Royal Roads
UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2020

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Statement of Management Responsibility

The University is responsible for the preparation of the consolidated financial statements as at March 31, 2020 and for the year then ended; in accordance with the financial reporting provisions of Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

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 meets 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 consolidated financial statements for the year ended March 31, 2020 have been reported on by KPMG LLP, Chartered Professional Accountants. The accompanying auditors' report outlines the scope of their examination and provides their opinion on the consolidated financial statements.

Philip Steenkamp President & Vice Chancellor	Cheryl Eason Vice President & Chief Financial Officer

May 12, 2020

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Victoria BC V8W 3Y7
Canada
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Royal Roads University (the Entity), which comprise:

- the consolidated statement of financial position as at March 31, 2020
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of remeasurement gains and losses for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements as at and for the year ended March 31, 2020 of the Entity are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Financial Reporting Framework

We draw attention to note 2(a) to the financial statements which describes the applicable financial reporting framework and the significant differences between that financial reporting framework and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
May 12, 2020

Royal Roads University
Consolidated Statement of Financial Position
As at March 31, 2020 with comparative information for 2019

		March 31, 2020		March 31, 2019
Financial Assets				
Cash	$	7,880,388	$	8,414,332
Investments – portfolio (note 3)		55,862,731		54,394,365
Accounts receivable		3,539,152		5,033,295
Inventories		368,539		424,995
		67,650,810		68,266,987
Liabilities				
Accounts payable and accrued liabilities		10,941,867		10,428,843
Employee future benefits (note 4)		844,938		733,496
Deferred revenue (note 5)		23,898,431		21,523,914
Deferred contributions (note 6)		1,857,033		3,001,087
Deferred capital contributions (note 7)		67,489,381		61,184,777
		105,031,650		96,872,117
Net debt		**(37,380,840)**		**(28,605,130)**
Non-financial assets				
Tangible capital assets (note 8)		80,696,619		73,152,582
Investments – endowments (note 3)		5,594,475		5,449,519
Inventory of supplies		173,150		167,039
Prepaid expenses		958,093		876,283
		87,422,337		79,645,423
Accumulated surplus	**$**	**50,041,497**	**$**	**51,040,293**
Accumulated surplus is comprised of:				
Operating (note 12)	$	50,180,381		49,921,914
Remeasurement gains and losses		(138,884)		1,118,379
	$	**50,041,497**	**$**	**51,040,293**

Commitment and contingencies (notes 9,10, &11)
Subsequent event (note 17)
See accompanying notes to consolidated financial statements

Nelson Chan
Chancellor & Chair of the Board

Philip Steenkamp
President & Vice Chancellor

Royal Roads University
Consolidated Statement of Operations and Accumulated Surplus
Year ended March 31, 2020 with comparative information for 2019

	Annual Budget (note 2h)	March 31, 2020	March 31, 2019
Revenue			
Tuition and other student fees	$ 47,725,815	$ 44,788,386	$ 41,919,350
Provincial grants	22,610,503	21,689,385	19,585,549
Research grants	1,804,940	2,792,788	2,342,823
Deferred capital contributions (note 7)	2,716,783	2,765,057	2,143,182
Ancillary revenue	2,417,545	2,116,724	2,302,572
Investment income	1,434,432	2,545,750	1,743,558
Donations and other revenue	896,739	719,224	1,076,315
	79,606,757	**77,417,314**	**71,113,349**
Expenses (note 13)			
Instructional and program delivery	$ 27,009,263	$ 25,759,395	$ 24,740,458
Academic and student support	21,193,594	21,150,021	19,922,918
Campus services	1,900,053	1,921,582	1,566,007
Facilities operation and maintenance	10,601,267	10,421,590	9,263,245
Corporate and operating support	12,765,343	12,992,029	10,864,148
Research	2,370,931	3,326,425	2,689,600
Fundraising	471,423	645,289	469,780
External engagement	1,500,000	1,087,472	366,885
	77,811,874	**77,303,803**	**69,883,041**
Annual operating surplus before endowed contributions	**1,794,883**	**113,511**	**1,230,308**
Endowed contributions	200,000	144,956	355,819
Annual operating surplus	**1,994,883**	**258,467**	**1,586,127**
Accumulated operating surplus, beginning of year	49,921,914	49,921,914	48,335,787
Accumulated operating surplus, end of year	**$ 51,916,797**	**$ 50,180,381**	**$ 49,921,914**

