Consolidated Financial Statements of

CAPILANO UNIVERSITY

Year ended March 31, 2012

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation of the annual financial statements, and has prepared the accompanying consolidated financial statements for the year ended March 31, 2012 in accordance with generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which judgment is required.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that assets are safeguarded and that the financial records provide a reliable basis for the preparation of the financial statements.

The Board of Governors of the University carries out its responsibility for review of the consolidated financial statements. The Audit Committee of the Board meets with management and the external auditors to discuss the results of audit examinations and financial reporting matters.

These consolidated financial statements have been reported on by KPMG LLP, the University's external auditors appointed by the Board of Governors. The external auditors have full access to the Board with and without the presence of management.

Dr. Kris Bulcroft, President

Cindy Turner, Vice-President, Finance & Administration

June 12, 2012

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Capilano University, and
To the Minister of Advanced Education, Province of British Columbia

We have audited the accompanying consolidated financial statements of Capilano University, which comprise the consolidated statement of financial position as at March 31, 2012 and the consolidated statements of operations, changes in net assets 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 and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of the 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 an 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 and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 present fairly, in all material respects, the financial position of Capilano University as at March 31, 2012 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

June 12, 2012

Burnaby, Canada

CAPILANO UNIVERSITY

Consolidated Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 8,249,018	$ 22,194,130
Accounts receivable	12,861,942	4,027,208
Inventories (note 3)	587,492	630,367
Prepaid expenses	523,318	1,349,355
	22,221,770	28,201,060
Investments (note 4)	28,583,189	27,239,829
Capital assets (note 6)	92,605,007	75,221,246
Total assets	$ 143,409,966	$ 130,662,135
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 16,625,662	$ 16,703,944
Deferred revenue (note 8)	7,296,218	5,827,201
	23,921,880	22,531,145
Deferred capital contributions (note 9)	65,323,305	56,559,882
Net assets:		
Invested in capital assets (note 6)	27,281,702	20,730,709
Internally restricted	2,065,203	870,182
Endowment	6,316,145	5,982,668
Unrestricted	18,501,731	23,987,549
	54,164,781	51,571,108
Total liabilities and net assets	$ 143,409,966	$ 130,662,135

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

R Brayne

Robin Brayne
Chair, Board of Governors

Geri Prior
Chair, Audit Committee

CAPILANO UNIVERSITY

Consolidated Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Grants from the Province of British Columbia	$ 39,979,564	$ 41,782,160
Tuition fees	30,711,533	29,089,190
Project and other revenue	5,819,868	4,904,255
Amortization of deferred capital contributions	3,723,955	3,236,947
Sales of goods	2,998,113	3,094,179
Parking, childcare and theatre	1,678,722	1,818,815
Donations and gifts in kind (note 10)	1,018,670	692,603
Investment income	1,002,446	797,638
Fair value adjustment of investments (note 5)	248,468	1,078,077
	87,181,339	86,493,864
Expenses:		
Salaries and benefits	59,519,978	58,902,188
Cost of goods sold	2,113,512	2,320,542
Buildings and grounds maintenance	3,836,655	4,964,878
Student support activities	1,311,813	1,500,184
International program expenses	771,300	526,978
Other operating expenses	11,369,458	10,269,284
Amortization of capital assets	5,925,775	5,100,828
	84,848,491	83,584,882
Excess of revenue over expenses	$ 2,332,848	$ 2,908,982

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative figures for 2011

	Invested in capital assets (note 6)	Internally restricted	Endowment	Unrestricted	2012 Total	2011 Total
Net assets, beginning of year	$ 20,730,709	$ 870,182	$ 5,982,668	$ 23,987,549	$ 51,571,108	$ 48,512,657
Excess (deficiency) of revenue over expenses	(2,201,820)	-	72,652	4,462,016	2,332,848	2,908,982
Transfers to internally restricted fund	-	1,195,021	-	(1,195,021)	-	-
Net change in invested in capital assets (note 6)	8,752,813	-	-	(8,752,813)	-	-
Endowment donations	-	-	260,825		260,825	149,469
Net assets, end of year	$ 27,281,702	$ 2,065,203	$ 6,316,145	$ 18,501,731	$ 54,164,781	$ 51,571,108

