



**ROYAL ROADS
UNIVERSITY**

**Audited Financial Statements
For the Year Ended March 31, 2012**

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INDEPENDENT AUDITORS' REPORT

*To the Board of Governors of Royal Roads University, and
To the Minister of Advanced Education, Province of British Columbia*

We have audited the accompanying financial statements of Royal Roads University, which comprise the statement of financial position as at March 31, 2012, the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Royal Roads 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.

Chartered Accountants

May 17, 2012
Victoria, Canada



STATEMENT OF MANAGEMENT RESPONSIBILITY

The University is responsible for the preparation of the financial statements and has prepared them in accordance with generally accepted accounting principles using the reporting standards recommended by the Canadian Institute of Chartered Accountants. These financial statements present fairly the financial position of the University as at March 31, 2012, and the results of its operations and changes in net assets for the year then ended.

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 may meet 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 financial statements for the year ended March 31, 2012 have been reported on by KPMG LLP, Chartered Accountants. The auditors' report outlines the scope of their examination and provides their opinion on the fairness of presentation of the information in the financial statements.

Allan Cahoon
President & Vice Chancellor

Dan Tulip
Vice President & Chief Financial Officer

May 17, 2012

Royal Roads University
Statement of Financial Position
March 31, 2012, with comparative information for 2011

	2012	2011
Assets		
Current		
<i>Cash and cash equivalents</i>	\$ 8,647,382	\$ 9,335,261
<i>Short term investments</i>	2,623,781	3,265,214
<i>Accounts receivable</i>	2,701,204	2,112,450
<i>Inventories</i>	327,718	299,310
<i>Prepaid expenses</i>	603,374	325,111
	14,903,459	15,337,346
Long term		
<i>Capital assets, (note 4)</i>	33,829,921	34,285,293
<i>Long term investments, (note 5)</i>	26,538,750	21,374,583
<i>Due from related party, (note 13)</i>	116,626	312,419
	\$ 75,388,756	\$ 71,309,641
Liabilities		
Current		
<i>Accounts payable and accrued liabilities</i>	\$ 6,418,730	\$ 8,682,138
<i>Deferred revenue, (note 7)</i>	11,628,526	10,822,317
	18,047,256	19,504,455
Long term		
<i>Deferred contributions, (note 8)</i>	2,787,684	3,880,431
<i>Unamortized deferred capital contributions, (note 9)</i>	27,743,455	25,334,192
	30,531,139	29,214,623
	48,578,395	48,719,078
Net Assets		
<i>Internally restricted, (note 12)</i>	9,879,973	6,379,973
<i>Unrestricted</i>	16,930,388	16,210,590
	26,810,361	22,590,563
Commitments (note 10)	\$ 75,388,756	\$ 71,309,641
	\$ 75,388,756	\$ 71,309,641

See accompanying notes to financial statements.



J. Peter Meekison
Chair, Board of Governors



Allan Cahoon
President

Royal Roads University
Statement of Changes in Net Assets
Year Ended March 31, 2012, with comparative information for 2011

	Internally Restricted Net Assets <i>(note 12)</i>	Unrestricted Net Assets	2012	2011
<i>Balance, beginning of year</i>	\$ 6,379,973	\$ 16,210,590	\$ 22,590,563	\$ 22,241,063
<i>Excess of revenues over expenses</i>	3,500,000	19,906	3,519,906	156,340
<i>Change in fair value of investments classified as available for sale</i>	-	699,892	699,892	193,160
<i>Balance, end of year</i>	<u>\$ 9,879,973</u>	<u>\$ 16,930,388</u>	<u>\$ 26,810,361</u>	<u>\$ 22,590,563</u>

See accompanying notes to financial statements.

Royal Roads University
Statement of Operations
Year Ended March 31, 2012, with comparative information for 2011