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Remeasurement Gains and Losses
Year ended March 31, 2020 with comparative information for 2019

		March 31, 2020		March 31, 2019
Accumulated remeasurement gain, beginning of year	$	1,118,379	$	1,078,999
Unrealized gains (losses) attributable to:				
Foreign exchange		192,446		47,780
Portfolio investments / equity investments		(1,051,259)		131,910
Amounts reclassified to the statement of operations:				
Foreign exchange		(55,256)		(10,445)
Portfolio investments / equity investments		(343,194)		(129,865)
Net remeasurement gains and losses for the year		(1,257,263)		39,380
Accumulated remeasurement gain, end of year	$	**(138,884)**	**$**	**1,118,379**

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Changes in Net Debt
Year ended March 31, 2020 with comparative information for 2019

	Annual Budget (note 2h)	March 31, 2020	March 31, 2019
Annual operating surplus	$ 1,994,883	$ 258,467	$ 1,586,127
Acquisition of tangible capital assets	(18,470,000)	(11,252,590)	(15,101,404)
Amortization of tangible capital assets	4,149,567	3,708,553	3,085,107
	(14,320,433)	(7,544,037)	(12,016,297)
Endowment contributions received	(200,000)	(144,956)	(355,819)
Changes in supplies inventory	-	(6,111)	(41,058)
Changes in prepaid expense	-	(81,810)	(68,719)
	(200,000)	(232,877)	(465,596)
Net remeasurement gains (losses)	-	(1,257,263)	39,380
Increase in net debt	(12,525,550)	(8,775,710)	(10,856,386)
Net debt, beginning of year	(28,605,130)	(28,605,130)	(17,748,744)
Net debt, end of year	**$ (41,130,680)**	**$ (37,380,840)**	**$ (28,605,130)**

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Cash Flows
Year ended March 31, 2020 with comparative information for 2019

	March 31, 2020	March 31, 2019
Cash provided by (used in):		
Operating activities		
Annual operating surplus	$ 258,467	$ 1,586,127
Items not affecting cash:		
Revenue recognized from deferred capital contributions	(2,765,057)	(2,143,182)
Amortization of tangible capital assets	3,708,553	3,085,107
Change in employee future benefits	111,442	69,420
Recognition of deferred contributions related to operations	(2,041,476)	(1,026,073)
Changes in non-cash working capital (note 14)	4,350,219	756,391
Net change in cash from operating activities	3,622,148	2,327,790
Capital activities		
Tangible capital asset acquisitions	(11,252,590)	(15,101,404)
Net change in cash from capital activities	(11,252,590)	(15,101,404)
Investing activities		
Net decrease (increase) in portfolio investments	(2,725,629)	1,637,306
Net increase in endowment investments	(144,956)	(355,819)
Net change in cash from investing activities	(2,870,585)	1,281,487
Financing activities		
Deferred contribution received	897,422	2,290,837
Deferred capital contributions received	9,069,661	4,976,037
Net change in cash from financing activities	9,967,083	7,266,874
Increase in cash	(533,944)	(4,225,253)
Cash and cash equivalents, beginning of year	8,414,332	12,639,585
Cash and cash equivalents, end of year	$ 7,880,388	$ 8,414,332

See accompanying notes to consolidated financial statements

1. Authority and Purpose

Royal Roads University (the "University") operates under the authority of the *Royal Roads University Act,* Province of British Columbia. The University is a Board-governed undergraduate and graduate degree granting institution dedicated solely to studies and research activities that support the applied and professional fields. The University is a registered charity and exempt from income taxes under section 149 of the *Income Tax Act.*

2. Summary of Significant Accounting Policies

a) Basis of accounting

Budget Transparency and Accountability Act

These Consolidated Financial Statements have been prepared in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia supplemented by certain regulations (257/2010 and 198/2011) issued by the Province of British Columbia Treasury Board.

