

Auditors' Report

To the Board of Governors of
Royal Roads University

We have audited the statement of financial position of Royal Roads University as at March 31, 2007, and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Royal Roads University as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, Canada
May 15, 2007

Grant Thornton LLP

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**ROYAL ROADS
UNIVERSITY**

STATEMENT OF MANAGEMENT RESPONSIBILITY

The University is responsible for the preparation of the financial statements and has prepared them in accordance with generally accepted accounting principles prescribed for not-for-profit organizations by the Canadian Institute of Chartered Accountants. These financial statements present fairly the financial position of the University as at March 31, 2007, and the results of its operations and changes in net assets for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Governors carries out its responsibility for review of the financial statements. The Board of Governors may meet with management and the external auditors to discuss the results of audit examinations and financial reporting matters. The external auditors have full access to the Board of Governors with and without the presence of management.

The financial statements for the year ended March 31, 2007 have been reported on by Grant Thornton LLP, Chartered Accountants. The auditors' report outlines the scope of their examination and provides their opinion on the fairness of presentation of the information in the financial statements.

Allan Cahoon
President


Robert Whitmore
Associate Vice President
Business Planning & Performance

May 16, 2007


Royal Roads University
Statement of Financial Position
as at March 31, 2007

	<u>2007</u>	<u>2006</u> <i>note 14</i>
Assets		
Current		
<i>Cash and cash equivalents</i>	\$ 9,592,893	\$ 9,105,158
<i>Short term investments</i>	15,742,220	15,025,315
<i>Accounts receivable, note 3</i>	1,386,651	1,829,812
<i>Inventory</i>	274,122	416,146
<i>Prepays</i>	<u>104,244</u>	<u>147,830</u>
	27,100,130	26,524,261
Long term		
<i>Capital assets, note 4</i>	<u>19,288,226</u>	<u>19,483,695</u>
	<u>\$ 46,388,356</u>	<u>\$ 46,007,956</u>
Liabilities		
Current		
<i>Accounts payable and accruals</i>	\$ 4,873,586	\$ 6,633,545
<i>Deferred revenue, note 6</i>	7,806,082	6,981,126
<i>Current portion of long term debt, note 9</i>	<u>264,850</u>	<u>253,950</u>
	12,944,518	13,868,621
Long term		
<i>Long term debt, note 9</i>	159,854	424,704
<i>Deferred contributions, note 7</i>	1,547,557	1,162,657
<i>Unamortized deferred capital contributions, note 8</i>	<u>10,623,402</u>	<u>11,169,413</u>
	12,330,813	12,756,774
	<u>25,275,331</u>	<u>26,625,395</u>
Net Assets		
<i>Invested in Capital Assets, note 4</i>	8,664,824	8,314,282
<i>Restricted Net Assets, note 12</i>	7,379,973	6,379,973
<i>Unrestricted Net Assets</i>	<u>5,068,228</u>	<u>4,688,306</u>
	21,113,025	19,382,561
	<u>\$ 46,388,356</u>	<u>\$ 46,007,956</u>

The accompanying notes to the financial statements form an integral part of the financial statements



 Robert A. Skene
 Chair, Board of Governors



 Allan Cahoon
 President

Royal Roads University
Statement of Changes in Net Assets
for the year ending March 31, 2007

	Invested in Capital Assets <i>note 4</i>	Restricted Net Assets <i>note 12</i>	Unrestricted Net Assets	Total 2007	Total 2006
Balance, beginning of year	\$ 8,314,282	\$ 6,379,973	\$ 4,688,306	\$ 19,382,561	\$ 17,326,726
Excess (deficiency) of revenues over expenses	(1,259,223)	-	2,989,687	1,730,464	2,055,835
Capital transactions	1,609,765		(1,609,765)	-	-
Human Resources Strategy Implementation Fund		1,000,000	(1,000,000)	-	
Balance, end of year	\$ <u>8,664,824</u>	\$ <u>7,379,973</u>	\$ <u>5,068,228</u>	\$ <u>21,113,025</u>	\$ <u>19,382,561</u>

Royal Roads University
Statement of Revenues and Expenses
for the year ending March 31, 2007

	<u>2007</u>	<u>2006</u> <i>note 14</i>
Revenues		
<i>Tuition fees</i>	\$ 23,247,652	\$ 23,983,273
<i>Ancillary revenue</i>	3,446,447	3,012,434
<i>Grants - provincial</i>	14,388,234	14,897,811
<i>Grants - research</i>	1,675,004	1,640,874
<i>Amortization of deferred capital contribution</i>	1,015,995	1,111,846
<i>Other revenue</i>	1,899,883	853,648
	<u>45,673,215</u>	<u>45,499,886</u>
Expenses		
<i>Salaries & benefits</i>	23,278,745	23,330,243
<i>Contracted services</i>	8,446,514	8,055,307
<i>Instructional & program delivery</i>	1,461,592	2,051,433
<i>Computing & technology</i>	1,221,658	825,521
<i>Marketing & business development</i>	2,381,592	2,176,328
<i>Awards & scholarships</i>	700,804	654,425
<i>Supplies & services</i>	2,078,729	1,952,965
<i>Grounds, facilities & equipment</i>	1,016,089	842,894
<i>Telephone & utilities</i>	708,846	644,867
<i>Amortization</i>	1,968,422	2,047,075
<i>Provision for bad debts</i>	148,529	192,300
<i>Legal, audit & banking</i>	507,523	636,610
<i>Interest on long term debt</i>	23,708	34,083
	<u>43,942,751</u>	<u>43,444,051</u>
Excess of revenues over expenses	<u><u>\$ 1,730,464</u></u>	<u><u>\$ 2,055,835</u></u>

