



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, 2004, 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, 2004 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 & Corporate Services

May 19, 2004



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, 2004 and the statements of changes in net assets, revenues and expenses, unrestricted operating fund and cash flows for the year ended March 31, 2004. 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 *Royal Roads University* as at March 31, 2004 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 14, 2004*

Wayne Strelieff, FCA
Auditor General

Royal Roads University
Statement of Financial Position
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
Assets		
Current		
<i>Cash and short term investments, note 3</i>	\$ 18,238,655	\$ 12,677,370
<i>Accounts receivable, note 4</i>	2,533,403	3,681,744
<i>Inventory</i>	659,387	352,467
<i>Prepays</i>	45,081	66,023
	<u>21,476,526</u>	<u>16,777,604</u>
Long term		
<i>Capital assets, note 5</i>	20,233,009	19,439,039
	<u>\$ 41,709,535</u>	<u>\$ 36,216,643</u>
Liabilities		
Current		
<i>Accounts payable and accruals</i>	\$ 3,830,413	\$ 3,628,728
<i>Deferred revenue, note 7</i>	8,883,004	6,685,462
<i>Current portion of long term debt, note 10</i>	232,240	-
	<u>12,945,657</u>	<u>10,314,190</u>
Long term		
<i>Long term debt, note 10</i>	942,268	-
<i>Deferred contributions, note 8</i>	353,098	572,317
<i>Unamortized deferred capital contributions, note 9</i>	12,756,038	11,915,099
	<u>14,051,404</u>	<u>12,487,416</u>
	<u>26,997,061</u>	<u>22,801,606</u>
Net Assets		
<i>Invested in capital assets, note 5</i>	7,476,971	7,523,940
<i>Restricted Funds, note 14</i>	6,379,973	6,382,453
<i>Unrestricted Operating Fund</i>	855,530	(491,356)
	<u>14,712,474</u>	<u>13,415,037</u>
	<u>\$ 41,709,535</u>	<u>\$ 36,216,643</u>

Robert A. Skene
Chair, Board of Governors

Richard A. Skinner
President

Royal Roads University
Statement of Changes in Net Assets
for the year ending March 31, 2004

	Invested in capital assets note 5	Restricted Funds note 14	Unrestricted Operating Fund	Total 2004	Total 2003
Balance, beginning of year	\$ 7,523,940	\$ 6,382,453	\$ (491,356)	\$ 13,415,037	\$ 12,438,407
Excess of revenues over expenses	-	-	1,297,437	1,297,437	976,630
Capital transactions	<u>(46,969)</u>	<u>(2,480)</u>	<u>49,449</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 7,476,971</u>	<u>\$ 6,379,973</u>	<u>\$ 855,530</u>	<u>\$ 14,712,474</u>	<u>\$ 13,415,037</u>

ROYAL ROADS UNIVERSITY
Statement of Revenues and Expenses
for the year ending March 31, 2004

	<u>2004</u>	<u>2003</u>
Revenues		
<i>Tuition fees</i>	\$ 17,010,118	\$ 14,203,487
<i>Executive development fees</i>	1,309,318	1,563,470
<i>Ancillary revenue</i>	3,576,662	3,355,482
<i>Grants - Provincial</i>	13,090,289	11,618,614
<i>Grants - Federal, note 13</i>	108,509	3,718,164
<i>Grants - research</i>	679,713	660,273
<i>Amortization of deferred capital contribution</i>	942,472	610,508
<i>Other revenue</i>	635,655	483,150
	37,352,736	36,213,148
Expenses		
Compensation & benefits	17,285,219	15,112,496
Personal services contracts - academic	5,600,197	5,541,528
Personal services contracts - non academic	1,534,453	1,854,404
Instructional & program delivery	2,011,940	2,031,095
Computing & technology	670,130	871,365
Marketing	1,231,373	1,670,498
Awards & scholarships	282,894	216,546
Cost of goods sold	1,016,683	1,141,169
Supplies & services	1,643,954	1,669,809
Grounds, facilities & equipment	924,689	1,334,681
Telephone & utilities	660,728	686,272
Security	490,974	483,397
Amortization	2,135,450	1,918,977
Provision for bad debts	108,478	431,991
Legal, audit & banking	437,039	272,290
Interest on long term debt	21,098	-
	<u>36,055,299</u>	<u>35,236,518</u>
Excess of revenues over expenses	\$ <u>1,297,437</u>	\$ <u>976,630</u>

Statement of Unrestricted Operating Fund
for the year ending March 31, 2004

Balance, beginning	\$ (491,356)	\$ 353,920
Excess of revenues over expenses	1,297,437	976,630
Net increase (decrease) in invested in capital assets funded from operations		
Net increase (decrease) in invested in capital assets	(46,969)	326,222
Portion funded from Infrastructure Fund, note 14	<u>(2,480)</u>	<u>(304,316)</u>
	(49,449)	21,906
Appropriations		
Infrastructure Fund, note 14	<u>-</u>	<u>1,800,000</u>
Net change during the year	1,346,886	(845,276)
Balance, ending	\$ <u>855,530</u>	\$ <u>(491,356)</u>

