



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 prescribed for not-for-profit organizations by the Canadian Institute of Chartered Accountants. These financial statements present fairly the financial position of the University as at March 31, 2003, 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, 2003 have been reported on by the Auditor General of the Province of British Columbia, the auditor appointed under the *Royal Roads University Act*. The auditor's report outlines the scope of his examination and provides his opinion on the fairness of presentation of the information in the financial statements.

Richard Skinner, Ph.D.
President

Dan Tulip, FCA
Vice President Finance and Corporate Services

May 21, 2003



Report of the Auditor General of British Columbia

*To the Members of the Board of Governors
of Royal Roads University, and*

*To the Minister of Advanced Education,
Province of British Columbia:*

I have audited the statement of financial position of *Royal Roads University* as at March 31, 2003 and the statements of changes in net assets, revenue and expenses, unrestricted operating surplus and cash flows for the year ended March 31, 2003. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Royal Roads University* as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
May 9, 2003*

Wayne Strelieff, CA
Auditor General

Royal Roads University
Statement of Financial Position
As at March 31, 2003

| | <u>2003</u> | <u>2002</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current | | |
| <i>Cash & short-term investments, note 3</i> | \$ 12,677,370 | \$ 9,163,311 |
| <i>Accounts receivable, note 4</i> | 3,681,744 | 4,121,742 |
| <i>Inventory</i> | 352,467 | 298,556 |
| <i>Prepays</i> | 66,023 | 87,115 |
| | <u>16,777,604</u> | <u>13,670,724</u> |
| <i>Capital assets, note 5</i> | 19,439,039 | 13,710,277 |
| | <u>\$ 36,216,642</u> | <u>\$ 27,381,001</u> |
| Liabilities | | |
| Current | | |
| <i>Accounts payable & accruals</i> | \$ 3,628,727 | \$ 3,800,342 |
| <i>Deferred revenue, note 7</i> | 6,685,462 | 3,843,998 |
| | <u>10,314,189</u> | <u>7,644,340</u> |
| <i>Deferred contributions, note 8</i> | 572,317 | 785,695 |
| <i>Unamortized deferred capital contributions, note 9</i> | 11,915,099 | 6,512,559 |
| | <u>12,487,416</u> | <u>7,298,254</u> |
| | <u>22,801,605</u> | <u>14,942,594</u> |
| Net Assets | | |
| <i>Investment in capital assets</i> | 7,523,940 | 7,197,718 |
| <i>Infrastructure Fund</i> | 5,682,453 | 4,186,769 |
| <i>Program Development & Research Fund</i> | 350,000 | 350,000 |
| <i>Marketing & Market Research Fund</i> | 350,000 | 350,000 |
| <i>Unrestricted operating surplus (deficit)</i> | (491,356) | 353,920 |
| | <u>13,415,037</u> | <u>12,438,407</u> |
| | <u>\$ 36,216,642</u> | <u>\$ 27,381,001</u> |

Hugh Gordon
Chair, Board of Governors

Richard Skinner
President

Royal Roads University
Statement of Changes in Net Assets
for the year ending March 31, 2003

| | Investment in Capital Assets | Infrastructure Fund note 11 | Program Development & Research Fund | Marketing & Market Research Fund | Unrestricted Operating Surplus (Deficit) | Total 2003 | Total 2002 |
|--|---|--|--|---|---|----------------------|----------------------|
| Balance, beginning of year, note 14 | \$ 7,197,718 | \$ 4,186,769 | \$ 350,000 | \$ 350,000 | \$ 353,920 | \$ 12,438,407 | \$ 7,998,859 |
| Excess of revenues over expenses | - | - | - | - | 976,630 | 976,630 | 4,439,548 |
| Appropriation, note 11 | - | 1,800,000 | - | - | (1,800,000) | - | - |
| Capital Transactions | <u>326,222</u> | <u>(304,316)</u> | <u>-</u> | <u>-</u> | <u>(21,906)</u> | <u>-</u> | <u>-</u> |
| Balance, end of year | <u>\$ 7,523,940</u> | <u>\$ 5,682,453</u> | <u>\$ 350,000</u> | <u>\$ 350,000</u> | <u>\$ (491,356)</u> | <u>\$ 13,415,037</u> | <u>\$ 12,438,407</u> |

