**

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## Statement of Management Responsibility

The University is responsible for the preparation of the consolidated financial statements as at March 31, 2018 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, 2018 have been reported on by KPMG LLP, Chartered Professional Accountants. The accompanying auditors' report outlines the scope of their examination and provides their opinion on the consolidated financial statements.

A stylized, handwritten signature in black ink, consisting of a large, flowing 'C' followed by a horizontal line.

Allan Cahoon  
President & Vice Chancellor

A stylized, handwritten signature in black ink, appearing to read "Cheryl Eason" in a cursive script.

Cheryl Eason  
Vice President & Chief Financial Officer

May 16, 2018



KPMG LLP  
St. Andrew's Square II  
800-730 View Street  
Victoria BC V8W 3Y7  
Canada  
Telephone 250-480-3500  
Fax 250-480-3539

## 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, 2018, the consolidated statements of operations, remeasurement gains and losses, change in net financial assets (debt) and cash flows 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, 2018, 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 Professional Accountants

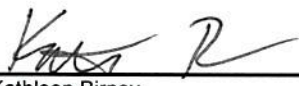
Victoria, Canada  
May 16, 2018

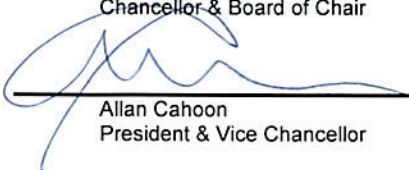


**Royal Roads University**  
**Consolidated Statement of Financial Position**  
**As at March 31, 2018 with comparative information for 2017**

	March 31, 2018	March 31, 2017
<b>Financial Assets</b>		
Cash	\$ 11,643,945	\$ 5,253,964
Investments – portfolio (note 3)	56,987,931	66,234,639
Accounts receivable	2,832,852	2,164,699
Inventories	404,314	463,532
	<u>71,869,042</u>	<u>74,116,834</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	10,770,054	10,234,483
Employee future benefits (note 4)	664,076	653,744
Deferred revenue (note 5)	18,095,411	18,265,325
Deferred contributions (note 6)	1,692,897	6,708,738
Deferred capital contributions (note 7)	58,395,348	37,351,136
	<u>89,617,786</u>	<u>73,213,426</u>
<b>Net financial assets (debt)</b>	<b>(17,748,744)</b>	<b>903,408</b>
<b>Non-financial assets</b>		
Tangible capital assets (note 8)	61,136,285	41,478,877
Investments – endowments (note 3)	5,093,700	5,009,793
Inventory of supplies	125,981	153,582
Prepaid expenses	807,564	525,532
	<u>67,163,530</u>	<u>47,167,784</u>
<b>Accumulated surplus</b>	<b>\$ <u>49,414,786</u></b>	<b>\$ <u>48,071,192</u></b>
<b>Accumulated surplus is comprised of:</b>		
Operating (note 12)	\$ 48,335,787	46,623,630
Remeasurement gains and losses	1,078,999	1,447,562
	<u>\$ 49,414,786</u>	<u>\$ 48,071,192</u>

Commitment and contingencies (notes 9, 10, & 11)  
See accompanying notes to consolidated financial statements

  
Kathleen Birney  
Chancellor & Board of Chair

  
Allan Cahoon  
President & Vice Chancellor

**Royal Roads University**  
**Consolidated Statement of Operations**  
**Year ended March 31, 2018 with comparative information for 2017**

	<b>Annual Budget</b> (note 2))	<b>March 31, 2018</b>	<b>March 31, 2017</b>
<b>Revenue</b>			
Tuition and other student fees	\$ 40,712,449	\$ 40,347,731	\$ 39,881,752
Provincial grants	18,164,946	18,374,408	14,995,087
Research grants	1,377,457	1,894,929	1,660,656
Deferred capital contributions (note 7)	1,701,001	1,775,385	1,592,552
Ancillary revenue	2,370,496	2,456,073	2,524,520
Investment income	1,147,908	1,434,790	1,572,427
Donations and other revenue	1,268,373	1,086,746	937,893
	<b>66,742,630</b>	<b>67,370,062</b>	<b>63,164,887</b>
<b>Expenses (note 13)</b>			
Instructional and program delivery	\$ 24,340,822	\$ 24,418,699	\$ 22,218,465
Academic and student support	19,371,282	19,364,803	18,592,896
Campus services	1,709,818	1,687,618	1,843,464
Facilities operation and maintenance	8,124,690	7,895,349	7,614,570
Operating support	9,487,701	9,779,217	8,900,297
Research	1,778,929	2,263,702	2,177,406
Fundraising	318,152	332,424	370,431
	<b>65,131,394</b>	<b>65,741,812</b>	<b>61,717,529</b>
<b>Annual operating surplus before endowed contributions</b>	<b>1,611,236</b>	<b>1,628,250</b>	<b>1,447,358</b>
Endowed contributions	356,900	83,907	124,018
<b>Annual operating surplus</b>	<b>1,968,136</b>	<b>1,712,157</b>	<b>1,571,376</b>
Accumulated operating surplus, beginning of year	46,623,630	46,623,630	45,052,254
<b>Accumulated operating surplus, end of year</b>	<b>\$ 48,591,766</b>	<b>\$ 48,335,787</b>	<b>\$ 46,623,630</b>