Royal Roads University
Statement of Cash Flows
for the year ending March 31, 2004

Increase (decrease) in cash and short term investments from:

	2004	2003
Operating activities		
Excess of revenues over expenses	\$ 1,297,437	\$ 976,630
Items not affecting cash		
Amortization of deferred capital contributions	(942,472)	(610,508)
Amortization of capital assets	2,135,450	1,918,977
Decrease in deferred contributions related to operations	(95,300)	-
Changes in non-cash working capital		
Net decrease in non-cash current assets	862,363	407,179
Net increase in accounts payable, accruals and deferred revenue	2,399,226	2,669,850
Cash provided by operating activities	<u>5,656,704</u>	<u>5,362,128</u>
Investing activities		
Capital asset acquisitions	(2,929,419)	(7,647,739)
Cash used in investing activities	<u>(2,929,419)</u>	<u>(7,647,739)</u>
Financing activities		
Proceeds from bank loan	1,250,000	-
Principal repayments on bank loan	(75,492)	-
Decrease in deferred contributions related to capital assets	(123,919)	(213,378)
Capital contributions received	1,783,411	6,013,048
Cash provided from financing activities	<u>2,834,000</u>	<u>5,799,670</u>
Net increase in cash and short term investments	5,561,285	3,514,059
Cash and short term investments, beginning of year	12,677,370	9,163,311
Cash and short term investments, end of year	<u>\$ 18,238,655</u>	<u>\$ 12,677,370</u>

**Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2004**

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.

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.

Externally restricted capital contributions for the acquisition of capital assets are recorded as deferred contributions until the amount is invested in capital assets (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).

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.

Note 2 – Continued

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%. Prior year's Work in Progress related to the Grant building renovation was capitalized as leasehold improvements in the current year. Work in Progress related to the Living Learning Centre planning has been capitalized; however, the costs 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 *Public Sector Pension Plans Act* (see note 12). 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 each Plan's unfunded liability or funding surplus are shared between the employers and the Plans' members and may be reflected in their future contributions. Portions of the unfunded liability or funding surplus are not attributed to individual employers. Based on the most recent actuarial valuations, the Municipal Pension Plan has a funding surplus and the College Pension Plan has an unfunded liability. As a result of the unfunded liability in the College Pension Plan, the employer and the employee contributions to this Plan will be increased effective September 1, 2004.

The University contributes to a health care benefit plan covering extended health, dental, life insurance, and long term disability for regular employees (see note 12). 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, accounts payable and accruals, and long term debt. 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, 2004

Note 3 – Cash and Short Term Investments

	2004	2003
Cash	\$ 5,630,307	\$ 1,566,575
Short term investments		
BC Investment Management Corp. - money market fund (market: 2004 \$2,951,238; 2003 \$2,871,617)	2,950,483	2,871,168
TD Canada Trust - interest bearing bank account	<u>9,657,865</u>	<u>8,239,627</u>
	<u>12,608,348</u>	<u>11,110,795</u>
	<u>\$ 18,238,655</u>	<u>\$ 12,677,370</u>

Note 4 – Accounts Receivable

	2004	2003
Trade accounts receivable	\$ 2,769,061	\$ 3,232,950
GST receivable	120,405	321,947
Government of Canada	127,284	251,745
Government of British Columbia	<u>-</u>	<u>479,361</u>
	3,016,750	4,286,003
Allowance for doubtful accounts	<u>(483,347)</u>	<u>(604,259)</u>
	<u>\$ 2,533,403</u>	<u>\$ 3,681,744</u>

Included in accounts receivable is a loan to an officer of the University in the amount of \$50,000 (2003: \$0). This loan bears no interest and is repayable at \$5,000 per year over ten years. The loan is to be repaid in full should the officer cease to be employed by the University.

Note 5 – Capital Assets and Invested in Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2004	2003
Automotive equipment	\$ 283,647	\$ 168,486	\$ 115,161	\$ 143,951
Computer equipment	4,316,483	3,278,607	1,037,876	1,411,023
Furnishings and equipment	4,963,295	1,501,820	3,461,475	2,488,224
Library acquisitions	691,396	199,980	491,416	422,725
Leasehold improvements	23,407,105	8,586,820	14,820,285	9,318,778
Work in progress	<u>306,796</u>	<u>-</u>	<u>306,796</u>	<u>5,654,338</u>
	<u>\$ 33,968,722</u>	<u>\$ 13,735,713</u>	20,233,009	19,439,039
Unamortized deferred capital contributions, note 9			<u>(12,756,038)</u>	<u>(11,915,099)</u>
Invested in capital assets			<u>\$ 7,476,971</u>	<u>\$ 7,523,940</u>

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2004

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 leases the Adjacent Lands from the Government of Canada for \$1 per annum. This lease, with an initial lease term of 5 years commencing December 1, 2000, provides the University with renewal options, at its discretion, for subsequent 5 year terms. During 2003/04, the University exercised its option early in order to extend the lease term for the Adjacent Lands to November 30, 2010 under the same terms and conditions as the original lease. The fair value of the campus and related assets cannot be reasonably estimated at this time.

