

Auditors' Report

To the Board of Governors of
Royal Roads University

We have audited the statement of financial position of Royal Roads University as at March 31, 2005, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. 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 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 our opinion, these financial statements present fairly, in all material respects, the financial position of Royal Roads University as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2004 and for the year then ended were audited by the Auditor General of British Columbia who expressed an opinion without reservation on those statements in his report dated May 14, 2004.

Victoria, Canada
May 12, 2005

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants

Third Floor
888 Fort Street
Victoria, British Columbia
V8W 1H8
T (250) 383-4191
F (250) 381-4623
E Victoria@GrantThornton.ca
W www.GrantThornton.ca



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, 2005, 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, 2005 have been reported on by Grant Thornton 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.

Richard Skinner, Ph.D.
President

Dan Tulip, FCA
Vice President, Finance & Corporate Services

May 12, 2005

Royal Roads University
Statement of Financial Position
as at March 31, 2005

	<u>2005</u>	<u>2004</u>
Assets		
Current		
<i>Cash and short term investments, note 3</i>	\$ 21,294,978	\$ 18,238,655
<i>Accounts receivable, note 4</i>	3,281,743	2,533,403
<i>Inventory</i>	607,220	659,387
<i>Prepays</i>	133,898	45,081
	<u>25,317,839</u>	<u>21,476,526</u>
Long term		
<i>Capital assets, note 5</i>	19,605,118	20,233,009
	<u>\$ 44,922,957</u>	<u>\$ 41,709,535</u>
Liabilities		
Current		
<i>Accounts payable and accruals</i>	\$ 4,660,506	\$ 3,830,413
<i>Deferred revenue, note 7</i>	9,658,000	8,883,004
<i>Current portion of long term debt, note 10</i>	243,495	232,240
	<u>14,562,001</u>	<u>12,945,657</u>
Long term		
<i>Long term debt, note 10</i>	678,734	942,268
<i>Deferred contributions, note 8</i>	625,227	353,098
<i>Unamortized deferred capital contributions, note 9</i>	11,730,269	12,756,038
	<u>13,034,230</u>	<u>14,051,404</u>
	<u>27,596,231</u>	<u>26,997,061</u>
Net Assets		
<i>Invested in capital assets, note 5</i>	7,874,849	7,476,971
<i>Restricted Funds, note 13</i>	6,379,973	6,379,973
<i>Unrestricted Operating Fund</i>	3,071,904	855,530
	<u>17,326,726</u>	<u>14,712,474</u>
	<u>\$ 44,922,957</u>	<u>\$ 41,709,535</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, 2005

	Invested in capital assets note 5	Restricted Funds note 13	Unrestricted Operating Fund	Total 2005	Total 2004
Balance, beginning of year	\$ 7,476,971	\$ 6,379,973	\$ 855,530	\$ 14,712,474	\$ 13,415,037
Excess of revenues over expenses	-	-	2,614,252	2,614,252	1,297,437
Capital transactions	397,878		(397,878)	-	-
Balance, end of year	<u>\$ 7,874,849</u>	<u>\$ 6,379,973</u>	<u>\$ 3,071,904</u>	<u>\$ 17,326,726</u>	<u>\$ 14,712,474</u>

ROYAL ROADS UNIVERSITY
Statement of Revenues and Expenses
for the year ending March 31, 2005

	<u>2005</u>	<u>2004</u>
Revenues		
<i>Tuition fees</i>	\$ 18,966,642	\$ 17,010,118
<i>Executive development fees</i>	2,287,562	1,309,318
<i>Ancillary revenue</i>	3,190,238	3,576,662
<i>Grants - Provincial</i>	13,363,622	13,090,289
<i>Grants - Federal</i>	122,400	108,509
<i>Grants - Research</i>	734,634	679,713
<i>Amortization of deferred capital contribution</i>	1,214,576	942,472
<i>Other revenue</i>	827,006	635,655
	40,706,680	37,352,736
Expenses		
<i>Compensation & benefits</i>	19,473,245	17,285,219
<i>Personal services contracts - academic</i>	5,339,081	5,600,197
<i>Personal services contracts - non academic</i>	1,496,107	1,534,453
<i>Instructional & program delivery</i>	1,907,359	2,011,940
<i>Computing & technology</i>	638,853	670,130
<i>Marketing</i>	1,678,112	1,231,373
<i>Awards & scholarships</i>	378,381	282,894
<i>Cost of goods sold</i>	848,112	1,016,683
<i>Supplies & services</i>	1,550,549	1,643,954
<i>Grounds, facilities & equipment</i>	770,422	924,689
<i>Telephone & utilities</i>	621,147	660,728
<i>Security</i>	503,025	490,974
<i>Amortization</i>	2,208,639	2,135,450
<i>Provision for bad debts</i>	207,625	108,478
<i>Legal, audit & banking</i>	427,291	437,039
<i>Interest on long term debt</i>	44,480	21,098
	38,092,428	36,055,299
Excess of revenues over expenses	\$ 2,614,252	\$ 1,297,437

