



CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

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Statement of Management Responsibility

The University is responsible for the preparation of the consolidated financial statements as at March 31, 2021 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, 2021 have been reported on by KPMG LLP, Chartered Professional Accountants. The accompanying independent 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".

Philip Steenkamp
President & Vice Chancellor

A handwritten signature in blue ink, appearing to read "Cheryl Eason".

Cheryl Eason
Vice President & Chief Financial Officer

DATE June 17, 2021



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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, 2021
- 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, 2021 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.

Chartered Professional Accountants

Victoria, Canada
June 17, 2021

Royal Roads University
Consolidated Statement of Financial Position
As at March 31, 2021 with comparative information for 2020

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Financial Assets		
Cash and cash equivalents	\$ 5,976,613	\$ 7,880,388
Investments - portfolio (note 3)	57,826,514	55,862,731
Accounts receivable	2,470,994	3,539,152
Inventories	343,153	368,539
	<u>66,617,274</u>	<u>67,650,810</u>
Liabilities		
Accounts payable and accrued liabilities	10,318,788	10,941,867
Employee future benefits (note 4)	878,421	844,938
Deferred revenue (note 5)	24,265,678	23,898,431
Deferred contributions (note 6)	1,841,445	1,857,033
Deferred capital contributions (note 7)	73,379,173	67,489,381
	<u>110,683,505</u>	<u>105,031,650</u>
Net debt	(44,066,231)	(37,380,840)
Non-financial assets		
Tangible capital assets (note 8)	91,837,549	80,696,619
Investments - endowments (note 3)	5,657,294	5,594,475
Inventory of supplies	171,057	173,150
Prepaid expenses	1,035,586	958,093
	<u>98,701,486</u>	<u>87,422,337</u>
Accumulated surplus	\$ <u>54,635,255</u>	\$ <u>50,041,497</u>
Accumulated surplus is comprised of:		
Operating (note 12)	\$ 51,975,830	50,180,381
Remeasurement gains and losses	2,659,425	(138,884)
	\$ <u>54,635,255</u>	\$ <u>50,041,497</u>

Commitments 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, 2021 with comparative information for 2020

	Annual Budget (note 2h)	March 31, 2021	March 31, 2020
Revenue			
Tuition and other student fees	\$ 42,767,968	\$ 42,854,005	\$ 44,788,386
Provincial grants	23,359,849	23,562,983	21,689,385
Research grants	2,625,946	2,607,546	2,792,788
Deferred capital contributions (note 7)	2,825,451	2,752,640	2,765,057
Ancillary revenue	692,904	422,171	2,116,724
Investment income	1,683,549	1,197,787	2,545,750
Donations and other revenue	1,639,333	2,083,532	719,224
	75,595,000	75,480,664	77,417,314
Expenses (note 13)			
Instructional and program delivery	26,418,995	26,847,099	25,759,395
Academic and student support	20,733,287	19,823,341	21,150,021
Campus services	1,487,161	1,316,043	1,921,582
Facilities operation and maintenance	10,871,810	10,409,681	10,421,590
Corporate and operating support	11,962,667	11,106,104	12,992,029
Research	3,040,925	3,597,934	3,326,425
Fundraising	367,655	501,148	645,289
External engagement	212,500	146,684	1,087,472
	75,095,000	73,748,034	77,303,803
Annual operating surplus before endowed contributions	500,000	1,732,630	113,511
Endowed contributions	200,000	62,819	144,956
Annual operating surplus	700,000	1,795,449	258,467
Accumulated operating surplus, beginning of year	50,180,381	50,180,381	49,921,914
Accumulated operating surplus, end of year	\$ 50,880,381	\$ 51,975,830	\$ 50,180,381

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Remeasurement Gains and Losses
Year ended March 31, 2021 with comparative information for 2020

