



Royal Roads
UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2019

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Statement of Management Responsibility

The University is responsible for the preparation of the consolidated financial statements as at March 31, 2019 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, 2019 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.

A handwritten signature in black ink, appearing to read "Philip Steenkamp", written over a horizontal line.

Philip Steenkamp
President & Vice Chancellor

A handwritten signature in black ink, appearing to read "Cheryl Eason", written over a horizontal line.

Cheryl Eason
Vice President & Chief Financial Officer

May 15, 2019



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

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

- (hereinafter referred to as the “financial statements”).

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

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.

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



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

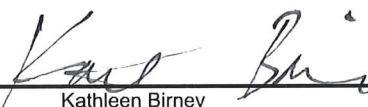
Chartered Professional Accountants

Victoria, Canada
May 15, 2019

Royal Roads University
Consolidated Statement of Financial Position
As at March 31, 2019 with comparative information for 2018

	March 31, 2019	March 31, 2018
Financial Assets		
Cash	\$ 7,135,617	\$ 11,643,945
Investments – portfolio (note 3)	55,673,080	56,987,931
Accounts receivable	5,033,295	2,832,852
Inventories	424,995	404,314
	<u>68,266,987</u>	<u>71,869,042</u>
Liabilities		
Accounts payable and accrued liabilities	10,428,843	10,770,054
Employee future benefits (note 4)	733,496	664,076
Deferred revenue (note 5)	21,523,914	18,095,411
Deferred contributions (note 6)	3,001,087	1,692,897
Deferred capital contributions (note 7)	61,184,777	58,395,348
	<u>96,872,117</u>	<u>89,617,786</u>
Net debt	(28,605,130)	(17,748,744)
Non-financial assets		
Tangible capital assets (note 8)	73,152,582	61,136,285
Investments – endowments (note 3)	5,449,519	5,093,700
Inventory of supplies	167,039	125,981
Prepaid expenses	876,283	807,564
	<u>79,645,423</u>	<u>67,163,530</u>
Accumulated surplus	\$ 51,040,293	\$ 49,414,786
Accumulated surplus is comprised of:		
Operating (note 12)	\$ 49,921,914	48,335,787
Remeasurement gains and losses	1,118,379	1,078,999
	<u>\$ 51,040,293</u>	<u>\$ 49,414,786</u>

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


Kathleen Birney
Chancellor & Chair of the Board


Philip Steenkamp
President & Vice Chancellor

Royal Roads University
Consolidated Statement of Operations
Year ended March 31, 2019 with comparative information for 2018

	Annual Budget (note 2i)	March 31, 2019	March 31, 2018
Revenue			
Tuition and other student fees	\$ 41,753,002	\$ 41,919,350	\$ 40,347,731
Provincial operating grants	18,494,855	18,559,528	17,936,616
Other provincial grants	590,500	1,026,021	437,792
Research grants	1,705,272	2,342,823	1,894,929
Deferred capital contributions (note 7)	2,426,698	2,143,182	1,775,385
Ancillary revenue	2,490,273	2,302,572	2,456,073
Investment income	1,434,430	1,743,558	1,434,790
Donations and other revenue	1,061,315	1,076,315	1,086,746
	69,956,345	71,113,349	67,370,062
Expenses (note 13)			
Instructional and program delivery	\$ 25,266,473	\$ 24,740,458	\$ 24,418,699
Academic and student support	20,417,665	19,922,918	19,364,803
Campus services	1,723,535	1,566,007	1,687,618
Facilities operation and maintenance	9,141,689	9,263,245	7,895,349
Operating support	9,911,186	10,864,148	9,779,217
Research	2,010,993	2,689,600	2,263,702
Fundraising	321,332	469,780	332,424
External engagement	450,000	366,885	-
	69,242,873	69,883,041	65,741,812
Annual operating surplus before endowed contributions	713,472	1,230,308	1,628,250
Endowed contributions	236,900	355,819	83,907
Annual operating surplus	950,372	1,586,127	1,712,157
Accumulated operating surplus, beginning of year	48,335,787	48,335,787	46,623,630
Accumulated operating surplus, end of year	\$ 49,286,159	\$ 49,921,914	\$ 48,335,787

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Remeasurement Gains and Losses
Year ended March 31, 2019 with comparative information for 2018

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Accumulated remeasurement gain, beginning of year	\$ 1,078,999	\$ 1,447,562
Unrealized gains (losses) attributable to:		
Foreign exchange	47,780	(25,448)
Portfolio investments / equity investments	131,910	(427,603)
Amounts reclassified to the statement of operations:		
Foreign exchange	(10,445)	(4,423)
Portfolio investments / equity investments	(129,865)	88,911
Net remeasurement gains and losses for the year	<u>39,380</u>	<u>(368,563)</u>
Accumulated remeasurement gain, end of year	\$ <u>1,118,379</u>	\$ <u>1,078,999</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Change in Net Debt
Year ended March 31, 2019 with comparative information for 2018