See accompanying notes to consolidated financial statements

**Royal Roads University**  
**Consolidated Statement of Remeasurement Gains and Losses**  
**Year ended March 31, 2018 with comparative information for 2017**

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Accumulated remeasurement gain, beginning of year	\$ 1,447,562	\$ 689,491
Unrealized gains (losses) attributable to:		
Foreign exchange	(25,448)	40,155
Portfolio investments	(427,603)	763,509
Amounts reclassified to the statement of operations:		
Foreign exchange	(4,423)	(18,439)
Portfolio investments / equity investments	88,911	(27,155)
Net remeasurement gains and losses for the year	<u>(368,563)</u>	<u>758,071</u>
Accumulated remeasurement gains, end of year	\$ <u>1,078,999</u>	\$ <u>1,447,562</u>

See accompanying notes to consolidated financial statements



**Royal Roads University**  
**Consolidated Statement of Change in Net Financial Assets (Debt)**  
**Year ended March 31, 2018 with comparative information for 2017**

	<u>Annual Budget</u> <u>(note 2j)</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Annual operating surplus	\$ 1,968,136	\$ 1,712,157	\$ 1,571,376
Acquisition of tangible capital assets	(25,432,000)	(22,127,604)	(6,975,952)
Amortization of tangible capital assets	2,396,000	2,470,196	2,186,496
Write down on tangible capital assets	-	-	11,290
	<u>(23,036,000)</u>	<u>(19,657,408)</u>	<u>(4,778,166)</u>
Endowment contributions received	(356,900)	(83,907)	(124,018)
Changes in supplies inventory	-	27,601	(10,600)
Changes in prepaid expense	-	(282,032)	95,437
	<u>(356,900)</u>	<u>(338,338)</u>	<u>(39,181)</u>
Net remeasurement gains (losses)	-	(368,563)	758,071
Decrease in net financial assets	(21,424,764)	(18,652,152)	(2,487,900)
Net financial assets, beginning of year	903,408	903,408	3,391,308
Net financial assets (debt), end of year	\$ <u>(20,521,356)</u>	\$ <u>(17,748,744)</u>	\$ <u>903,408</u>

See accompanying notes to consolidated financial statements

**Royal Roads University**  
**Consolidated Statement of Cash Flows**  
**Year ended March 31, 2018 with comparative information for 2017**

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Annual operating surplus	\$ 1,712,157	\$ 1,571,376
Items not affecting cash:		
Revenue recognized from deferred capital contributions	(1,775,385)	(1,592,522)
Amortization of tangible capital assets	2,470,196	2,186,496
Change in employee future benefits	10,332	37,254
Loss on write down of capital assets	-	11,290
Decrease in deferred contributions related to operations	(476,000)	(296,000)
Changes in non-cash working capital (note 14)	(317,709)	3,483,670
<b>Net change in cash from operating activities</b>	<u>1,623,591</u>	<u>5,401,534</u>
<b>Capital activities</b>		
Tangible capital asset acquisitions	(22,127,604)	(6,975,952)
<b>Net change in cash from capital activities</b>	<u>(22,127,604)</u>	<u>(6,975,952)</u>
<b>Investing activities</b>		
Net decrease (increase) in portfolio investments	8,878,145	(6,645,894)
Net increase in endowment investments	(83,907)	(124,018)
<b>Net change in cash from investing activities</b>	<u>8,794,238</u>	<u>(6,769,912)</u>
<b>Financing activities</b>		
Federal and provincial capital contributions received	17,429,797	8,180,074
Contributions received from other sources	669,959	195,841
<b>Net change in cash from financing activities</b>	<u>18,099,756</u>	<u>8,375,915</u>
<b>Increase in cash</b>	6,389,981	31,585
<b>Cash and cash equivalents, beginning of year</b>	<u>5,253,964</u>	<u>5,222,379</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 11,643,945</u>	<u>\$ 5,253,964</u>

See accompanying notes to consolidated financial statements

**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
**Year ended March 31, 2018**

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**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.

**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
**Year ended March 31, 201**

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**2. Summary of Significant Accounting Policies (continued)**

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.



**2. Summary of Significant Accounting Policies (continued)**

c) Financial instruments (continued)

(ii) Investments (continued)

Equity and bond instruments that are quoted in an active market are reflected at fair value as at the reporting date. All other financial instruments are measured at cost or amortized cost.

