



Royal Roads
UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2014

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Statement of Management Responsibility

The University is responsible for the preparation of the financial statements as at March 31, 2014 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, 2014 have been reported on by KPMG LLP, Chartered Accountants. The auditors' report outlines the scope of their examination and provides their opinion on the financial statements.

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Allan Cahoon
President & Vice Chancellor

A handwritten signature in blue ink, appearing to read "D. Tulip", written over a horizontal line.

Dan Tulip
Vice President & Chief Financial Officer

May 14, 2014



KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

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, 2014, the consolidated statements of operations, changes in net debt, cash flows 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, 2014, 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.

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Chartered Accountants

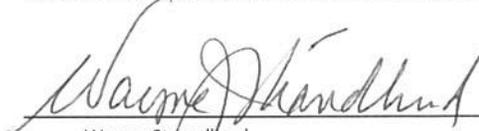
May 15, 2014
Victoria, Canada

Royal Roads University
Consolidated Statement of Financial Position
As at March 31, 2014 with comparative information for 2013

	March 31, 2014	March 31, 2013
Financial assets		
Cash	\$ 11,811,700	\$ 8,932,794
Investments - portfolio (note 3)	35,439,931	34,198,212
Accounts receivable	2,044,410	3,173,762
Inventories	415,443	384,120
	<u>49,711,484</u>	<u>46,688,888</u>
Liabilities		
Accounts payable and accrued liabilities	6,327,260	5,564,316
Employee future benefits (note 4)	587,355	562,890
Deferred revenue (note 5)	13,499,255	13,808,811
Deferred contributions (note 6)	1,673,644	2,255,596
Deferred capital contributions (note 7)	29,565,175	29,317,714
	<u>51,652,689</u>	<u>51,509,327</u>
Net debt	\$ (1,941,205)	\$ (4,820,439)
Non-financial assets		
Tangible capital assets (note 8)	34,655,348	34,731,123
Investments - endowments (note 3)	4,463,047	4,370,131
Prepaid expenses	427,732	560,178
	<u>39,546,127</u>	<u>39,661,432</u>
Accumulated surplus	\$ 37,604,922	\$ 34,840,993
Accumulated surplus is comprised of:		
Operating (note 11)	36,278,021	33,525,505
Remeasurement gains and losses	1,326,901	1,315,488
	<u>\$ 37,604,922</u>	<u>\$ 34,840,993</u>

Commitments (notes 9, 10)

See accompanying notes to consolidated financial statements



 Wayne Strandlund
 Chancellor and Board Chair



 Allan Cahoon, PhD
 President and Vice Chancellor

Royal Roads University
Consolidated Statement of Operations
Year ended March 31, 2014 with comparative information for 2013

	Annual Budget	March 31, 2014	March 31, 2013
Revenue			
Tuition and other student fees	\$ 35,415,628	\$ 31,773,702	\$ 32,462,988
Provincial grants	17,808,598	17,820,923	17,550,302
Research grants	1,588,423	1,913,393	1,491,396
Deferred capital contributions	1,411,963	1,442,821	1,366,627
Ancillary revenue	2,766,135	2,942,035	2,834,539
Investment income	1,108,247	1,272,257	1,225,786
Donations and other revenue	702,724	901,062	1,439,028
	60,801,718	58,066,193	58,370,665
Expenses (note 12)			
Instructional and program delivery	22,188,099	19,545,751	19,786,118
Academic and student support	15,706,399	15,431,211	15,136,586
Campus services	1,658,211	1,607,118	1,566,808
Facilities operation and maintenance	8,296,970	8,392,656	8,074,245
Corporate and operating support	6,976,794	7,586,284	7,108,141
Research	2,236,089	2,487,454	2,126,755
Fundraising	552,513	356,119	438,999
Grants to other organizations	-	-	741,662
	57,615,075	55,406,593	54,979,314
Annual operating surplus before endowed contributions	3,186,643	2,659,600	3,391,352
Net endowed contributions	100,000	92,916	86,587
Annual Surplus	3,286,643	2,752,516	3,477,939
Accumulated surplus, beginning of year	33,525,505	33,525,505	30,047,566
Accumulated operating surplus, end of year	\$ 36,812,148	\$ 36,278,021	\$ 33,525,505

Royal Roads University
Consolidated Statement of Changes in Net Debt
Year ended March 31, 2014 with comparative information for 2013

	Annual Budget	March 31, 2014	March 31, 2013
Annual surplus	\$ 3,286,643	\$ 2,752,515	\$ 3,477,939
Acquisition of tangible capital assets	(2,620,000)	(2,041,513)	(3,223,507)
Amortization of tangible capital assets	2,155,835	2,117,288	2,310,697
	(464,165)	75,775	(912,810)
Endowment contributions received	-	(92,916)	(86,587)
Changes in prepaid expense	-	132,446	109,478
	-	39,530	22,891
Net remeasurement gains	-	11,413	406,999
Decrease in net debt	2,822,478	2,879,233	2,995,019
Net debt, beginning of year	(4,820,438)	(4,820,438)	(7,815,457)
Net debt, end of year	\$ (1,997,960)	\$ (1,941,205)	\$ (4,820,438)

