



**ROYAL ROADS
UNIVERSITY**

**Audited Financial Statements
For the Year Ended March 31, 2011**

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

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

Independent Auditors' Report

To the Board of Governors of Royal Roads University

We have audited the accompanying financial statements of Royal Roads University, which comprise the statement of financial position as at March 31, 2011, the statements of operations, changes in net assets and cash flow 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, 2011, and its results of operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

May 19, 2011
Victoria, Canada



**ROYAL ROADS
UNIVERSITY**

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, 2011, 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, 2011 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 19, 2011

Royal Roads University
Statement of Financial Position
March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current		
Cash and cash equivalents	\$ 9,335,261	\$ 10,882,656
Short term investments	3,265,214	499,761
Accounts receivable	2,112,450	1,986,500
Inventories	299,310	279,364
Prepaid expenses	325,111	262,687
	15,337,346	13,910,968
Long term		
Capital assets, (note 4)	34,285,293	24,344,650
Long term investments, (note 5)	21,374,583	19,100,168
Due from related party, (note 13)	312,419	484,428
	\$ 71,309,641	\$ 57,840,214
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 8,682,138	\$ 6,399,163
Deferred revenue, (note 7)	10,822,317	9,450,864
	19,504,455	15,850,027
Long term		
Deferred contributions, (note 8)	3,880,431	2,222,077
Unamortized deferred capital contributions, (note 9)	25,334,192	17,527,047
	29,214,623	19,749,124
	48,719,078	35,599,151
Net Assets		
Internally restricted, (note 12)	6,379,973	6,379,973
Unrestricted	16,210,590	15,861,090
	22,590,563	22,241,063
Commitments (note 10)	\$ 71,309,641	\$ 57,840,214

See accompanying notes to financial statements.



Peter Meekison
Chair, Board of Governors



Allan Cahoon
President

Royal Roads University
Statement of Changes in Net Assets
Year Ended March 31, 2011, with comparative figures for 2010

	Internally Restricted Net Assets <i>(note 12)</i>	Unrestricted Net Assets	2011	2010
<i>Balance, beginning of year</i>	\$ 6,379,973	\$ 15,861,090	\$ 22,241,063	\$ 22,475,965
<i>Excess of revenues over expenses</i>	-	156,340	156,340	60,993
<i>Change in fair value of investments classified as available for sale</i>	-	193,160	193,160	(295,895)
<i>Balance, end of year</i>	\$ <u>6,379,973</u>	\$ <u>16,210,590</u>	\$ <u>22,590,563</u>	\$ <u>22,241,063</u>

See accompanying notes to financial statements.

Royal Roads University
Statement of Operations
Year Ended March 31, 2011, with comparative figures for 2010

	<u>2011</u>	<u>2010</u>
Revenues		
<i>Tuition fees</i>	\$ 24,488,727	\$ 23,890,313
<i>Other learner fees</i>	1,380,008	1,386,231
<i>Provincial grants</i>	17,733,584	17,601,164
<i>Federal grants</i>	1,008,932	1,053,638
<i>Other grants</i>	738,066	871,922
<i>Ancillary revenue</i>	2,985,015	2,967,532
<i>Interest income</i>	1,020,758	727,627
<i>Amortization of deferred capital contributions</i>	744,362	830,840
<i>Other revenue</i>	520,242	153,650
	<u>50,619,694</u>	<u>49,482,917</u>
Expenses		
<i>Salaries & benefits</i>	28,016,980	27,659,573
<i>Contracted services</i>	7,355,179	7,817,944
<i>Instructional & program delivery</i>	1,256,347	1,306,124
<i>Computing & technology</i>	1,140,515	1,214,969
<i>Marketing & business development</i>	2,699,146	2,229,172
<i>Awards & scholarships</i>	774,816	627,027
<i>Supplies & services</i>	2,933,575	2,630,863
<i>Grounds, facilities & equipment</i>	1,118,060	766,930
<i>Telephone & utilities</i>	944,608	846,465
<i>Amortization</i>	3,158,384	1,916,416
<i>Capital campaign contributions, (note 13)</i>	1,065,744	2,406,441
	<u>50,463,354</u>	<u>49,421,924</u>
Excess of revenues over expenses	\$ <u><u>156,340</u></u>	\$ <u><u>60,993</u></u>

See accompanying notes to financial statements.