Sale and purchases of investments are recorded at trade date. Unrealized gains and losses from changes in the fair value of equity and bond instruments are recognized in the Consolidated Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Consolidated Statement of Operations and related balances reversed from the Consolidated Statement of Remeasurement Gains and Losses. Unrealized gains and losses from the endowment investments, where earnings are restricted as to use, are recorded as deferred contributions and recognized in revenue when disposed and when related expenses are 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.

Investments include operating and endowment investments. Operating investments consist of research, capital and other funds received and held in advance for future expenditures. Endowment investments consist of donations held in perpetuity to benefit current and future generations.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in an active market for identical assets or liabilities,
- Level 2 – Observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

d) Inventories held for sale

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



**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
**Year ended March 31, 2018**

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**2. Summary of Significant Accounting Policies (continued)**

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

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 and assets under construction, is amortized on a straight line or declining balance basis over their estimated useful life as shown below.

Tangible capital assets include those assets which were acquired before March 31, 2011; these are amortized on a declining balance basis. Assets under construction are not amortized until the asset is available for productive use.

<b>Asset</b>	<b>Basis</b>	<b>Rate</b>
Leasehold improvements	Straight Line	10 to 40 years
	Declining Balance	3.3% to 20.0%
Furnishings and equipment	Straight Line	10 to 15 years
	Declining Balance	10% to 20%
Automotive equipment	Straight Line	5 to 7 years
Technology assets	Straight Line	4 to 7 years
	Declining Balance	20.0% to 33.3%

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.

**2. Summary of Significant Accounting Policies (continued)**

**f) Employee future benefits**

The University and its employees make contributions to the College Pension Plan and Municipal Pension Plan which are multi-employer joint trustee plans. These plans are a defined benefit plans, 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.

**f) 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 tangible capital assets are acquired or upon commencement of construction, the deferred contributions are 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 Operations for the portion to be held in perpetuity and as deferred contributions for the investment income earned thereon.

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.

**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
**Year ended March 31, 2018**

**2. Summary of Significant Accounting Policies (continued)**

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 31 March 2017 have been provided for comparative purposes. The budget is reflected in the Consolidated Statement of Operations as well as the Consolidated Statement of Change in Net Assets.

k) Comparative figures

Certain figures for the prior year have been reclassified in the financial statements to conform to the current year presentation.

**3. Investments**

	<b>Fair Value Hierarchy</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	Level 1	\$ 3,356,859	\$ 4,812,651
Short-term cash deposits	Level 1	16,662,045	21,405,116
Bonds - Canadian	Level 2	36,477,328	39,439,234
Equities - Canadian	Level 1	4,252,249	4,386,266
Equities - Foreign	Level 1	1,333,150	1,201,165
		<b>\$ 62,081,631</b>	<b>\$ 71,244,432</b>
Classified as:			
Investments - portfolio		\$ 56,987,931	\$ 66,234,639
Investments - endowments		5,093,700	5,009,793
		<b>\$ 62,081,631</b>	<b>\$ 71,244,432</b>



**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
**Year ended March 31, 2018**

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**3. Investments (continued)**

Long-term bonds have an average maturity of two years, with yields of 1.5% to 9.976% (2017 – 1.5% to 6.4%). Equities and bond investments are recorded at fair value based on unadjusted 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, 2017, the College Pension Plan has about 14,000 active members, and approximately 7500 retired members. As at December 31, 2016, the Municipal Pension Plan has about 193,000 active members, including approximately 5,800 from colleges.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015, indicated a \$67 million funding surplus for basic pension benefits. The next valuation will be August 31, 2018, with results available in 2019. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits. The next valuation will be December 31, 2018, with results available in 2019.

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 \$2,753,171 in employer contributions to the plans for fiscal 2018 (2017 - \$2,556,766).

**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
**Year ended March 31, 2018**

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**4. Employee Future Benefits (continued)**

a) 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.

	<b>2018</b>	<b>2017</b>
Accrued employee future benefits, beginning of year	\$ 653,744	\$ 616,490
Net change in current service costs	10,332	37,254
Accrued employee future benefits, end of year	<b>\$ 664,076</b>	<b>\$ 653,744</b>

**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.

	<b>2018</b>	<b>2017</b>
Deferred tuition	\$ 13,013,101	\$ 13,027,290
Deferred donations	2,667,045	3,126,175
Other deferred revenue	2,415,265	2,111,860
	<b>\$ 18,095,411</b>	<b>\$ 18,265,325</b>

**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.

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 6,708,738	\$ 6,512,897
Provincial capital grants received during the year	476,000	296,000
Other capital and donations received during the year	52,426	195,841
Transfers to deferred capital contributions	(5,248,267)	-
Funds used during the year for minor capital, maintenance and related expenses	(296,000)	(296,000)
Balance, end of year	<b>\$ 1,692,897</b>	<b>\$ 6,708,738</b>



**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
**Year ended March 31, 2018**

**7. Deferred Capital Contributions**

Contributions to be 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.