	<u>2012</u>	<u>2011</u>
Revenues		
<i>Tuition fees</i>	\$ 28,715,935	\$ 24,488,727
<i>Other learner fees</i>	1,818,614	1,380,008
<i>Provincial grants</i>	17,823,984	17,733,584
<i>Federal grants</i>	1,144,919	1,008,932
<i>Other grants</i>	893,552	738,066
<i>Ancillary revenue</i>	3,026,797	2,985,015
<i>Interest income</i>	867,971	729,245
<i>Amortization of deferred capital contributions</i>	1,308,732	744,362
<i>Other revenue</i>	870,755	811,755
	<u>56,471,259</u>	<u>50,619,694</u>
Expenses		
<i>Salaries & benefits</i>	28,978,540	28,016,980
<i>Contracted services</i>	9,431,603	7,355,179
<i>Instructional & program delivery</i>	1,443,112	1,256,347
<i>Computing & technology</i>	1,169,620	1,140,515
<i>Marketing & business development</i>	3,432,436	2,699,146
<i>Awards & scholarships</i>	722,185	774,816
<i>Supplies & services</i>	2,987,475	2,933,575
<i>Grounds, facilities & equipment</i>	1,095,326	1,118,060
<i>Telephone & utilities</i>	942,131	944,608
<i>Amortization</i>	2,176,084	3,158,384
<i>Capital campaign contributions, (note 13)</i>	572,841	1,065,744
	<u>52,951,353</u>	<u>50,463,354</u>
Excess of revenues over expenses	\$ <u><u>3,519,906</u></u>	\$ <u><u>156,340</u></u>

See accompanying notes to financial statements.

Royal Roads University
Statement of Cash Flows
Year Ended March 31, 2012, with comparative information for 2011

Increase (decrease) in cash and cash equivalents from:

	<u>2012</u>	<u>2011</u>
Operating activities		
<i>Excess of revenues over expenses</i>	\$ 3,519,906	\$ 156,340
<i>Items not affecting cash</i>		
<i>Amortization of deferred capital contributions</i>	(1,308,732)	(744,362)
<i>Amortization of capital assets</i>	2,176,084	3,158,384
<i>Decrease in deferred contributions related to operations</i>	(1,285,729)	(476,788)
<i>Changes in non-cash working capital</i>		
<i>Net (increase) in non-cash current assets</i>	(895,425)	(208,320)
<i>Net (decrease) increase in accounts payable, accrued liabilities and deferred revenue</i>	(1,457,199)	3,654,428
Cash provided by operating activities	<u>748,905</u>	<u>5,539,682</u>
Investing activities		
<i>Net decrease (increase) in short-term investments</i>	641,433	(2,765,453)
<i>Net (increase) in long-term investments</i>	(4,464,275)	(2,081,253)
<i>Net capital asset acquisitions</i>	(1,720,714)	(13,099,028)
Cash used in investing activities	<u>(5,543,556)</u>	<u>(17,945,734)</u>
Financing activities		
<i>Federal and Provincial capital contributions</i>	3,578,750	10,686,648
<i>Contributions received from other sources</i>	332,229	-
<i>Decrease (increase) in due from related party - operating</i>	195,793	(186,965)
<i>Decrease in due from related party - capital campaign</i>	-	358,974
Cash provided from financing activities	<u>4,106,772</u>	<u>10,858,657</u>
Net decrease in cash and cash equivalents	(687,879)	(1,547,395)
Cash and cash equivalents, beginning of year	<u>9,335,261</u>	<u>10,882,656</u>
Cash and cash equivalents, end of year	<u>\$ 8,647,382</u>	<u>\$ 9,335,261</u>

See accompanying notes to financial statements.

Note 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*.

Note 2 – Significant accounting policies

a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the reporting standards recommended by the Canadian Institute of Chartered Accountants (CICA).

b) Recognition of revenue

The University follows the deferral method of accounting for contributions.

Under this method, 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 capital assets are recorded as deferred contributions (see note 8). Once the amount is invested, it is transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as earned revenue over the remaining useful life of the related capital assets (see note 9).

Operating government 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, based on 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.

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.

c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and in the bank, and instruments with maturity dates of three months or less when purchased.

d) Short-term investments

Short-term investments are highly liquid marketable securities that have a term to maturity of three months to one year when purchased.

Note 2 – Significant accounting policies (continued)

e) Inventories

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

f) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a declining balance or straight-line basis over the estimated useful life of the assets as shown in the schedule below. Amortization is not provided on projects that are work in progress until the assets are in use. Works of art are not amortized as they are deemed to have permanent value.

	Declining Balance	Straight-line
Leasehold improvements	3.3% - 20%	
Learning and Innovation Centre		
Building		40 years
Furnishings and equipment		10 years
Furnishings and equipment	10%	
Computer equipment and systems	20% - 33.3%	
Library acquisitions	10%	
Automotive equipment	20%	

g) Asset retirement obligations

Asset retirement obligations are recognized 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 depreciated 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.

h) Use of estimates

In preparing the University's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Items subject to such estimates and assumptions include the carrying amount of capital assets, valuation of receivables and inventories, and the valuation of financial instruments. Actual results could differ from these estimates.