Royal Roads University
Consolidated Statement of Cash Flow
Year ended March 31, 2014 with comparative information for 2013

	March 31, 2014	March 31, 2013
Cash provided by (used in):		
Operating activities		
Annual surplus	\$ 2,752,515	\$ 3,477,939
Items not affecting cash:		
Revenue recognized from deferred capital contributions	(1,442,821)	(1,366,627)
Amortization of tangible capital assets	2,117,288	2,310,697
Change in employee future benefits	24,465	(5,022)
Decrease in deferred contributions related to operations	(758,501)	(455,247)
Changes in non-cash working capital (note 13)	1,683,864	(1,478,971)
Net change in cash from operating activities	<u>4,376,810</u>	<u>2,482,769</u>
Capital activities		
Tangible capital asset acquisitions	(2,041,513)	(3,223,507)
Decrease in deferred contributions related to capital projects	-	(332,703)
Net change in cash from capital activities	<u>(2,041,513)</u>	<u>(3,556,210)</u>
Investing activities		
Net increase in portfolio investments	(1,230,306)	(2,453,001)
Increase in endowment investments	(92,916)	(86,587)
Net change in cash from investing activities	<u>(1,323,222)</u>	<u>(2,539,588)</u>
Financing activities		
Federal and Provincial capital contributions received	1,639,963	3,013,929
Contributions received from other sources	226,868	182,819
Net change in cash from financing activities	<u>1,866,831</u>	<u>3,196,748</u>
Increase (decrease) in cash	2,878,906	(416,281)
Cash and cash equivalents, beginning of year	8,932,794	9,349,075
Cash and cash equivalents, end of year	<u>\$ 11,811,700</u>	<u>\$ 8,932,794</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Remeasurement Gains and Losses
Year ended March 31, 2014 with comparative information for 2013

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Accumulated remeasurement gains, beginning of year	\$ 1,315,488	\$ -
Adjustment on adoption of the financial instrument standard	-	908,489
Unrealized gains attributed to investments	11,413	406,999
Accumulated remeasurement gains, end of year	\$ 1,326,901	\$ 1,315,488

See accompanying notes to consolidated financial statements

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

1. Authority and purpose

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

2. Summary of significant accounting policies

a) Basis of accounting

Budget Transparency and Accountability Act

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

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

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

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

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

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

c) Financial instruments

(i) Cash and cash equivalents

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

(ii) Investments

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

Equity instruments quoted in an active market are measured at fair value. The University has elected to measure other specific financial instruments at fair value, to correspond with how they are evaluated and managed. These financial instruments are identified in this note by financial asset and financial liability classification, and are not reclassified for the duration of the period they are held. All other financial assets and financial liabilities are measured at cost or amortized cost.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the Consolidated Statement of Remeasurement Gains and Losses. Upon settlement, the cumulative gain or loss is reclassified from this statement, and recognized in the Consolidated Statement of Operations. 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.

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

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

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

d) Inventories

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

e) Non-financial assets

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

(i) Tangible capital assets

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

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

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

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

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

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

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 prorated on service.

g) Recognition of revenue

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

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

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

Contributions restricted to be retained in perpetuity, allowing only the income earned thereon to be spent, are recorded as donations and other revenue on the Consolidated

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

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 financial statements.

h) Use of estimates

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

i) Asset retirement obligations

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

j) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2013/14 Operating Plan approved by the Royal Roads University Board of Governors on April 12, 2013. The budget is reflected in the Consolidated Statement of Operations as well as the Consolidated Statement of Changes in Net Debt.

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

3. Investments

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Cash and cash equivalents	\$ 7,074,201	\$ 8,316,668
Equities:		
Canadian	2,587,071	2,178,820
Foreign	509,157	416,887
Bonds - Canadian	29,732,549	27,655,968
	\$ 39,902,978	\$ 38,568,343
Classified as:		
Investments - portfolio	35,439,931	34,198,212
Investments - endowments	4,463,047	4,370,131
	\$ 39,902,978	\$ 38,568,343

a) Long-term bonds

Average maturity terms for bonds is seven years, with yields of 2% to 4%.

4. Employee future benefits

a) Pension benefits

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The Boards of Trustees for these plans represent plan members and employers, and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are based on a formula. The College Pension Plan has approximately 13,000 active members from college senior administration and instructional staff, and approximately 6,000 retired members. The Municipal Pension Plan has approximately 179,000 active members, with an estimated 5,700 members from the post-secondary sector.