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash and cash equivalents provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 2,332,848	$ 2,908,982
Items not involving cash:		
Amortization of capital assets	5,925,775	5,100,828
Amortization of deferred capital contributions	(3,723,955)	(3,236,947)
Fair value adjustment of investments	(248,468)	(1,078,077)
Net change in non-cash working capital	(6,575,087)	2,095,371
	(2,288,887)	5,790,157
Financing:		
Capital contributions received	12,487,378	21,626,302
Endowment contributions received	260,825	149,469
	12,748,203	21,775,771
Investments:		
Capital asset acquisitions	(23,309,536)	(21,801,773)
Purchase of investments	(1,094,892)	(1,370,587)
	(24,404,428)	(23,172,360)
Increase (decrease) in cash and cash equivalents	(13,945,112)	4,393,568
Cash and cash equivalents, beginning of year	22,194,130	17,800,562
Cash and cash equivalents, end of year	$ 8,249,018	$ 22,194,130

See accompanying notes to consolidated financial statements.

1. Operations:

Capilano University (the "University") is a post-secondary educational institution funded by the Provincial Government. The University is incorporated under the amended University Act (Bill 34 was enacted on September 1, 2008). The University is a special purpose teaching university and has regional campuses in the Province of British Columbia in North Vancouver, Squamish and the Sunshine Coast.

The University is a registered charity under the Income Tax Act and is exempt from income tax.

These consolidated financial statements incorporate the financial position and results of operations and changes in net assets and cash flows of the University and its controlled foundation, the Capilano University Foundation (the “Foundation”). The purpose of the Foundation is to raise funds for student financial assistance, capital needs, and program development at Capilano University. The Foundation is a registered charity under the Income Tax Act and is exempt from income taxes.

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements of the University have been prepared by management in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition:

Tuition fees are deferred to the extent that they relate to courses, or portions thereof, that will be held in the next fiscal year. Such fees are presented as deferred revenue.

The University follows the deferral method of accounting for contributions, which include donations and certain government grants.

Unrestricted contributions are recorded as revenue in the period they are received.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred or the restrictions are met.

Externally restricted capital contributions are recorded as deferred revenue in the Capital Fund until the amount is invested in capital assets. Contributions for capital assets that will be amortized are transferred to deferred capital contributions in the period the asset is acquired. Contributions for capital assets that will not be amortized, such as land, are not transferred to deferred capital contributions or recognized as revenue, but are recorded as direct increases in net assets in the period the asset is acquired. Donations of depreciable assets that would otherwise be purchased are accounted for as deferred capital contributions at fair value when a fair value can be reasonably estimated.

Deferred capital contributions are recognized as revenue on the same basis as the related capital assets are amortized to indicate how the amortization expense has been funded. Unamortized deferred capital contributions relating to capital assets disposed of are recognized as revenue in the period of disposal provided all restrictions have been complied with.

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Government grants are accounted for as unrestricted contributions or externally restricted contributions in accordance with the terms of funding.

Project revenue and expenses are recognized as the related activities are performed. The zero profit margin method is used when a contract's financial outcome is not reasonably determinable. This method of accounting requires that equal amounts of revenue and expense be recognized until the financial outcome of a contract can be reasonably estimated. Provision for anticipated losses is made in the period in which they become evident.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash and short-term instruments with a maturity date of less than ninety days from acquisition.

(d) Inventories:

Inventories, consisting of books and materials held in the bookstore for sale, are recorded at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. When conditions indicate that losses previously recognized have been recovered, the loss is reversed to the extent of the amount recovered to a maximum of the original write-down. Acquisition of supplies used in operations is charged as an expense at the time of purchase.