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 37,351,136	\$ 31,059,614
Contributions received during the year	17,571,330	7,884,074
Transfers to deferred capital contributions	5,248,267	-
Amortization of deferred capital contributions	(1,775,385)	(1,592,552)
Balance, end of year	<u>\$ 58,395,348</u>	<u>\$ 37,351,136</u>

**8. Tangible Capital Assets**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value at March 31, 2018</b>	<b>Net Book Value at March 31, 2017</b>
Leasehold improvements	\$ 59,755,491	25,818,075	33,937,416	\$ 33,196,725
Furnishings and equipment	12,545,112	8,278,099	4,267,013	4,643,288
Technology assets	7,559,244	7,197,573	361,671	370,805
Assets under construction	22,570,185	-	22,570,185	3,268,059
<b>Total</b>	<u>\$ 102,430,032</u>	<u>41,293,747</u>	<u>61,136,285</u>	<u>\$ 41,478,877</u>

	<b>Balance at March 31, 2017</b>	<b>Additions</b>	<b>Transfers from Work in Progress</b>	<b>Balance at March 31, 2018</b>
<b>Cost</b>				
Leasehold improvements	\$ 57,293,351	-	2,462,140	59,755,491
Furnishings and equipment	12,241,507	142,234	161,371	12,545,112
Technology assets	7,499,508	59,736	-	7,559,244
Assets under construction	3,268,062	21,925,634	(2,623,511)	22,570,185
<b>Total</b>	<u>\$ 80,302,428</u>	<u>22,127,604</u>	<u>-</u>	<u>102,430,032</u>

	<b>Balance at March 31, 2017</b>	<b>Amortization</b>	<b>Balance at March 31, 2018</b>
<b>Accumulated Amortization</b>			
Leasehold improvements	\$ 24,097,301	1,720,774	25,818,075
Furnishings and equipment	7,597,547	680,552	8,278,099
Technology assets	7,128,703	68,870	7,197,573
<b>Total</b>	<u>\$ 38,823,551</u>	<u>2,470,196</u>	<u>41,293,747</u>

**Royal Roads University**  
**Notes to the Consolidated Financial Statements**  
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**9. Capital Asset 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:

2019	\$ 459,941
2020	261,378
2021	107,094
2022	31,063

**11. Contingent assets and liabilities**

The University may, from time to time, be involved in legal proceedings, claims and litigation that arise in the normal course of business. It is management's opinion that the aggregate amount of any potential liability is not expected to have a material adverse effect on the University's financial position or results.

**12. Accumulated Operating Surplus**

Accumulated operating surplus consists of the following:

	<b>2018</b>	<b>2017</b>
Internally restricted infrastructure fund	\$ 9,879,973	\$ 9,879,973
Invested in tangible capital assets	2,740,937	4,127,741
Unrestricted	30,621,177	27,606,123
Endowments	5,093,700	5,009,793
	<b>\$ 48,335,787</b>	<b>\$ 46,623,630</b>

The purpose of the infrastructure fund is to finance major capital improvement

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**13. Expense by Object**

The following is a summary of expenses by object:

	<b>2018</b>	<b>2017</b>
Salaries and benefits	\$ 39,019,024	\$ 36,197,910
Professional and contracted services	9,545,199	8,083,851
Instruction and program delivery	1,916,883	1,816,025
IT and telecommunication	1,708,189	1,752,305
Marketing and business development	4,048,951	4,019,905
Awards and scholarships	907,141	933,115
Supplies and services	4,191,750	4,498,326
Grounds, facilities and equipment	992,210	1,274,639
Utilities	609,845	584,526
Amortization	2,470,196	2,186,496
Fundraising	332,424	370,431
	<b>\$ 65,741,812</b>	<b>\$ 61,717,529</b>

**14. Supplemental Cash Flow Information**

Changes in non-cash working capital:

	<b>2018</b>	<b>2017</b>
Accounts receivable	\$ (488,153)	\$ 1,444,865
Inventories	86,819	(77,651)
Prepaid expenses	(282,032)	95,437
Accounts payable and accrued liabilities	535,571	921,171
Deferred revenue	(169,914)	1,099,848
	<b>\$ (317,709)</b>	<b>\$ 3,483,670</b>

**15. Financial Risk Management**

The University has exposure to the following risks from its use of financial instruments: credit risk, price risk, and liquidity risk.

**a) Credit risk**

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

**15. Financial Risk Management (continued)**

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

Liquidity risk is the risk that the University will not be able to meet its financial obligations become due. 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.

**16. 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.