Royal Roads University
Statement of Revenues and Expenses
For the year ending March 31, 2003

| | 2003 | 2002 note 14 |
|--|-------------------|------------------------|
| Revenues | | |
| <i>Tuition fees</i> | \$ 14,363,762 | \$ 11,664,240 |
| <i>Executive development fees</i> | 1,563,470 | 2,033,224 |
| <i>Ancillary revenue</i> | 3,355,482 | 3,188,980 |
| <i>Grants - Provincial</i> | 11,618,614 | 9,436,082 |
| <i>Grants - Federal, note 12</i> | 3,718,164 | 7,313,220 |
| <i>Grants - Research</i> | 660,273 | 419,640 |
| <i>Amortization of deferred capital contribution, note 9</i> | 610,508 | 539,533 |
| <i>Other revenue</i> | 322,875 | 295,010 |
| | 36,213,148 | 34,889,929 |
| Expenses | | |
| <i>Compensation & benefits</i> | 15,112,496 | 11,717,221 |
| <i>Personal services contracts - academic</i> | 5,541,528 | 5,467,004 |
| <i>Personal services contracts - non academic</i> | 1,854,404 | 1,645,724 |
| <i>Instructional & program delivery</i> | 2,031,095 | 1,847,851 |
| <i>Computing & technology</i> | 871,365 | 896,591 |
| <i>Marketing & travel</i> | 2,277,126 | 2,001,001 |
| <i>Awards & scholarships</i> | 216,546 | 139,307 |
| <i>Cost of goods sold</i> | 1,141,169 | 1,151,513 |
| <i>Supplies & services</i> | 1,063,181 | 1,010,771 |
| <i>Grounds, facilities & equipment</i> | 1,334,681 | 1,186,349 |
| <i>Telephone & utilities</i> | 686,272 | 678,578 |
| <i>Security</i> | 483,397 | 461,720 |
| <i>Amortization</i> | 1,918,977 | 1,728,872 |
| <i>Provision for bad debts</i> | 431,991 | 326,786 |
| <i>Legal, audit & banking</i> | 272,290 | 191,093 |
| | 35,236,518 | 30,450,381 |
| Excess of revenues over expenses | \$ 976,630 | \$ 4,439,548 |

Statement of Unrestricted Operating Surplus (Deficit)
for the year ending March 31, 2003

| | | |
|--|---------------------|-------------------|
| Balance, beginning of year | \$ 353,920 | \$ 611,828 |
| Excess of revenues over expenses | 976,630 | 4,439,548 |
| Portion of planning expense funded from Infrastructure Fund, note 11 | - | (50,000) |
| Net increase in investment in capital assets funded from operations | | |
| Net Increase in investment in capital assets | 326,222 | 1,299,447 |
| Portion funded from Infrastructure Fund, note 11 | (304,316) | (151,991) |
| | <u>21,906</u> | <u>1,147,456</u> |
| Appropriations | | |
| Infrastructure Fund, note 14 | <u>1,800,000</u> | <u>3,600,000</u> |
| Net change during the year | <u>(845,276)</u> | <u>(257,908)</u> |
| Balance, end of year | \$ (491,356) | \$ 353,920 |

Royal Roads University
Statement of Cash Flows
for the year ending March 31, 2003