Note 7 – Deferred Revenue

	2004	2003
Deferred tuition	\$ 3,842,945	\$ 3,800,298
Other deferred revenue	809,704	461,614
Prepaid tuition	<u>4,230,355</u>	<u>2,423,550</u>
	<u>\$ 8,883,004</u>	<u>\$ 6,685,462</u>

- Deferred tuition relates to the pro rata share of total tuition for programs starting in fiscal 2003/04 that will be completed in 2004/05.
- Other deferred revenue 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 2004/05.

Note 8 – Deferred Contributions

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

	2004	2003
Balance, beginning of year	\$ 572,317	\$ 785,695
Current year's provincial capital grant to be spent in subsequent years	-	572,317
Prior year's provincial capital grant spent in the current year	<u>(219,219)</u>	<u>(785,695)</u>
Balance, end of year	<u>\$ 353,098</u>	<u>\$ 572,317</u>

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2004

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. Changes in unamortized deferred capital contributions are as follows:

	2004	2003
Balance, beginning of year	\$ 11,915,099	\$ 6,512,559
Current year's acquisitions funded by provincial capital contributions	1,783,411	5,899,465
Current year's acquisitions funded by federal capital contributions	-	113,583
Amortization of deferred capital contributions	<u>(942,472)</u>	<u>(610,508)</u>
Balance, end of year	<u>\$ 12,756,038</u>	<u>\$ 11,915,099</u>

Note 10 – Long Term Debt

During 2003/04 the University received approval from the Province to borrow \$1.25 million to complete the reoccupancy of the renovated Grant Building. The loan has a fixed interest rate of 4.21% per annum, and is repayable over 60 months with blended payments of principal and interest of \$23,138 per month. At year-end, the amount outstanding was as follows:

	2004	2003
Total principal outstanding at year end	\$ 1,174,508	\$ -
Current portion	<u>(232,240)</u>	<u>-</u>
Long term debt	<u>942,268</u>	<u>-</u>

Annual principal payments remaining over the term of the loan include the following:

2005	\$ 232,240
2006	242,628
2007	253,040
2008	263,899
2009	<u>182,701</u>
	<u>\$ 1,174,508</u>

Note 11 – Commitments

The University has operating lease commitments for computers, furniture and equipment as follows:

2005	\$ 79,678
2006	38,272
2007	34,720

**Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2004**

Note 12 – Employee Benefits

During 2003/04, the University contributed \$637,041 (2002/03: \$494,179) to the College Pension Plan and the Municipal Pension Plan and \$692,649 (2002/03: \$577,443) to the extended health care benefit plan (see also note 2 f).

Note 13 – 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 2002/03, the University received the final installment of \$3.6 million.

In response to this funding announcement, the Province reduced its 2002/03 operating grant to the University by \$1.8 million.

Note 14 – Restricted Funds

The Board of Governors has internally restricted the following funds:

	2004	2003
Infrastructure Fund	\$ 5,679,973	\$ 5,682,453
Program Development & Research Fund	350,000	350,000
Marketing & Market Research Fund	<u>350,000</u>	<u>350,000</u>
	<u>\$ 6,379,973</u>	<u>\$ 6,382,453</u>

a) Infrastructure Fund

The purpose of this Fund is to create a reserve to help finance major capital improvements in the near future. The fund, which was first established in 1997/98, is funded by Board approved appropriations, and project expenditures from the fund are pre-approved by the Board. During 2002/03, the Board approved the appropriation of \$1.8 million from a grant provided by the Federal Government via an agreement with Western Economic Diversification Canada. During 2002/03, the Board also approved using the Infrastructure Fund to cover all planning costs related to the Living Learning Centre, which for 2003/04 totaled \$2,480 (2002/03: \$304,316). These planning costs have been capitalized as Work in Progress (see note 2 e and note 5).

b) Program Development & Research Fund

During 1998/99, the Board approved the appropriation of \$350,000 to be used in future years for program development and research.

c) Marketing & Market Research Fund

During 1998/99, the Board approved the appropriation of \$350,000 to be used in future years for marketing and market research.

Note 15 – 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.

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2004

Note 15 – Continued

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 \$313,520 (2002/03: \$352,199) in donations and other contributions.

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	2004	2003
Assets		
Cash	\$ 95,190	\$ 163,242
Accounts receivable	2,655	355
Prepaid expense	8,880	-
Temporary investments	2,160,988	1,806,911
Investment in life insurance	16,351	8,089
	<u>\$ 2,284,064</u>	<u>\$ 1,978,597</u>
Liabilities		
Accounts payable	\$ 2,568	\$ 2,462
Due to (from) Royal Roads University	29,117	(1,500)
	<u>31,685</u>	<u>962</u>
Fund Balances	<u>2,252,379</u>	<u>1,977,635</u>
	<u>\$ 2,284,064</u>	<u>\$ 1,978,597</u>
For the year ending March 31		
Excess of revenues over expenses	<u>\$ 274,744</u>	<u>\$ 307,920</u>

Note 16 – Comparative Figures

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