The *Budget Transparency and Accountability Act* requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

The issued regulations require all taxpayer supported organizations in the school, university, college and hospital sectors to adopt Canadian public sector accounting standards without any PS4200 elections.

The regulations require that restricted contributions received, or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are recorded and, referred to as deferred capital contributions, recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(ii) Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

2. Summary of Significant Accounting Policies (continued)

a) Basis of accounting (continued)

For British Columbia taxpayer-supported organizations, these contributions include government transfers and externally restricted contributions.

Public sector accounting standards

The accounting policy requirements under the Regulations are significantly different from the requirements of Canadian public sector accounting standards which require that:

(i) Government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and certain eligibility criteria have been met, and

(ii) Externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified.

As a result, revenue recognized in the Consolidated Statement of Operations and certain related deferred capital contributions, would be recorded differently under Canadian public sector accounting standards.

b) Basis of consolidation

The Consolidated Financial Statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by the University. Inter-organizational transactions, balances, and activities have been eliminated on consolidation.

The Royal Roads University Foundation and American Friends of Royal Roads University are controlled by the University and fully consolidated in these financial statements.

c) Financial instruments

(i) Cash and cash equivalents

Cash and cash equivalents include cash on-hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash, and that are subject to an insignificant risk of change in value. These short-term investments generally have a maturity of three months or less at acquisition.

(ii) Investments

The University invests in short and long duration, fixed-term investments, publicly traded equities on a segregated basis (held directly), and through pooled-fund products.

2. Summary of Significant Accounting Policies (continued)

c) Financial instruments (continued)

(ii) Investments (continued)

Equity and bond instruments that are quoted in an active market are reflected at fair value as at the reporting date. All other financial instruments are measured at cost or amortized cost.

Sale and purchases of investments are recorded at trade date. Unrealized gains and losses from changes in the fair value of equity and bond instruments are recognized in the Consolidated Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Consolidated Statement of Operations and related balances reversed from the Consolidated Statement of Remeasurement Gains and Losses. Unrealized gains and losses from the endowment investments, where earnings are restricted as to use, are recorded as deferred contributions and recognized in revenue when disposed and when related expenses are incurred.

Interest and dividends attributable to financial instruments are reported in the Consolidated Statement of Operations, except where amounts are required to be reflected in restricted contributions. Transaction costs are a component of cost for financial instruments measured using cost and are expensed for financial instruments measured at fair value. For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Investments include operating and endowment investments. Operating investments consist of research, capital and other funds received and held in advance for future expenditures. Endowment investments consist of donations held in perpetuity to benefit current and future generations.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in an active market for identical assets or liabilities.
- Level 2 – Observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

d) Inventories held for sale

Inventories of merchandise held for sale are recorded at the lower of cost and net realizable value.

2. Summary of Significant Accounting Policies (continued)

e) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets received as contributions are recorded at fair value at the date of receipt if the fair value of the asset can be reasonably estimated. Contributions of tangible capital assets where fair value cannot be reasonably estimated are recorded at a nominal value of $1. Works of art and cultural historical assets are not recorded as assets in these consolidated financial statements.

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost (less residual value) of the tangible capital assets, excluding land and assets under construction, is amortized on a straight line or declining balance basis over their estimated useful life as shown below.

Tangible capital assets are amortized on a straight-line or declining balance basis (for certain assets which were acquired before March 31, 2011). Assets under construction are not amortized until the asset is available for productive use.