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Accumulated remeasurement gain, beginning of year	\$ (138,884)	\$ 1,118,379
Unrealized gains (losses) from portfolio investments in equity investments	3,518,599	(858,813)
Amounts reclassified to the statement of operations	<u>(720,290)</u>	<u>(398,450)</u>
Net remeasurement gains (losses) for the year	<u>2,798,309</u>	<u>(1,257,263)</u>
 Accumulated remeasurement gain, end of year	 \$ <u>2,659,425</u>	 \$ <u>(138,884)</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Changes in Net Debt
Year ended March 31, 2021 with comparative information for 2020

	Annual Budget (note 2h)	March 31, 2021	March 31, 2020
Annual operating surplus	\$ 700,000	\$ 1,795,449	\$ 258,467
Acquisition of tangible capital assets	(19,332,000)	(15,034,455)	(11,252,590)
Amortization of tangible capital assets	4,497,829	3,893,525	3,708,553
	<u>(14,834,171)</u>	<u>(11,140,930)</u>	<u>(7,544,037)</u>
Endowment contributions received	(200,000)	(62,819)	(144,956)
Changes in supplies inventory	-	2,093	(6,111)
Changes in prepaid expense	-	(77,493)	(81,810)
	<u>(200,000)</u>	<u>(138,219)</u>	<u>(232,877)</u>
Net remeasurement gains (losses)	-	2,798,309	(1,257,263)
Increase in net debt	(14,334,171)	(6,685,391)	(8,775,710)
Net debt, beginning of year	<u>(37,380,840)</u>	<u>(37,380,840)</u>	<u>(28,605,130)</u>
Net debt, end of year	\$ (51,715,011)	\$ (44,066,231)	\$ (37,380,840)

See accompanying notes to consolidated financial statements

Royal Roads University
Consolidated Statement of Cash Flows
Year ended March 31, 2021 with comparative information for 2020

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Cash provided by (used in):		
Operating activities		
Annual operating surplus	\$ 1,795,449	\$ 258,467
Items not affecting cash:		
Revenue recognized from deferred capital contributions	(2,752,640)	(2,765,057)
Amortization of tangible capital assets	3,893,525	3,708,553
Change in employee future benefits	33,483	111,442
Recognition of deferred contributions related to operations	(1,785,775)	(2,041,476)
Changes in non-cash working capital (note 14)	762,312	4,350,219
Net change in cash from operating activities	<u>1,946,354</u>	<u>3,622,148</u>
Capital activities		
Tangible capital asset acquisitions	<u>(15,034,455)</u>	<u>(11,252,590)</u>
Net change in cash from capital activities	<u>(15,034,455)</u>	<u>(11,252,590)</u>
Investing activities		
Net decrease (increase) in portfolio investments	834,526	(2,725,629)
Net increase in endowment investments	<u>(62,819)</u>	<u>(144,956)</u>
Net change in cash from investing activities	<u>771,707</u>	<u>(2,870,585)</u>
Financing activities		
Deferred contribution received	1,770,187	897,422
Deferred capital contributions received	<u>8,642,432</u>	<u>9,069,661</u>
Net change in cash from financing activities	<u>10,412,619</u>	<u>9,967,083</u>
Increase in cash	(1,903,775)	(533,944)
Cash and cash equivalents, beginning of year	<u>7,880,388</u>	<u>8,414,332</u>
Cash and cash equivalents, end of year	<u>\$ 5,976,613</u>	<u>\$ 7,880,388</u>

See accompanying notes to consolidated financial statements

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2021

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*.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in governments worldwide, including the Canadian federal and provincial governments enacting emergency measures to combat the spread of the virus. The economic conditions and the University’s response to the pandemic had a material impact on the University’s operating results and financial position in 2021. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the University is not known at this time.

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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2021

2. Summary of Significant Accounting Policies (continued)

a) Basis of accounting (continued)

- (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.

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, American Friends of Royal Roads University and Cascade Institute 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.

2. Summary of Significant Accounting Policies (continued)

c) Financial instruments (continued)

(ii) Investments (continued)

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.

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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2021

2. Summary of Significant Accounting Policies (continued)

d) Inventories held for sale

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

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. 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.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2021

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.