	Annual Budget (note 2i)	March 31, 2019	March 31, 2018
Annual operating surplus	\$ 713,472	\$ 1,586,127	\$ 1,712,157
Acquisition of tangible capital assets	(18,847,865)	(15,101,404)	(22,127,604)
Amortization of tangible capital assets	3,340,150	3,085,107	2,470,196
	(15,507,715)	(12,016,297)	(19,657,408)
Endowment contributions received	(236,900)	(355,819)	(83,907)
Changes in supplies inventory	-	(41,058)	27,601
Changes in prepaid expense	-	(68,719)	(282,032)
	(236,900)	(465,596)	(338,338)
Net remeasurement gains (losses)	-	39,380	(368,563)
Increase in net debt	(15,031,143)	(10,856,386)	(18,652,152)
Net debt, beginning of year	(17,748,744)	(17,748,744)	903,408
Net debt, end of year	\$ (32,779,887)	\$ (28,605,130)	\$ (17,748,744)

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Cash Flows
Year ended March 31, 2019 with comparative information for 2018

	March 31, 2019	March 31, 2018
Cash provided by (used in):		
Operating activities		
Annual operating surplus	\$ 1,586,127	\$ 1,712,157
Items not affecting cash:		
Revenue recognized from deferred capital contributions	(2,143,182)	(1,775,385)
Amortization of tangible capital assets	3,085,107	2,470,196
Change in employee future benefits	69,420	10,332
Decrease in deferred contributions related to operations	(1,026,073)	(476,000)
Changes in non-cash working capital (note 14)	756,391	(317,709)
Net change in cash from operating activities	<u>2,327,790</u>	<u>1,623,591</u>
Capital activities		
Tangible capital asset acquisitions	(15,101,404)	(22,127,604)
Net change in cash from capital activities	<u>(15,101,404)</u>	<u>(22,127,604)</u>
Investing activities		
Net decrease in portfolio investments	1,354,231	8,878,145
Net increase in endowment investments	(355,819)	(83,907)
Net change in cash from investing activities	<u>998,412</u>	<u>8,794,238</u>
Financing activities		
Federal and provincial capital contributions received	7,241,874	17,429,797
Contributions received from other sources	25,000	669,959
Net change in cash from financing activities	<u>7,266,874</u>	<u>18,099,756</u>
Increase (decrease) in cash	(4,508,328)	6,389,981
Cash and cash equivalents, beginning of year	<u>11,643,945</u>	<u>5,253,964</u>
Cash and cash equivalents, end of year	<u>\$ 7,135,617</u>	<u>\$ 11,643,945</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

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 is 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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

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.

At each year-end date, the University is required to evaluate and record any other-than-temporary impairment of its financial assets, other than those carried at fair value.

d) Inventories held for sale

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

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

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 declining balance basis. 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 20.0% to
	Declining Balance	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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

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 prorated on service.

f) 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.

Externally restricted capital contributions for the improvement and acquisition of tangible capital assets are recorded as deferred contributions. Once the amount is invested, it is transferred from deferred contributions to deferred capital contributions. Deferred capital contributions are recognized as earned revenue over the remaining useful life of the related tangible capital assets on the same basis as the related cost.

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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

2. Summary of Significant Accounting Policies (continued)

g) Budget figures

Budget figures as approved by the University's Board of Governors on 29 March 2018 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.

h) 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.

i) Comparative figures

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

3. Investments

	<u>Fair Value Hierarchy</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	Level 1	\$ 4,336,788	\$ 3,356,859
Short-term cash deposits	Level 1	14,252,478	16,662,045
Bonds - Canadian	Level 2	36,049,708	36,477,328
Equities - Canadian	Level 1	4,724,815	4,252,249
Equities - Foreign	Level 1	1,758,810	1,333,150
		<u>\$ 61,122,599</u>	<u>\$ 62,081,631</u>

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

3. Investments (continued)

Classified as:			
Investments – portfolio	\$	55,673,080	\$ 56,987,931
Investments – endowments		5,449,519	5,093,700
	\$	<u>61,122,599</u>	\$ <u>62,081,631</u>

Long-term bonds have an average maturity of two years, with yields of 1.5% to 9.976% (2018 – 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 instrument.

The University has compared the carrying value of each of their financial assets to its fair value as at March 31, 2019. 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 trustee 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, 2018, the College Pension Plan has about 14,000 active members, and approximately 8,000 retired members. As at December 31, 2017, the Municipal Pension Plan has about 197,000 active members, including approximately 6,000 from colleges.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015, indicated a \$67 million surplus for basic pension benefits on a going concern basis. The next valuation will be August 31, 2018, with results available in 2019.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged. The next valuation for the Municipal Pension Plan will be December 31, 2018, with results available in 2019.

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.

The University paid \$2,859,932 for employer contributions to the plans in fiscal 2019 (2018 - \$2,753,171).

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

4. Employee Future Benefits (continued)

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.