(e) Pension plans:

The University is a member of multi-employer pension plans and applies defined contribution plan accounting and, accordingly, contributions are expensed.

(f) Investments:

Investments are classified as held for trading (note 2(j)) and are recorded at fair value.

(g) Capital assets:

Capital asset acquisitions are recorded at cost, except donated assets which are recorded at fair market value at the date of acquisition.

Capital assets are stated at cost less accumulated amortization. Amortization begins at the estimated date of acquisition or completion and is provided on a straight-line basis over the estimated useful lives as follows:

Buildings, concrete/steel	40 years
Buildings, wood frame	20 years
Computer equipment	4 years
Furniture, fixtures and equipment	5 years
Library books	10 years
Public works	10 years
Software	3 years
Vehicles	4 years

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Specific areas of estimate include the rate of amortization of capital assets and the related deferred capital contributions, the timing of recording contract revenue and the valuation of accounts receivable. Actual results could differ from those estimates.

(i) Asset retirement obligations:

The University recognizes asset retirement obligations in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset, including leased premises, resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

(j) Financial instruments:

Disclosure and presentation:

The University has chosen to continue to apply the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, rather than adopting CICA Handbook Section 3862, *Financial Instruments – Disclosures,* and CICA Handbook Section 3863, *Financial Instruments – Presentation,* as permitted in these sections.

Held for trading:

The University has designated its cash and investments as held for trading. These instruments are initially recognized at their fair value, with the carrying value subsequently adjusted for changes in fair value, as determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in the consolidated statement of operations. Unrealized gains and losses arising from changes in fair value are recognized in the consolidated statement of operations.

Loans and receivables:

The University has classified accounts receivable as loans and receivables. This asset is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in the consolidated statement of operations upon derecognition or impairment.

2. Significant accounting policies (continued):

(j) Financial instruments (continued):

Other financial liabilities:

The University has classified accounts payable and accrued liabilities as other financial liabilities. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in consolidated statement of operations upon derecognition or impairment.

(k) Future changes in accounting framework:

Effective April 1, 2012, the University will transition to a new accounting framework which will include Public Sector Accounting Standards ("PSAB") supplemented by directives from the Government of British Columbia's Treasury Board.

The transition to the new accounting framework will be applied on a retrospective basis. The University is reviewing the impact of these changes on the financial statements.

3. Inventories:

Inventories consist of books and materials for sale.

During the year ended March 31, 2012, the University recognized $2,113,512 (2011 - $2,320,542) of expenses related to inventories as cost of goods sold in the consolidated statement of operations. During the year, there was no writedown of inventories to net realizable value or reversal of inventories previously written down.

4. Investments:

Investments as at March 31 are comprised as follows:

	2012	2011
Equities	$ 11,108,648	$ 9,976,352
Bonds	10,520,077	10,701,117
Pooled funds	6,954,464	6,562,360
	$ 28,583,189	$ 27,239,829

The University's investment portfolio was established in February 2008 and the Foundation's investment portfolio was established in June 2009. Both are managed by Genus Capital Management.

5. Fair value adjustment of investments:

The fair value adjustment of investments is comprised of an unrealized gain of $248,468 (2011 - $1,078,077) resulting from the measurement at fair value of held for trading financial instruments as at March 31, 2012.

6. Capital assets and net assets invested in capital assets:

Summary of cost and net book value:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 10,000,370	$ -	$ 10,000,370	$ 10,000,370
Buildings	114,655,850	42,324,120	72,331,730	38,121,481
Computer equipment	10,596,107	6,180,721	4,415,386	3,090,288
Construction in progress	-	-	-	19,608,905
Library books	1,278,585	1,096,521	182,064	280,494
Media equipment	253,641	247,338	6,303	19,783
Other furniture and equipment	8,582,877	4,342,049	4,240,828	2,606,778
Public works	4,148,537	3,339,777	808,760	1,145,585
Software	1,765,514	1,194,339	571,175	347,562
Vehicles	76,495	28,104	48,391	-
	$ 151,357,976	$ 58,752,969	$ 92,605,007	$ 75,221,246