Royal Roads University
Statement of Cash Flow
Year Ended March 31, 2011, with comparative figures for 2010

Increase (decrease) in cash and cash equivalents from:

	<u>2011</u>	<u>2010</u>
Operating activities		
<i>Excess of revenues over expenses</i>	\$ 156,340	\$ 60,993
<i>Items not affecting cash</i>		
<i>Amortization of deferred capital contributions</i>	(744,362)	(830,840)
<i>Amortization of capital assets</i>	3,158,384	1,916,416
<i>Decrease in deferred contributions related to operations</i>	(476,788)	(130,072)
<i>Changes in non-cash working capital</i>		
<i>Net (increase) decrease in non-cash current assets</i>	(208,320)	1,000,566
<i>Net (decrease) increase in accounts payable, accrued liabilities and deferred revenue</i>	3,654,428	(626,513)
Cash provided by operating activities	<u>5,539,682</u>	<u>1,390,550</u>
Investing activities		
<i>Net (increase) decrease in short-term investments</i>	(2,765,453)	18,967,409
<i>Net (increase) decrease in long-term investments</i>	(2,081,253)	(19,396,063)
<i>Net capital asset acquisitions</i>	(13,099,028)	(6,482,170)
Cash used in investing activities	<u>(17,945,734)</u>	<u>(6,910,824)</u>
Financing activities		
<i>Federal and Provincial capital contributions</i>	10,686,648	7,530,426
<i>Contributions received from other sources</i>	-	685
<i>(Increase) decrease in due from related party - operating</i>	(186,965)	16,289
<i>Decrease in due from related party - capital campaign</i>	358,974	1,582,497
Cash provided from financing activities	<u>10,858,657</u>	<u>9,129,897</u>
Net increase (decrease) in cash and cash equivalents	(1,547,395)	3,609,623
Cash and cash equivalents, beginning of year	<u>10,882,656</u>	<u>7,273,033</u>
Cash and cash equivalents, end of year	<u>\$ 9,335,261</u>	<u>\$ 10,882,656</u>

See accompanying notes to financial statements.

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. 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 not-for-profit organization 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 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 depreciated as they are deemed to have permanent value.

Automotive equipment	20.0%
Computer equipment & systems	20.0% - 33.3%
Furnishings & equipment	10.0%
Library acquisitions	10.0%
Leasehold improvements	3.3% - 20.0%

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.

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.

Note 2 – Significant accounting policies (continued)

Changes in fair value will depend on their initial classification. Changes in fair value of held-for-trading financial instruments are recognized in net earnings. 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 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 Section 3861.

Note 3 – Future changes in accounting standards

Effective April 1, 2012, the University will be transitioning to Public Sector Accounting Standards (PSAB) on a retrospective basis. The University is reviewing the impact of this change on the financial statements.

Note 4 – Capital assets

	Cost	Accumulated Amortization	2011 Net Book Value	2010
Automotive equipment	\$ 554,586	\$ 413,831	\$ 140,755	\$ 175,943
Computer equipment & systems	7,480,491	6,044,340	1,436,151	1,740,819
Furnishings & equipment	7,564,911	4,131,335	3,433,576	3,626,216
Library acquisitions	858,054	538,871	319,183	354,648
Artwork	11,608	-	11,608	11,608
Leasehold improvements	24,842,004	16,424,187	8,417,817	9,293,325
Work in progress	20,526,203	-	20,526,203	9,142,091
	<u>\$ 61,837,857</u>	<u>\$ 27,552,564</u>	<u>\$ 34,285,293</u>	<u>\$ 24,344,650</u>

Work in progress includes \$20,074,927 in construction, furniture, fixtures and equipment costs for the Learning Innovation Centre (LIC) which was substantially completed at March 31, 2011. The LIC will be amortized starting April, 2011.

Note 5 – Long-term investments

Long-term investments include high grade corporate and government bonds and other fixed income instruments. Average maturity dates for long-term investments is seven years, with an average yield of 3% 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.