	<u>2019</u>	<u>2018</u>
Accrued employee future benefits, beginning of year	\$ 664,076	\$ 653,744
Net change in current service costs	69,420	10,332
Accrued employee future benefits, end of year	<u>\$ 733,496</u>	<u>\$ 664,076</u>

5. Deferred Revenue

Deferred tuition relates to tuition fees for future periods. 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.

	<u>2019</u>	<u>2018</u>
Deferred tuition	\$ 15,908,875	\$ 13,013,101
Deferred donations	2,966,839	2,667,045
Other deferred revenue	2,648,200	2,415,265
	<u>\$ 21,523,914</u>	<u>\$ 18,095,411</u>

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.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 1,692,897	\$ 6,708,738
Provincial capital grants received during the year	2,290,837	476,000
Other capital and donations received during the year	-	52,426
Transfers from deferred capital contributions	250,000	-
Transfers to deferred capital contributions	(206,574)	(5,248,267)
Funds used during the year for minor capital, maintenance and other related expenses	(1,026,073)	(296,000)
Balance, end of year	<u>\$ 3,001,087</u>	<u>\$ 1,692,897</u>

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2019

7. Deferred Capital Contributions

Contributions to be 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.

	2019	2018
Balance, beginning of year	\$ 58,395,348	\$ 37,351,136
Contributions received during the year	4,976,037	17,571,330
Transfers from deferred contributions	206,574	5,248,267
Transfers to deferred contributions	(250,000)	-
Amortization of deferred capital contributions	(2,143,182)	(1,775,385)
Balance, end of year	\$ 61,184,777	\$ 58,395,348

8. Tangible Capital Assets

	Cost	Accumulated Amortization	Net Book Value at March 31, 2019	Net Book Value at March 31, 2018
Leasehold improvements	\$ 84,743,849	27,863,967	56,879,882	\$ 33,937,416
Site improvements	2,375,615	32,339	2,343,276	-
Furnishings and equipment	15,098,339	9,098,910	5,999,429	4,267,013
Technology assets	8,615,503	7,383,638	1,231,865	361,671
Assets under construction	6,698,130	-	6,698,130	22,570,185
Total	\$ 117,531,436	44,378,854	73,152,582	\$ 61,136,285

Cost	Balance at March 31, 2018	Additions	Transfers from Work in Progress	Balance at March 31, 2019
Leasehold improvements	\$ 59,755,491	-	24,988,358	84,743,849
Site improvements	-	-	2,375,615	2,375,615
Furnishings and equipment	12,545,112	303,709	2,249,518	15,098,339
Technology assets	7,559,244	1,056,259	-	8,615,503
Assets under construction	22,570,185	13,741,436	(29,613,491)	6,698,130
Total	\$ 102,430,032	15,101,404	-	117,531,436

Accumulated Amortization	Balance at March 31, 2018	Amortization	Balance at March 31, 2019
Leasehold improvements	\$ 25,818,075	2,045,891	27,863,967
Site improvements	-	32,339	32,339
Furnishings and equipment	8,278,099	820,812	9,098,910
Technology assets	7,197,573	186,065	7,383,638
Total	\$ 41,293,747	3,085,107	44,378,854

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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:

2020	287,259
2021	80,819
2022	16,268

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 positive or adverse effect on the University's financial position or results.

12. Accumulated Operating Surplus

Accumulated operating surplus consists of the following:

	<u>2019</u>	<u>2018</u>
Internally restricted infrastructure fund	\$ 9,879,973	\$ 9,879,973
Invested in tangible capital assets	11,967,805	2,740,937
Unrestricted	22,624,617	30,621,177
Endowments	5,449,519	5,093,700
	<u>\$ 49,921,914</u>	<u>\$ 48,335,787</u>

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

Royal Roads University
Notes to the Consolidated Financial Statements
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13. Expense by Object

The following is a summary of expenses by object:

	<u>2019</u>	<u>2018</u>
Salaries and benefits	\$ 40,327,366	\$ 39,019,024
Professional and contracted services	9,638,147	9,545,199
Instruction and program delivery	2,142,411	1,916,883
IT and telecommunication	1,842,714	1,708,189
Marketing and business development	4,523,320	4,048,951
Awards and scholarships	1,154,705	907,141
Supplies and services	4,848,190	4,191,750
Grounds, facilities and equipment	1,200,363	992,210
Utilities	650,938	609,845
Amortization	3,085,107	2,470,196
Fundraising	469,780	332,424
	<u>\$ 69,883,041</u>	<u>\$ 65,741,812</u>

14. Supplemental Cash Flow Information

Changes in non-cash working capital:

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ (2,200,443)	\$ (488,153)
Inventories	(61,739)	86,819
Prepaid expenses	(68,719)	(282,032)
Accounts payable and accrued liabilities	(341,211)	535,571
Deferred revenue	3,428,503	(169,914)
	<u>\$ 756,391</u>	<u>\$ (317,709)</u>

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.

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15. Financial Risk Management (continued)

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.