Asset	Basis	Rate
Leasehold improvements	Straight Line	10 to 40 years
	Declining Balance	3.3% to 20.0%
Site improvements	Straight Line	30 to 50 years
Furnishings and equipment	Straight Line	10 to 15 years
	Declining Balance	10% to 20%
Automotive equipment	Straight Line	5 to 7 years
Technology assets	Straight Line	4 to 7 years
	Declining Balance	20.0% to 33.3%

Tangible capital assets are written down when conditions indicate that they no longer contribute to the University's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

2. Summary of Significant Accounting Policies (continued)

f) Employee future benefits

The University and its employees make contributions to the College Pension Plan and Municipal Pension Plan which are multi-employer joint trustee plans. These plans are a defined benefit plans, providing a pension on retirement, based on the member's age at retirement, length of service, and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as a defined contribution plan and any contributions by the University to the plan are expensed as incurred.

Sick leave benefits are also available to the University's employees. The costs of these benefits are determined based on usage. The accrued future obligation is estimated, based on the historical average of sick time used, to record a liability consistent with the projected benefit method pro-rated on service.

g) Recognition of revenue

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 (see note 6).

Externally restricted capital contributions for the improvement and acquisition of tangible capital assets are recorded as deferred capital contributions and recognized as earned revenue over the remaining useful life of the related tangible capital assets on the same basis as the related cost (see note 7).

Government operating 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, aligned with 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.

Contributions restricted to be retained in perpetuity, allowing only the income earned thereon to be spent, are recorded as endowed contributions on the Consolidated Statement of Operations for the portion to be held in perpetuity and as deferred contributions for the investment income earned thereon.

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 consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

h) Budget figures

Budget figures as approved by the University's Board of Governors on March 29, 2019 have been provided for comparative purposes. The budget is reflected in the Consolidated Statement of Operations as well as the Consolidated Statement of Change in Net Assets.

i) Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures. Key areas where management has made estimates and assumptions include those related to the carrying value of tangible capital assets, provisions for employee future benefits and valuation of receivables. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

j) Comparative Figures

Certain figures for the prior year have been reclassified in the financial statements to conform to the current year presentation.

3. Investments

	Fair Value Hierarchy		**2020**		**2019**
Cash and cash equivalents	Level 1	$	2,503,771	$	3,058,073
Short-term cash deposits	Level 1		14,596,494		14,252,478
Bonds - Canadian	Level 2		29,013,448		36,049,708
Bonds - Foreign	Level 2		9,148,288		-
Equities - Canadian	Level 1		3,822,711		4,724,815
Equities - Foreign	Level 1		2,372,494		1,758,810
		$	**61,457,206**	**$**	**59,843,884**

Classified as:				
Investments - portfolio	$	55,862,731	$	54,394,365
Investments – endowments		5,594,475		5,449,519
	$	**61,457,206**	**$**	**59,843,884**

3. Investments (continued)

Long-term bonds have an average maturity of four years, with yields of 1.5% to 6.631% (2019 – 1.5% to 9.976%). Equities and bond investments are recorded at fair value based on unadjusted market prices in an active market for the specific investments.

The University has compared the carrying value of each of their financial assets to its fair value as at March 31, 2020. No provision for impairment was recorded in the current year, as the fair value of all financial assets exceeded or did not differ significantly from their carrying value.

4. Employee Future Benefits

a) Pension benefits

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trusteed pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plans are multi-employer defined benefit pension plans. Basic pension benefits are based on a formula. As at August 31, 2019, the College Pension Plan has about 15,000 active members, and approximately 8,000 retired members. As at December 31, 2018, the Municipal Pension Plan has about 205,000 active members, including approximately 6,000 from colleges.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry- age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2018, indicated a $303 million surplus for basic pension benefits on a going concern basis.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a $2,866 million funding surplus for basic pension benefits on a going concern basis.

The University paid $3,214,851 for employer contributions to the plans in fiscal 2020 (2019 - $2,859,932).