Note 7 – Deferred revenue

	2011	2010
Deferred tuition	\$ 8,737,681	\$ 7,513,248
Other deferred revenue	<u>2,084,636</u>	<u>1,937,616</u>
	\$ <u>10,822,317</u>	\$ <u>9,450,864</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.

	2011	2010
Balance, beginning of year	\$ 2,222,077	\$ 3,149,829
Provincial capital grants received during the year	948,262	504,045
Other capital and fundraising grants received during the year	-	685
Transfer from unamortized deferred capital contributions	1,186,880	-
Funds used during the year for capital, maintenance and related expenses	<u>(476,788)</u>	<u>(1,432,482)</u>
Balance, end of year	<u>\$ 3,880,431</u>	<u>\$ 2,222,077</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.

	2011	2010
Balance, beginning of year	\$ 17,527,047	\$ 10,029,095
Current year's acquisitions funded by provincial and federal capital contributions	9,738,387	8,328,792
Transfer to deferred capital contributions	(1,186,880)	-
Amortization of deferred capital contributions	<u>(744,362)</u>	<u>(830,840)</u>
Balance, end of year	<u>\$ 25,334,192</u>	<u>\$ 17,527,047</u>

Note 10 – Commitments

The University has operating lease commitments for computers and office space.

Computers:

2012	\$ 656,150
2013	178,299
2014	99,947
2015	42,046
2016	21,368

Note 10 – Commitments (continued)

Office space:

2012	\$	163,053
2013		81,527

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 12,000 active members from college senior administration and instructional staff and approximately 4,500 retired members. The Municipal Pension Plan has about 163,000 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 \$1,610,347 (2009/10: \$1,570,128) 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 \$1,501,031 (2009/10: \$1,476,425).

Note 12 – Internally restricted net assets

The Board of Governors has internally restricted the following funds:

	2011	2010
Infrastructure Fund	\$ 5,679,973	\$ 5,679,973
Program Development and Market Research Fund	<u>700,000</u>	<u>700,000</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 and is funded by Board-approved appropriations. Project expenditures from the fund are to be pre-approved by the Board.

b) Program Development and Market Research Fund

The Board has approved the appropriation of \$700,000 to be used in future years for program development and market research.

Note 13 – Related parties

The University exercises influence 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 \$1,065,744 (2009/2010: \$2,406,441) to the Foundation to cover operating costs related to fundraising. In the year the University received \$515,344 (2009/10: \$372,286) 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 \$1,500,391 (2009/2010: \$730,872). Included in the contributions received was \$341,445 (2009/10: \$187,655) from the American Friends of Royal Roads University.

Due from related party includes amounts due from the Foundation of \$312,419 (2009/2010: \$484,428) for scholarships, bursaries and other specific projects.

Note 13 – Related parties (continued)

Key financial information for the Foundation is as follows:

	2011	2010
Due from related party		
Royal Roads University Foundation		
Capital Campaign	\$ -	\$ 358,974
Accounts Receivable	<u>312,419</u>	<u>125,454</u>
	<u>\$ 312,419</u>	<u>\$ 484,428</u>
<hr/>		
Financial Position		
Assets	<u>\$ 7,304,151</u>	<u>\$ 5,977,148</u>
Liabilities	<u>370,496</u>	487,828
Fund balances	<u>6,933,655</u>	<u>5,489,320</u>
	<u>\$ 7,304,151</u>	<u>\$ 5,977,148</u>
<hr/>		
Revenue and Expenses		
Revenue	\$ 2,986,400	\$ 3,856,946
Expenses	<u>(1,542,065)</u>	<u>(1,375,774)</u>
Excess of revenue over expenses	<u>\$ 1,444,335</u>	<u>\$ 2,481,172</u>
<hr/>		
Cash Flow		
Cash provided by the following activities:		
Operating	\$ 1,425,570	\$ 2,487,248
Investing	<u>(461,925)</u>	<u>(701,276)</u>
Financing	<u>(172,009)</u>	<u>(1,598,786)</u>
	<u>791,636</u>	<u>187,186</u>
Cash and cash equivalents, beginning of year	<u>289,701</u>	102,515
Cash and cash equivalents, end of year	<u>\$ 1,081,337</u>	<u>\$ 289,701</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 activity 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, 2010 figures have been reclassified to conform to the current year presentation.