| | 2003 | 2002 |
|---|----------------------|---------------------|
| Cash flows from operating activities | | note 14 |
| Cash received from: | | |
| <i>Federal government for operations</i> | \$ 3,754,621 | \$ 6,923,255 |
| <i>Provincial government for operations</i> | 11,618,614 | 9,436,082 |
| <i>Tuition & executive development fees</i> | 19,067,740 | 13,256,127 |
| <i>Sales of services and products</i> | 3,462,797 | 3,489,938 |
| <i>Research Grants</i> | 660,273 | 419,640 |
| <i>Royal Roads University Foundation</i> | 31,600 | - |
| Cash used for: | | |
| <i>Wages & benefits</i> | (14,487,128) | (11,457,612) |
| <i>Professional services contracts</i> | (7,395,932) | (7,112,728) |
| <i>Materials, supplies & other services</i> | (10,790,930) | (9,574,560) |
| <i>Awards & scholarships</i> | (217,172) | (210,518) |
| Net cash generated through operating activities | <u>5,704,483</u> | <u>5,169,624</u> |
| Cash flows from financing and investing activities | | |
| Cash received from: | | |
| <i>Provincial Government - capital contributions</i> | 5,343,731 | 2,343,295 |
| <i>Canadian Foundation for Innovation</i> | 113,583 | - |
| <i>Proceeds from disposal</i> | 6,762 | - |
| Cash used for: | | |
| <i>Purchase of capital assets not funded by capital contributions</i> | (1,522,496) | (2,488,786) |
| <i>Purchase of capital assets funded by capital contributions</i> | (6,132,004) | (1,810,406) |
| | <u>(2,190,424)</u> | <u>(1,955,897)</u> |
| Increase in cash and short term investments | 3,514,059 | 3,213,727 |
| Cash and short term investments, beginning of year | 9,163,311 | 5,949,584 |
| Cash and short-term investments, end of year | <u>\$ 12,677,370</u> | <u>\$ 9,163,311</u> |

Royal Roads University
Notes to the Financial Statements
For the year ending March 31, 2003

Note 1 – Authority and Purpose

Royal Roads 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.

Under Section 149(1)(f) of the Income Tax Act, the University is exempt from income taxes.

Note 2 – Significant Accounting Policies

a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for non-profit organizations.

b) Recognition of Revenue

Tuition and other student revenues are recognized on a pro rata basis based on the percentage of the course time completed by the year-end. Amounts earned under a partnership agreement for the offshore MBA program are recognized as cash is received.

Operating grants are recognized when receivable. Revenues received for the provision of goods and services by the University are recognized in the period in which the goods are provided or the services are rendered.

The University follows the deferral method of accounting for contributions.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts must be used for the purposes designated by the external parties. Endowment contributions are recorded as increases in net assets.

Grants externally restricted for the acquisition of leasehold improvements are recorded as deferred contributions until the amount is invested in leasehold improvements (see note 8). Once the amount is invested in leasehold improvements, it is transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as earned revenue over the remaining useful life of the leasehold improvements. The deferral of these contributions is included in unamortized deferred capital contributions (see note 9).

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) Inventory

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

d) Investments

Investments are recorded at cost plus interest earned or income attributed in the period.

e) Capital Assets

Capital assets are recorded at cost less accumulated amortization.

Amortization is provided on a declining basis over the estimated useful life of the assets, as follows:

| | |
|---------------------------|-------------|
| Automotive Equipment | 20% |
| Computer Equipment | 33.3% |
| Furnishings and Equipment | 10% |
| Library Acquisitions | 10% |
| Leasehold Improvements | 3.33% - 10% |

Software and computer license agreements are expensed in the year of acquisition. Leasehold improvements related to the temporary kitchen, cafeteria, and computer labs that were acquired in 2001/02 are being amortized over three years as follows: 2001/02 – 25%; 2002/03 – 50%; 2003/04 – 25%. Work in Progress related to the Grant Building renovation and Living Learning Centre planning have been capitalized; however, the costs associated with each project will not be amortized until the project is completed (see note 5).

f) Employee Benefit Plans

The University and its employees contribute to the College Pension Plan and the Municipal Pension Plan in accordance with the *BC Public Sector Pension Plans Act* (see note 10). The British Columbia Pension Corporation administers the Plans, including the payment of pension benefits on behalf of employers and employees to whom the Act applies. The Plans are multi-employer defined benefit plans. Under joint trusteeship, which became effective April 1, 2000 for the College Pension Plan and April 5, 2001 for the Municipal Pension Plan, the risks and rewards associated with the Plans' unfunded liability or surplus are shared between the employers and the Plans' members and may be reflected in their future contributions. Based on the most recent actuarial valuations, the College Pension Plan and the Municipal Pension Plan are both in a surplus position. Portions of the surplus are not attributed to individual employers.

The University contributes to a health care benefit plan covering extended health, dental, life insurance, and long-term disability for regular employees (see note 10). The plan is administered by the Manufacturers Life Insurance Company (Manulife). Manulife retains the ultimate liability for these health care benefits.

The cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

g) Financial Instruments

The university's financial instruments consist of cash and short-term investments, accounts receivable and accounts payable and accruals. Unless otherwise noted, it is management's opinion that the university is not exposed to significant interest or foreign currency risks arising from these financial instruments. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

Royal Roads University
Notes to the Financial Statements
For the year ending March 31, 2003

Note 3 – Cash and Short Term Investments

| | 2003 | 2002 |
|---|----------------------|---------------------|
| Cash | \$ 9,806,202 | \$ 6,364,586 |
| Government of British Columbia - money market fund (market: 2003: \$2,871,617, 2002: \$2,799,439) | <u>2,871,168</u> | <u>2,798,725</u> |
| | <u>\$ 12,677,370</u> | <u>\$ 9,163,311</u> |

Note 4 – Accounts Receivable

| | 2003 | 2002 |
|---------------------------------|---------------------|---------------------|
| Trade accounts receivable | \$ 3,232,950 | \$ 3,942,426 |
| GST receivable | 321,947 | 185,011 |
| Government of Canada | 251,745 | 276,745 |
| Government of British Columbia | <u>479,361</u> | <u>194,000</u> |
| | 4,286,003 | 4,598,182 |
| Allowance for doubtful accounts | <u>(604,259)</u> | <u>(476,440)</u> |
| | <u>\$ 3,681,744</u> | <u>\$ 4,121,742</u> |

Note 5 – Capital Assets and Invested in Capital Assets

| | Cost | Accumulated Amortization | Net Book Value | |
|--|------------------|--------------------------|---------------------|---------------------|
| | | | 2003 | 2002 |
| Automotive Equipment | \$ 283,647 | \$ 139,696 | \$ 143,951 | \$ 141,691 |
| Computer Equipment | 4,200,438 | 2,789,415 | 1,411,023 | 1,314,067 |
| Furnishings and Equipment | 3,676,902 | 1,188,678 | 2,488,224 | 2,343,546 |
| Library Acquisitions | 574,592 | 151,867 | 422,725 | 346,346 |
| Leasehold Improvements | 16,649,386 | 7,330,608 | 9,318,778 | 9,564,627 |
| Work in Progress | <u>5,654,338</u> | <u>-</u> | <u>5,654,338</u> | <u>-</u> |
| | \$ 31,039,303 | \$ 11,600,264 | 19,439,039 | 13,710,277 |
| Unamortized deferred capital contributions | | | <u>(11,915,099)</u> | <u>(6,512,559)</u> |
| Invested in capital assets | | | <u>\$ 7,523,940</u> | <u>\$ 7,197,718</u> |

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. The lease term agreement is for 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 entered into a lease for the Adjacent Lands from the Government of Canada for \$1 per annum. This lease term agreement is for 5 years, commencing December 1, 2000 and terminating November 30, 2005, with subsequent renewal options of 5 years each. The fair value of the campus and related assets cannot be reasonably estimated at this time.

Royal Roads University
Notes to the Financial Statements
For the year ending March 31, 2003

Note 7 – Deferred Revenue

| | 2003 | 2002 |
|--------------------------|---------------------|---------------------|
| Deferred tuition | \$ 3,800,298 | \$ 2,611,301 |
| Deferred revenue - other | 461,614 | 423,881 |
| Prepaid tuition | <u>2,423,550</u> | <u>808,816</u> |
| | <u>\$ 6,685,462</u> | <u>\$ 3,843,998</u> |

Deferred tuition relates to the pro rata share of total tuition for programs starting in fiscal 2002/03 that will be completed in 2003/04.

Deferred revenue – other relates to non-credit tuition for Executive Development and continuous learning programs, other student fees and deferred research grants.

Prepaid tuition relates to application fees and tuition received for programs commencing in fiscal 2003/04.