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 as at 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

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015, with results available in 2016. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the Plan.

The University made \$2,042,078 in employer contributions to the plans for fiscal 2014 (2013 - \$1,901,031).

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, 2014</u>		<u>March 31, 2013</u>
Accrued employee future benefits, beginning of year	\$ 562,890	\$	567,912
Net change in current service costs	24,465		(5,022)
Accrued employee future benefits, end of year	\$ 587,355	\$	562,890

5. Deferred Revenue

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

	<u>March 31, 2014</u>		<u>March 31, 2013</u>
Deferred tuition	\$ 9,685,443	\$	9,888,126
Deferred donations	1,731,257		1,733,318
Other deferred revenue	2,082,555		2,187,367
	\$ 13,499,255	\$	13,808,811

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

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, 2014</u>	<u>March 31, 2013</u>
Balance, beginning of year	\$ 2,255,596	\$ 2,787,683
Provincial capital grants received during the year	239,963	239,963
Other capital and fundraising grants received during the year	-	17,162
Funds used during the year for minor capital, maintenance and related expenses	(821,915)	(789,212)
Balance, end of year	<u>\$ 1,673,644</u>	<u>\$ 2,255,596</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, 2014</u>	<u>March 31, 2013</u>
Balance, beginning of year	\$ 29,317,714	\$ 27,743,455
Acquisitions funded by provincial and federal capital contributions	1,463,414	2,440,000
Acquisitions funded by other capital contributions	226,868	500,886
Amortization of deferred capital contributions	(1,442,821)	(1,366,627)
Balance, end of year	<u>\$ 29,565,175</u>	<u>\$ 29,317,714</u>

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

8. Tangible Capital Assets

	Leasehold Improvements	Learning and Innovation Centre - Building	Learning and Innovation Centre - Furnishings	Furnishings and equipment	Technology and library assets	Automotive equipment	Assets under construction	Total 2014	Total 2013
Cost:									
Balance, beginning of year	\$ 28,988,545	18,354,233	1,723,360	8,280,903	8,338,545	170,976	-	\$ 65,856,562	\$ 63,223,046
Additions	71,969	-	-	362,301	-	142,038	1,473,779	2,050,087	3,223,508
Disposals	(129,356)	-	-	-	-	-	-	(129,356)	(589,992)
Balance, end of year	28,931,158	18,354,233	1,723,360	8,643,204	8,338,545	313,014	1,473,779	67,777,293	65,856,562
Accumulated amortization:									
Balance, beginning of year	17,767,719	917,712	344,672	4,791,725	7,180,588	123,023	-	31,125,439	29,404,733
Disposals	(120,780)	-	-	-	-	-	-	(120,780)	(406,655)
Amortization	889,576	458,856	172,336	361,006	211,718	23,794	-	2,117,286	2,127,361
Balance, end of year	18,536,515	1,376,568	517,008	5,152,731	7,392,306	146,817	-	33,121,945	31,125,439
Net book value, end of year	\$ 10,394,643	16,977,665	1,206,352	3,490,473	946,239	166,197	1,473,779	\$ 34,655,348	\$ 34,731,123

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:

2015	\$652,339
2016	342,329
2017	197,342
2018	83,317
2019	500

Royal Roads University
Notes to the Consolidated Financial Statements
Year end March 31, 2014

11. Accumulated Operating Surplus

Accumulated operating surplus consists of the following:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Internally restricted infrastructure fund	\$ 9,879,973	\$ 9,879,973
Unrestricted	21,935,001	19,275,401
Endowments	4,463,047	4,370,131
	<u>\$ 36,278,021</u>	<u>\$ 33,525,505</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, 2014</u>	<u>March 31, 2013</u>
Salaries and benefits	\$ 31,813,017	\$ 30,557,175
Professional and contracted services	9,100,682	7,945,769
Instruction and program delivery	1,557,848	2,229,694
IT and telecommunications	1,591,437	1,428,520
Marketing and business development	2,417,615	3,046,068
Awards and scholarships	851,652	743,011
Supplies and services	3,915,211	3,733,134
Grounds, facilities and equipment	960,625	1,147,444
Utilities	725,099	657,141
Amortization	2,117,288	2,310,697
Fundraising	356,119	438,999
Grants to other organizations	-	741,662
	<u>\$ 55,406,593</u>	<u>\$ 54,979,314</u>

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13. Supplemental Cash Flow Information

Changes in non-cash operating capital:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Accounts receivable	\$ 1,129,352	\$ (454,544)
Inventories	(31,323)	(56,402)
Prepaid expenses	132,446	109,478
Accounts payable and accrued liabilities	762,945	(727,674)
Deferred revenue	(309,556)	(349,829)
	<u>\$ 1,683,864</u>	<u>\$ (1,478,971)</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.