4. Employee Future Benefits (continued)

a) Pension benefits (continued)

The next valuation for the College Pension Plan will be as at August 31, 2021, with results available in 2022. The next valuation for the Municipal Pension Plan will be December 31, 2021, with results available in 2022.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for each plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

b) Accumulated sick leave benefit

Employees of the University are entitled to sick leave in accordance with the terms and conditions of their employment contracts. The University recognizes a liability and an expense for sick leave in the period in which employees provide services. The accumulated sick leave benefit liability is shown in the following table.

		2020		2019
Accrued employee future benefits, beginning of year	$	733,496	$	664,076
Net change in current service costs		111,442		69,420
Accrued employee future benefits, end of year	**$**	**844,938**	**$**	**733,496**

5. Deferred Revenue

Deferred tuition relates to tuition fees for future periods. Deferred donations are for future, directed disbursements such as scholarships, bursaries, research and other specific projects. Other deferred revenue relates to non-credit tuition, other student fees, conference and event deposits, and deferred research grants.

		2020		2019
Deferred tuition	$	17,452,983	$	15,908,875
Deferred donations		3,606,909		2,966,839
Other deferred revenue		2,838,539		2,648,200
	$	**23,898,431**	**$**	**21,523,914**

6. Deferred Contributions

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

		2020		2019
Balance, beginning of year	$	3,001,087	$	1,692,897
Provincial capital grants received during the year		889,500		2,290,837
Other capital and donations received during the year		7,922		-
Transfers from deferred capital contributions		-		250,000
Transfers to deferred capital contributions		-		(206,574)
Funds used during the year for minor capital, maintenance and other academic program expenses		(2,041,476)		(1,026,073)
Balance, end of year	**$**	**1,857,033**	**$**	**3,001,087**

7. Deferred Capital Contributions

Contributions expended on tangible capital assets are referred to as deferred capital contributions. Amounts are recognized into revenue over the useful life of the asset. Note 2 outlines the Treasury Board direction on this accounting treatment. Changes in the balance of deferred capital contributions are shown in the following table.

		2020		2019
Balance, beginning of year	$	61,184,777	$	58,395,348
Contributions received during the year		9,069,661		4,976,037
Transfers from deferred contributions		-		206,574
Transfers to deferred contributions		-		(250,000)
Amortization of deferred capital contributions		(2,765,057)		(2,143,182)
Balance, end of year	**$**	**67,489,381**	**$**	**61,184,777**

8. Tangible Capital Assets

		Cost	Accumulated Amortization	Net Book Value at March 31, 2020		Net Book Value at March 31, 2019
Leasehold improvements	$	84,739,849	30,202,474	54,537,375	$	56,879,882
Site improvements		7,372,868	159,482	7,213,386		2,343,276
Furnishings and equipment		15,552,176	10,030,360	5,521,816		5,999,429
Technology assets		8,929,274	7,695,091	1,234,183		1,231,865
Assets under construction		12,189,859	-	12,189,859		6,698,130
Total	**$**	**128,784,026**	**48,087,407**	**80,696,619**	**$**	**73,152,582**

8. Tangible Capital Assets (continued)

Cost		Balance at March 31, 2019	Additions	Transfers from Work in Progress	Balance at March 31, 2020
Leasehold improvements	$	84,743,849	(4,000)	-	84,739,849
Site improvements		2,375,615	-	4,997,253	7,372,868
Furnishings and equipment		15,098,339	453,837	-	15,552,176
Technology assets		8,615,503	313,771	-	8,929,274
Assets under construction		6,698,130	10,488,982	(4,997,253)	12,189,859
Total	**$**	**117,531,436**	**11,252,590**	**-**	**128,784,026**