**Royal Roads University
Statement of Cash Flows
for the year ending March 31, 2005**

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

	2005	2004
Operating activities		
Excess of revenues over expenses	\$ 2,614,252	\$ 1,297,437
Items not affecting cash		
Amortization of deferred capital contributions	(1,214,576)	(942,472)
Amortization of capital assets	2,208,639	2,135,450
Decrease in deferred contributions related to operations	(160,535)	(95,300)
Changes in non-cash working capital		
Net decrease (increase) in non-cash current assets	(784,989)	862,363
Net increase in accounts payable, accruals and deferred revenue	1,605,089	2,399,226
Cash provided by operating activities	<u>4,267,880</u>	<u>5,656,704</u>
Investing activities		
Capital asset acquisitions	(1,580,749)	(2,929,419)
Cash used in investing activities	<u>(1,580,749)</u>	<u>(2,929,419)</u>
Financing activities		
Proceeds from bank loan	-	1,250,000
Principal repayments on bank loan	(252,279)	(75,492)
(Decrease) increase in deferred contributions related to capital assets	432,664	(123,919)
Capital contributions received	188,807	1,783,411
Cash provided from financing activities	<u>369,192</u>	<u>2,834,000</u>
Net increase in cash and short term investments	3,056,323	5,561,285
Cash and short term investments, beginning of year	18,238,655	12,677,370
Cash and short term investments, end of year	<u>\$ 21,294,978</u>	<u>\$ 18,238,655</u>

**Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2005**

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 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.

b) Recognition of Revenue

Tuition and other student revenues are recognized on a pro rata basis based on the percentage of the course 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.

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2005

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. Works in Progress related to the Living Learning Centre and to the METRO systems development have been capitalized; however, these costs will not be amortized until these projects are completed (see note 5).

f) 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 amount of revenue and expenses during the period. Actual results could differ from these estimates.

g) Financial Instruments

The University's financial instruments consist of cash and short term investments, accounts receivable, accounts payable, 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.

Note 3 – Cash and Short Term Investments

	2005	2004
Cash	\$ 3,156,542	\$ 5,630,307
Short term investments		
BC Investment Management Corp. - money market fund	3,016,099	2,950,483
TD Canada Trust - interest bearing bank account	<u>15,122,337</u>	<u>9,657,865</u>
	<u>18,138,436</u>	<u>12,608,348</u>
	<u>\$ 21,294,978</u>	<u>\$ 18,238,655</u>

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2005

Note 4 – Accounts Receivable

	2005	2004
Trade accounts receivable	\$ 3,568,431	\$ 2,769,061
GST receivable	121,136	120,405
Government of Canada	<u>-</u>	<u>127,284</u>
	3,689,567	3,016,750
Allowance for doubtful accounts	<u>(407,824)</u>	<u>(483,347)</u>
	<u>\$ 3,281,743</u>	<u>\$ 2,533,403</u>

Included in accounts receivable is a loan to an officer of the University in the amount of \$45,000 (2003/04:\$50,000). 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	
			2005	2004
Automotive equipment	\$ 341,197	\$ 197,274	\$ 143,923	\$ 115,161
Computer equipment	4,316,200	3,434,457	881,743	1,037,876
Furnishings and equipment	5,426,915	1,871,149	3,555,766	3,461,475
Library acquisitions	858,054	257,454	600,600	491,416
Leasehold improvements	23,587,272	9,994,303,	13,592,969	14,820,285
Work in progress	<u>830,117</u>	<u>-</u>	<u>830,117</u>	<u>306,796</u>
	<u>\$ 35,359,755</u>	<u>\$ 15,754,637</u>	19,605,118	20,233,009
Unamortized deferred capital contributions, note 9			<u>(11,730,269)</u>	<u>(12,756,038)</u>
Invested in capital assets			<u>\$ 7,874,849</u>	<u>\$ 7,476,971</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 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.