Note 2 – Significant accounting policies (continued)

i) Financial instruments

The financial instruments of the University have been classified as follows:

- i. Cash and cash equivalents and short-term investments, held-for-trading and measured at fair value.
- ii. Accounts receivable, measured at amortized cost.
- iii. Accounts payable and accrued liabilities, measured at amortized cost.
- iv. Long-term investments (consisting primarily of bonds), available-for-sale and measured at fair value.

The fair value of other financial instruments approximates their carrying value.

Changes in fair value will depend on their initial classification. Changes in fair value of held-for-trading financial instruments are recorded in the statement of operations. Changes in fair value of available-for-sale financial instruments are recorded in the statement of changes in net assets, until the financial instrument is disposed of or becomes impaired.

The University has elected to defer applying CICA Sections 3862, *Financial Instruments – Disclosure* and 3863, *Financial Instruments – Presentation*. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The University has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with CICA Section 3861.

Note 3 – Future changes in accounting standards

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 these changes on the financial statements.

Note 4 – Capital assets

	Cost	Accumulated Amortization	2012 Net Book Value	2011
Leasehold improvements	\$ 26,032,734	\$ 16,931,804	\$ 9,100,930	\$ 8,417,817
Learning and Innovation Centre				
Building	18,354,233	458,856	17,895,377	
Furnishings and equipment	1,723,360	172,336	1,551,024	
Work in progress				20,074,927
Furnishings and equipment	7,750,192	4,483,956	3,266,236	3,433,576
Computer equipment and systems	7,480,491	6,345,010	1,135,481	1,436,151
Library acquisitions	858,054	570,789	287,265	319,183
Automotive equipment	554,586	441,982	112,604	140,755
Work in progress	469,396		469,396	451,276
Artwork	11,608		11,608	11,608
	<u>\$ 63,234,654</u>	<u>\$ 29,404,733</u>	<u>\$ 33,829,921</u>	<u>\$ 34,285,293</u>

Note 5 – Long-term investments

Long-term investments include high quality corporate and government bonds and other fixed income instruments. Average maturity dates for long-term investments is seven years, with an average yield of 2% to 4%. Management's opinion is that long-term investments are not exposed to significant interest rate, currency or credit risk. Market price risk is managed through investment portfolio diversification and includes financial instruments from different industries traded across a number of financial markets. All long-term investments are carried at fair value with changes in fair value recorded in the statement of changes in net assets.

Note 6 – Capital assets lease

The University leases the Royal Roads University campus and related assets 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 leases the adjacent lands from the Government of Canada for \$1 per annum. This lease covers approximately 169.34 hectares, and is for a term of 25 years to November 30, 2035, plus options for subsequent 5-year terms. The fair value of the campus and related assets could not be reasonably estimated at the inception of the lease and accordingly have been recorded in capital assets at a nominal value of \$1.

Note 7 – Deferred revenue

	2012	2011
Deferred tuition	\$ 9,564,942	\$ 8,737,681
Other deferred revenue	<u>2,063,584</u>	<u>2,084,636</u>
	<u>\$ 11,628,526</u>	<u>\$ 10,822,317</u>

- Deferred tuition relates to tuition fees for future periods.
 - Other deferred revenue relates to non-credit tuition for executive development, continuous learning programs, other student fees, conference and event deposits, and deferred research grants.
-

Note 8 – Deferred contributions

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

	2012	2011
Balance, beginning of year	\$ 3,880,431	\$ 2,222,077
Provincial capital grants received during the year	192,984	948,262
Transfer to unamortized deferred capital contributions	(755,274)	1,186,880
Funds used during the year for minor capital, maintenance and related expenses	<u>(530,457)</u>	<u>(476,788)</u>
Balance, end of year	<u>\$ 2,787,684</u>	<u>\$ 3,880,431</u>

Note 9 – Unamortized deferred capital contributions

Unamortized deferred capital contributions represent the portion of externally restricted contributions used to acquire capital assets that will be recognized as revenue in future periods over the remaining useful life of the assets.