Note 8 – Deferred Contributions

Deferred contributions represent restricted contributions that will be used in future to acquire capital assets. Changes in deferred contributions are as follows:

| | 2003 | 2002 |
|--|-------------------|-------------------|
| Balance, beginning of year | \$ 785,695 | \$ 252,807 |
| Current year's provincial capital grants to be spent in subsequent years | 572,317 | 785,695 |
| Prior year's provincial capital grants spent in the current year | <u>(785,695)</u> | <u>(252,807)</u> |
| Balance, end of year | <u>\$ 572,317</u> | <u>\$ 785,695</u> |

Note 9 – Unamortized Deferred Capital Contributions

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

| | 2003 | 2002 |
|--|----------------------|---------------------|
| Balance, beginning of year | \$ 6,512,559 | \$ 5,241,685 |
| Current year's acquisitions funded by provincial capital contributions | 5,899,465 | 1,810,407 |
| Current year's acquisitions funded by federal capital contributions | 113,583 | - |
| Amortization of deferred capital contributions | <u>(610,508)</u> | <u>(539,533)</u> |
| Balance, end of year | <u>\$ 11,915,099</u> | <u>\$ 6,512,559</u> |

Royal Roads University
Notes to the Financial Statements
For the year ending March 31, 2003

Note 10 – Employee Benefits

During 2002/03, the University contributed \$494,179 (2001/02: \$379,877) to the College Pension Plan and the Municipal Pension Plan and \$577,443 (2001/02: \$418,615) to the extended health care benefit plan (see also note 2 f).

Note 11 – Infrastructure Fund

The purpose of this Fund is to create a reserve to help finance major capital improvements in the near future. During the year, the Board of Governors approved the appropriation of \$1,800,000 from current year's operations to the Infrastructure Fund (2001/02; \$3.6 million). This contribution is from funding provided by the Federal Government via an agreement with Western Economic Diversification Canada. During the year, the Board of Governors also approved using the Infrastructure Fund to cover all planning costs related to the Living Learning Centre, which totals \$304,316. These costs have been capitalized as Work in Progress (see note 2 e and note 5). In 2001/02, the Board of Governors approved a draw down of \$201,991 from this Fund for the renovation of Residence 14 (Lagoon House), a campus planning charette, and the installation of an irrigation system using ground water instead of Municipal water.

Note 12 – Grants – Federal

In January 2001 the Federal Government announced a \$10.8 million contribution to the University to be funded via a three-year agreement with Western Economic Diversification Canada. During the year, the University received the final installment of \$3.6 million. In fiscal 2001/02, the university received the first two installments of \$3.6 million each related to fiscal years 2000/01 and 2001/02.

In response to this funding announcement, the Province reduced its 2002/03 operating grant to the University by \$1.8 million (2001/02: \$3.6 million).

Note 13 – Royal Roads University Foundation

The Royal Roads University Foundation was incorporated November 25, 1998 under the Society Act, Province of British Columbia and commenced operations on April 1, 1999. The purpose of the Foundation is to award scholarships and to provide financial assistance to Royal Roads University. The members of the Board of Directors of the Foundation are also members of the Board of Governors of the University.

Endowments to the Foundation must be held in perpetuity. The balance is not available for other purposes without the approval of the Board of Directors of the Foundation. Income earned on these Endowments is to be used for the operating expenses of the Foundation and for named scholarships and bursaries.

During the current year the Foundation received \$ 352,199 (2001/02: \$278,352) in donations and other contributions.

Royal Roads University
Notes to the Financial Statements
For the year ending March 31, 2003

Key financial information for the Foundation, prepared using Canadian generally accepted accounting principles for not-for-profit organization is as follows:

| As at March 31 | 2003 | 2002 |
|-------------------------------------|---------------------|---------------------|
| Assets | | |
| Cash | \$ 163,242 | \$ 57,920 |
| Due from Royal Roads University | 1,500 | 2,126 |
| Accounts Receivable | 355 | 661 |
| Temporary Investments | <u>1,806,911</u> | <u>1,603,273</u> |
| | <u>\$ 1,972,008</u> | <u>\$ 1,663,980</u> |
| Liabilities | | |
| Accounts Payable | \$ 2,462 | \$ 2,354 |
| Equity | <u>1,969,546</u> | <u>1,661,626</u> |
| | <u>\$ 1,972,008</u> | <u>\$ 1,663,980</u> |
| For the year ending March 31 | | |
| Excess Revenue over Expenses | <u>\$ 307,920</u> | <u>\$ 268,013</u> |

Note 14 – Comparative Figures

Certain of the comparative figures have been restated to conform to the current year's presentation.