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2005

Note 7 – Deferred Revenue

	2005	2004
Deferred tuition	\$ 6,034,087	\$ 4,230,355
Other deferred revenue	827,573	809,704
Prepaid tuition	<u>2,796,340</u>	<u>3,842,945</u>
	<u>\$ 9,658,000</u>	<u>\$ 8,883,004</u>

- Deferred tuition relates to the pro rata share of total tuition for programs starting in fiscal 2004/05 that will be completed in 2005/06.
- 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 2005/06.

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:

	2005	2004
Balance, beginning of year	\$ 353,098	\$ 572,317
Current year's provincial capital grant to be spent in subsequent years	428,127	-
Prior year's provincial capital grant spent in the current year	(282,940)	(219,219)
Current year's other contributions to be spent in subsequent years	<u>126,942</u>	<u>-</u>
Balance, end of year	<u>\$ 625,227</u>	<u>\$ 353,098</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. Changes in unamortized deferred capital contributions are as follows:

	2005	2004
Balance, beginning of year	\$ 12,756,038	\$ 11,915,099
Current year's acquisitions funded by provincial capital contributions	175,649	1,783,411
Current year's acquisitions funded by other capital contributions	13,158	-
Amortization of deferred capital contributions	<u>(1,214,576)</u>	<u>(942,472)</u>
Balance, end of year	<u>\$ 11,730,269</u>	<u>\$ 12,756,038</u>

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2005

Note 10 – Long Term Debt

The university has a bank loan with a fixed interest rate of 4.21% per annum, which 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:

	2005	2004
Total principal outstanding at year end	\$ 922,229	\$ 1,174,508
Current portion	<u>(243,495)</u>	<u>(232,240)</u>
Long term debt	<u>\$ 678,734</u>	<u>\$ 942,268</u>

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

2006	\$ 243,495
2007	253,947
2008	264,846
2009	<u>159,941</u>
	<u>\$ 922,229</u>

Note 11 – Commitments

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

2006	\$ 315,693
2007	312,142
2008	124,792
2009	36,367
2010	6,001

Note 12 – Employee Benefits

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*. 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 and the College Pension Plan each have an unfunded liability. As a result of the unfunded liability, the employer and the employee contributions to the College Pension Plan were increased effective September 1, 2004, and to the Municipal Pension Plan will be increased effective July 1, 2005.

**Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2005**

Note 12 – Continued

The University 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.

During 2004/05, the University contributed \$801,309 (2003/04:\$637,041) to the College Pension Plan and the Municipal Pension Plan and \$759,656 (2003/04:\$692,649) to the extended health care benefit plan.

Note 13 – Restricted Funds

The Board of Governors has internally restricted the following funds:

	2005	2004
Infrastructure Fund	\$ 5,679,973	\$ 5,679,973
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>\$ 6,379,973</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. Project expenditures from the fund are pre-approved by the Board. During 2002/03, the Board approved using the Infrastructure Fund to cover all design and site development costs related to the Living Learning Centre, for which a total of \$306,796 has been spent and capitalized to date 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 14 – 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.

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2005

Note 14 – Continued

The Foundation also receives other restricted donations and contributions in support of the University. Periodically, the Foundation grants these amounts to the University for specific projects.

During the current year the Foundation received \$242,008 (2003/04:\$257,815) in endowed contributions and \$405,040 (2003/04:\$55,706) in restricted donations and other contributions.

During the current year the Foundation transferred \$262,806 (2003/04:\$10,930) to the University in support of the gardens and grounds.

Key financial information for the Foundation, prepared using Canadian generally accepted accounting principles, is as follows:

As at March 31	2005	2004
Assets		
Cash	\$ 152,957	\$ 95,190
Accounts receivable	1,664	2,655
Prepaid expense	-	8,880
Investments	2,472,037	2,160,988
Investment in life insurance	24,837	16,351
	<u>\$ 2,651,495</u>	<u>\$ 2,284,064</u>
Liabilities		
Accounts payable	\$ 2,729	\$ 2,568
Due to Royal Roads University	10,000	29,117
	<u>12,729</u>	<u>31,685</u>
Fund Balances	<u>2,638,766</u>	<u>2,252,379</u>
	<u>\$ 2,651,495</u>	<u>\$ 2,284,064</u>
For the year ending March 31		
Excess of revenues over expenses	<u>\$ 386,387</u>	<u>\$ 274,744</u>

Note 15 – Comparative Figures

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