Net assets invested in capital assets is calculated as follows:

	2012	2011
Capital assets, net of accumulated amortization	$ 92,605,007	$ 75,221,246
Amounts funded by deferred capital contributions (note 9)	(65,323,305)	(54,490,537)
	$ 27,281,702	$ 20,730,709

Changes in net assets invested in capital assets is calculated as follows:

	2012	2011
Excess of revenue over expenses:		
Amortization of deferred capital contributions	$ 3,723,955	$ 3,236,947
Amortization of capital assets	(5,925,775)	(5,100,828)
	(2,201,820)	(1,863,881)
Net change in invested in capital assets:		
Capital asset additions	23,309,536	21,801,773
Additions funded by deferred capital contributions	(14,556,723)	(20,707,946)
	8,752,813	1,093,827
	$ 6,550,993	$ (770,054)

7. Accrued vacation:

As at March 31, 2012, accrued vacation and related benefits payable is approximately $3,819,000 (2011 - $3,671,000) and is included in accounts payable.

8. Deferred revenue:

Deferred revenue consists of deferred tuition fees, deferred contract revenue, deferred restricted donations and deferred restricted investment income. The following will be recognized as revenue in future periods:

	2012	2011
Tuition fees	$ 4,068,593	$ 3,768,068
Contract revenue	1,749,798	835,371
Restricted donations and restricted investment income	1,477,827	1,223,762
	$ 7,296,218	$ 5,827,201

Deferred contributions are generally spent within the year subsequent to receipt.

9. Deferred capital contributions:

Deferred capital contributions represent unamortized external funding that was restricted for the purchase of capital assets. Unamortized amounts, which will be recognized as revenue in future periods, are as follows:

	2012	2011
Balance, beginning of year	$ 56,559,882	$ 38,170,527
Capital contributions received during the year	12,487,378	21,626,302
Amounts amortized to revenue	(3,723,955)	(3,236,947)
Balance, end of year	$ 65,323,305	$ 56,559,882

Deferred capital contributions are comprised of the following:

	2012	2011
Contributions used to purchase capital assets	$ 65,323,305	$ 54,490,537
Unspent contributions	-	2,069,345
	$ 65,323,305	$ 56,559,882

10. Gifts in kind:

Gifts in kind represent physical assets and services donated to the Foundation to support University programs. Gifts in kind are recorded at the estimated fair market value at the date of receipt.

11. Capital management:

The University receives its principal source of capital through funding received from the Ministry of Advanced Education and Labour Market Development and from tuition collected from students. The University defines capital to be net assets and deferred capital contributions.

The University's objective when managing capital is to fund its operations and capital asset additions, and to meet its growth strategies. The University manages the capital structure in conjunction with the Ministry of Advanced Education and Labour Market Development and makes adjustments based on available government funding and economic conditions. Currently, the University's strategy is to monitor expenditures to preserve capital in accordance with budgeted funding granted by the Ministry of Advanced Education and Labour Market Development.

The University is not subject to debt covenants or any other capital requirements except for endowment funds which are required to be maintained in perpetuity. Funding received for designated purposes must be used for the purposes outlined in their respective contracts. The University has complied with the external restrictions on the funding provided.

12. Pension plans:

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trusteed 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 administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The College Pension Plan has about 13,000 active members from senior administration and instructional staff and approximately 5,000 retired members. The Municipal Pension Plan has about 173,000 active members, with approximately 5,600 from colleges.

The most recent valuation for the College Pension Plan as at August 31, 2009 indicated a $28 million deficit for basic pension benefits. The next valuation will be as at August 31, 2012 with results available in 2013. The most recent valuation for the Municipal Pension Plan as at December 31, 2009 indicated a $1,024 million deficit for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. Defined contribution plan accounting is applied to the plan as the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

Payments made to the plans and expensed by the University for the year totaled $4,077,548 (2011 - $3,918,647).