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. Gifts-in-kind are not recorded in these consolidated financial statements.

h) Budget figures

The Board of Governors approved an original budget on March 31, 2020, which did not include the potential impact of COVID-19 on the revenue, expense, and net operating income. The University's Board of Governors subsequently approved an amended budget on June 25, 2020, to reflect reductions in revenues of \$6.3M, expenses of \$5.5M, and net operating income of \$0.8M, taking into consideration the emerging pandemic situation. The approved June 25, 2020 budget figures are reflected in the Consolidated Statement of Operations as well as the Consolidated Statement of Change in Net Debt.

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2021

2. Summary of Significant Accounting Policies (continued)

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

	<u>Fair Value Hierarchy</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	Level 1	\$ 15,187,662	\$ 2,503,771
Short-term cash deposits	Level 1	12,432,036	14,596,494
Bonds - Canadian	Level 2	20,247,349	29,013,448
Bonds - Foreign	Level 2	5,702,739	9,148,288
Equities - Canadian	Level 1	4,475,886	3,822,711
Equities - Foreign	Level 1	5,438,136	2,372,494
		\$ 63,483,808	\$ 61,457,206
Classified as:			
Investments - portfolio		\$ 57,826,514	\$ 55,862,731
Investments - endowments		5,657,294	5,594,475
		\$ 63,483,808	\$ 61,457,206

Long-term bonds have an average maturity of four years, with yields of 1.38% to 6.40% (2020: 1.50% to 6.63%). 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, 2021. 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, 2019, the College Pension Plan has about 15,000 active members, and approximately 9,000 retired members. As at December 31, 2019, the Municipal Pension Plan has about 213,000 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 \$3,363,075 for employer contributions to the plans in fiscal 2021 (2020: \$3,214,851).

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

Royal Roads University
Notes to the Consolidated Financial Statements
Year ended March 31, 2021

4. Employee Future Benefits (continued)

b) Accumulated sick leave benefit (continued)

in the period in which employees provide services. The accumulated sick leave benefit liability is shown in the following table.

	<u>2021</u>	<u>2020</u>
Accrued employee future benefits, beginning of year	\$ 844,938	\$ 733,496
Net change in current service costs	33,483	111,442
Accrued employee future benefits, end of year	<u>\$ 878,421</u>	<u>\$ 844,938</u>

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.

	<u>2021</u>	<u>2020</u>
Deferred tuition	\$ 18,032,626	\$ 17,452,983
Deferred donations	3,933,550	3,606,909
Other deferred revenue	2,299,502	2,838,539
	<u>\$ 24,265,678</u>	<u>\$ 23,898,431</u>

6. Deferred Contributions

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

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 1,857,033	\$ 3,001,087
Provincial capital grants received during the year	1,770,187	889,500
Other capital and donations received during the year	-	7,922
Funds used during the year for minor capital, maintenance and other academic program expenses	(1,785,775)	(2,041,476)
Balance, end of year	<u>\$ 1,841,445</u>	<u>\$ 1,857,033</u>

Royal Roads University
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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.

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 67,489,381	\$ 61,184,777
Contributions received during the year	8,642,432	9,069,661
Amortization of deferred capital contributions	<u>(2,752,640)</u>	<u>(2,765,057)</u>
Balance, end of year	<u>\$ 73,379,173</u>	<u>\$ 67,489,381</u>

8. Tangible Capital Assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value at March 31, 2021</u>	<u>Net Book Value at March 31, 2020</u>
Leasehold improvements	\$ 88,385,117	32,616,915	55,768,202	\$ 54,537,375
Site improvements	7,748,198	353,782	7,394,416	7,213,386
Furnishings and equipment	16,163,634	10,961,694	5,201,940	5,521,816
Technology assets	9,127,308	8,048,541	1,078,767	1,234,183
Assets under construction	22,394,224	-	22,394,224	12,189,859
	<u>\$ 143,818,481</u>	<u>51,980,932</u>	<u>91,837,549</u>	<u>\$ 80,696,619</u>