Accumulated Amortization		Balance at March 31, 2019	Amortization	Balance at March 31, 2020
Leasehold improvements	$	27,863,966	2,338,508	30,202,474
Site improvements		32,339	127,143	159,482
Furnishings and equipment		9,098,911	931,449	10,030,360
Technology assets		7,383,638	311,453	7,695,091
Total	**$**	**44,378,854**	**3,708,553**	**48,087,407**

9. Capital Asset Lease

The University leases the Royal Roads property and related assets and infrastructure 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 manages the adjacent lands. The related memorandum of understanding covers approximately 169.34 hectares. The initial term of five years commenced December 1, 2005. The University subsequently re-negotiated the term for 25 years and has the option to renew for terms of five years each thereafter. The fair value of the property and related assets could not be reasonably estimated at the inception of the lease and accordingly has been recorded in tangible capital assets at a nominal value of $1.

10. Commitments

The University has operating lease commitments for computer equipment; future minimum lease payments are:

2021	80,819
2022	54,000

11. Contingent assets and liabilities

The University may, from time to time, be involved in legal proceedings, claims and litigation that arise in the normal course of business. It is management's opinion that the aggregate amount of any potential asset or liability is not expected to have a material adverse effect on the University's financial position or results.

12. Accumulated Operating Surplus

Accumulated operating surplus consists of the following:

		2020		2019
Internally restricted infrastructure fund	$	9,879,973	$	9,879,973
Invested in tangible capital assets		13,207,238		11,967,805
Unrestricted		21,498,695		22,624,617
Endowments		5,594,475		5,449,519
	$	**50,180,381**	**$**	**49,921,914**

The purpose of the infrastructure fund is to finance major capital improvements.

13. Expense by Object

The following is a summary of expenses by object:

		2020		2019
Salaries and benefits	$	46,031,381	$	40,327,366
Professional and contracted services		10,020,648		9,638,147
Instruction and program delivery		2,236,859		2,142,411
IT and telecommunication		1,330,268		1,842,714
Marketing and business development		4,565,355		4,523,320
Awards and scholarships		1,387,561		1,154,705
Supplies and services		5,459,623		4,848,190
Grounds, facilities and equipment		1,262,787		1,200,363
Utilities		655,479		650,938
Amortization		3,708,553		3,085,107
Fundraising		645,289		469,780
	$	**77,303,803**	**$**	**69,883,041**

14. Supplemental Cash Flow Information

Changes in non-cash working capital:

		2020		2019
Accounts receivable	$	1,494,143	$	(2,200,443)
Inventories		50,345		(61,739)
Prepaid expenses		(81,810)		(68,719)
Accounts payable and accrued liabilities		513,024		(341,211)
Deferred revenue		2,374,517		3,428,503
	$	**4,350,219**	$	**756,391**

15. Financial Risk Management

The University has exposure to the following risks from its use of financial instruments: credit risk, price risk, and liquidity risk.

a) Credit risk

Credit risk is the risk of financial loss to the University if a customer fails to meet contractual obligations. Such risks arise principally from the amounts held by the University consisting of cash, accounts receivable and investments. The University closely monitors customer accounts to mitigate credit risk exposure.

b) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the University's income. Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. Canadian market risk is managed by controlling risk exposures within acceptable parameters while optimizing investment returns (note 3).

c) Liquidity risk

Liquidity risk is the risk that the University will not be able to meet its financial obligations as they become due. The University manages liquidity risk by continually monitoring actual and forecasted cash flows from operations, anticipated investing, and financial activities to ensure that its financial obligations are met.

16. Related Organizations

The University is related through common ownership to all Province of British Columbia ministries, school districts, health authorities, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are in the normal course of operations and are recorded at the amount of consideration established and agreed to by the parties.

17. Subsequent event

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy is not known at this time. This situation presents uncertainty and may have potential impacts on the university which could include future decreases in revenue, future increases in expenses, impairment of receivables, impairment of investments or reduction in investment income. As the situation is dynamic and the ultimate duration and magnitude of its impact not known, an estimate of the financial effect is not practical at this time.