	2012	2011
Balance, beginning of year	\$ 25,334,192	\$ 17,527,047
Current year's acquisitions funded by provincial and federal capital contributions	2,630,492	9,738,387
Current year's acquisitions funded by other capital contributions	332,229	
Transfer (to) from deferred capital contributions	755,274	(1,186,880)
Amortization of deferred capital contributions	<u>(1,308,732)</u>	<u>(744,362)</u>
	<u>\$ 27,743,455</u>	<u>\$ 25,334,192</u>

Note 10 – Commitments

The University has operating lease commitments for computers and office space. Future minimum lease payments are as follows:

Computers:

2013	\$	598,816
2014		373,284
2015		268,107
2016		80,032
2017		37,839

Office space:

2013	\$	81,527
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Note 11 – Employee 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 defined. The College Pension Plan has about 13,000 active members from college 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.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The most recent valuation for the College Pension Plan as at August 31, 2009 indicated an unfunded liability of \$28 million 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 an unfunded liability of \$1.024 billion for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in fiscal 2013. The actuary does not attribute portions of the unfunded liability to individual employers. The University expensed its contributions of \$1,754,035 (2010/11: \$1,610,347) to the plans in the current year.

The University also contributes to a health care benefit plan covering extended health, dental, life insurance, and long-term disability for regular employees. The plan is administered by the Manufacturers Life Insurance Company (Manulife). Manulife retains the ultimate liability for these health care benefits. The total amount expensed for the year in respect of these benefits amounts to \$1,504,358 (2010/11: \$1,501,031).

Note 12 – Internally restricted net assets

The Board of Governors has internally restricted the following funds:

	2012	2011
Infrastructure fund	\$ 9,879,973	\$ 5,697,973
Program development and market research fund		700,000
	<u>\$ 9,879,973</u>	<u>\$ 6,397,973</u>

a) Infrastructure Fund

The purpose of this Fund is to create a reserve to help finance major capital improvements and is funded by Board-approved appropriations. The Board has adopted a guideline whereby annual costs are not to exceed 95% of revenues, with the intention to transfer surpluses to the infrastructure fund. In 2012, the Board has approved to transfer \$3,500,000 in surpluses and \$700,000 from the program development and market research fund to the infrastructure fund for use in future years.

Note 13 – Related parties

The University exercises control over the Royal Roads Foundation (the “Foundation”) and the American Friends of Royal Roads University (the “AFRRU”) by virtue of appointments to the board and common purpose. The net assets and results of operations of the Foundation and AFRRU have not been included in these financial statements.

The Foundation is a separate society formed to raise funds for furthering the interests of the University and to provide scholarships and bursaries for students of the University. The AFRRU is a Washington State non-profit organization, exclusively formed for charitable purposes to further education through support of Royal Roads University.

During the year the University provided grants of \$572,841 (2010/2011: \$1,065,744) to the Foundation to cover operating costs related to fundraising. In the year the University received \$553,474 (2010/11: \$515,344) from the Foundation in support of student bursaries, heritage capital projects and academic programs.

Contributions received by the Foundation from donors in the year, was \$556,768 (2010/2011: \$1,500,391). There were no contributions received from the AFRRU (2010/11: \$341,445).

Note 13 – Related parties (continued)

Key financial information for the Foundation is as follows:

	2012	2011
Financial Position		
Assets	\$ <u>7,250,714</u>	\$ <u>7,304,151</u>
Liabilities	174,803	370,496
Fund balances	<u>7,075,911</u>	<u>6,933,655</u>
	<u>\$ 7,250,714</u>	<u>\$ 7,304,151</u>
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Revenue and Expenses		
Revenue	\$ 1,483,298	\$ 2,986,400
Expenses	<u>(1,341,042)</u>	<u>(1,542,065)</u>
Excess of revenue over expenses	<u>\$ 142,256</u>	<u>\$ 1,444,335</u>
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Cash Flow		
Cash provided by the following activities:		
Operating	\$ 145,595	\$ 1,425,570
Investing	(329,446)	(461,925)
Financing	<u>(195,793)</u>	<u>(172,009)</u>
	<u>(379,644)</u>	<u>791,636</u>
Cash and cash equivalents, beginning of year	1,081,337	289,701
Cash and cash equivalents, end of year	<u>\$ 701,693</u>	<u>\$ 1,081,337</u>

Note 14 – Capital management

The University considers its capital to be its net assets. The University's objectives when managing its capital are to fund its operations, capital additions, and research activities to ensure ongoing services to its students and funding agencies. Plans are developed and monitored to ensure capital is preserved in accordance with funding terms. The University is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined. The University has complied with the external restrictions on the funding provided.

Note 15 – Comparative figures

Certain March 31, 2011 figures have been reclassified to conform to the current year presentation.