Cost	<u>Balance at March 31, 2020</u>	<u>Additions</u>	<u>Transfers from Work in Progress</u>	<u>Balance at March 31, 2021</u>
Leasehold improvements	\$ 84,739,849	-	3,645,268	88,385,117
Site improvements	7,372,868	-	375,330	7,748,198
Furnishings and equipment	15,552,176	553,705	57,753	16,163,634
Technology assets	8,929,274	198,034	-	9,127,308
Assets under construction	12,189,859	14,282,716	(4,078,351)	22,394,224
	<u>\$ 128,784,026</u>	<u>15,034,455</u>	<u>-</u>	<u>143,818,481</u>

Accumulated Amortization	<u>Balance at March 31, 2020</u>	<u>Amortization</u>	<u>Balance at March 31, 2021</u>
Leasehold improvements	\$ 30,202,474	2,414,441	32,616,915
Site improvements	159,482	194,300	353,782
Furnishings and equipment	10,030,360	931,334	10,961,694
Technology assets	7,695,091	353,450	8,048,541
	<u>\$ 48,087,407</u>	<u>3,893,525</u>	<u>51,980,932</u>

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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:

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:

	<u>2021</u>	<u>2020</u>
Internally restricted infrastructure fund	\$ 9,879,973	\$ 9,879,973
Invested in tangible capital assets	18,458,376	13,207,238
Unrestricted	17,980,187	21,498,695
Endowments	5,657,294	5,594,475
	<u>\$ 51,975,830</u>	<u>\$ 50,180,381</u>

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

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13. Expense by Object

The following is a summary of expenses by object:

	<u>2021</u>	<u>2020</u>
Salaries and benefits	\$ 46,849,922	\$ 46,031,381
Professional and contracted services	10,568,202	10,020,648
Instruction and program delivery	1,033,217	2,236,859
IT and telecommunication	1,381,882	1,330,268
Marketing and business development	3,875,677	4,565,355
Awards and scholarships	1,521,080	1,387,561
Supplies and services	2,867,810	5,459,623
Grounds, facilities and equipment	1,094,523	1,262,787
Utilities	543,823	655,479
Amortization	3,893,525	3,708,553
Fundraising	118,373	645,289
	<u>\$ 73,748,034</u>	<u>\$ 77,303,803</u>

14. Supplemental Cash Flow Information

Changes in non-cash working capital:

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 1,068,158	\$ 1,494,143
Inventories	27,479	50,345
Prepaid expenses	(77,493)	(81,810)
Accounts payable and accrued liabilities	(623,079)	513,024
Deferred revenue	367,247	2,374,517
	<u>\$ 762,312</u>	<u>\$ 4,350,219</u>

15. Financial Risk Management

The University has exposure to the following risks from its use of financial instruments: credit risk, market 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

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15. Financial Risk Management (continued)

b) Market risk (continued)

controlling risk exposures within acceptable parameters while optimizing investment returns (note 3).

As at March 31, had the market price of the investments increased or decreased by 10%, with all other variables held constant, investments would have increased or decreased, respectively by approximately \$634,838 (2020 - \$614,572). This sensitivity analysis is based on the actual holdings as at March 31, 2021 and 2020, and assumes all other variables are held constant. Actual trading results may differ from this sensitivity analysis and the difference could be material.

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.

d) Currency risk

Currency risk is the risk that changes in foreign currency exchange rates will affect the University's income and market value of its investments. As at March 31, 2021, if the Canadian dollar had strengthened/weakened by 1% in relation to all other currencies, holding all other variable constant, investments would have decreased/increased, by \$111,409 (2020 - \$115,208). In practice, actual trading results may differ from this sensitivity analysis and the difference could be material.

e) Changes in financial risk

The University has not identified any changes in the financial risks over the prior year.

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

The University is working with various stakeholders on a proposal to establish a new post-secondary campus in the rapidly growing West Shore community. Stakeholders include the University, the University of Victoria, Camosun College and municipal and provincial governments. A capital business plan is currently under development for submission to the Ministry of Advanced Education, Skills Training (MAEST).