Royal Roads University
Statement of Cash Flows
for the year ending March 31, 2007

Increase (decrease) in cash and cash equivalents from:

	<u>2007</u>	<u>2006</u>
		<i>note 14</i>
Operating activities		
<i>Excess of revenues over expenses</i>	\$ 1,730,464	\$ 2,055,835
<i>Items not affecting cash</i>		
<i>Amortization of deferred capital contributions</i>	(1,015,995)	(1,111,846)
<i>Amortization of capital assets</i>	1,968,422	2,047,075
<i>Work in process expensed - note 4</i>	306,796	-
<i>Transfer of research assets</i>	16,576	-
<i>Decrease in deferred contributions related to operations</i>	(112,960)	(145,660)
<i>Changes in non-cash working capital</i>		
<i>Net decrease (increase) in non-cash current assets</i>	628,771	(1,081,911)
<i>Net (decrease) increase in accounts payable, accruals and deferred revenue</i>	(935,003)	2,007,149
Cash provided by operating activities	<u>2,587,071</u>	<u>3,770,642</u>
Investing activities		
<i>Net increase in short term investments</i>	(716,905)	(12,009,216)
<i>Net capital asset acquisitions</i>	(2,096,325)	(1,925,652)
Cash used in investing activities	<u>(2,813,230)</u>	<u>(13,934,868)</u>
Financing activities		
<i>Principal repayments on bank loan</i>	(253,950)	(243,575)
<i>Capital contributions received from the Province</i>	522,815	815,080
<i>Capital contributions received from other sources</i>	445,029	419,000
Cash provided from financing activities	<u>713,894</u>	<u>990,505</u>
Net increase (decrease) in cash and cash equivalents	487,735	(9,173,721)
Cash and cash equivalents, beginning of year	<u>9,105,158</u>	<u>18,278,879</u>
Cash and cash equivalents, end of year	<u>\$ 9,592,893</u>	<u>\$ 9,105,158</u>

**Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2007**

Note 1 – Authority and Purpose

Royal Roads University operates under the authority of the *Royal Roads University Act*, Province of British Columbia. The University is a Board-governed undergraduate and graduate degree granting institution dedicated solely to studies and research activities that support the applied and professional fields.

Under the Income Tax Act, the University is exempt from income taxes.

Note 2 – Significant Accounting Policies

a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b) Recognition of revenue

Tuition and other student revenues are recognized on a pro rata basis, based on course credits completed by the year-end.

Operating grants are recognized when receivable. Revenues received for the provision of goods and services by the University are recognized in the period in which the goods are provided or the services are rendered.

The University follows the deferral method of accounting for contributions.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts must be used for the purposes designated by the external parties.

Externally restricted capital contributions for the acquisition of capital assets are recorded as deferred contributions until the amount is invested in capital assets (see note 7). Once the amount is invested, it is transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as earned revenue over the remaining useful life of the related capital assets (see note 8).

Donations of materials and services that would have otherwise been purchased are recorded at their fair market value. Other gifts-in-kind are not recorded in these financial statements.

c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in the bank, cash on hand and instruments with a maturity dates of three months or less when acquired.

d) Short-term investments

Short-Term Investments are recorded at the lower of cost plus accrued interest and market value. Short-term investments are all highly liquid marketable securities that have a term to maturity of 90 days to 1 year when acquired.

e) Inventory

Inventories of merchandise held for resale are recorded at the lower of cost or net realizable value.

Note 2 – Continued

f) Capital assets

Capital assets are recorded at cost less accumulated amortization.

Amortization is provided on a declining basis over the estimated useful life of the assets as follows:

Automotive equipment	20%
Computer equipment & systems	20% - 33.3%
Furnishings & equipment	10%
Library acquisitions	10%
Leasehold improvements	3.33% - 10%

Software and computer license agreements are expensed in the year of acquisition. Work in progress related to the Greenhouse Restoration and other Heritage projects, and to the METRO systems development have been capitalized; however, these costs will not be amortized until these projects are completed. During the year, the METRO student portion of the overall METRO systems development was implemented and was transferred from work in progress to in production status for amortization purposes. (see note 4).

g) Long-lived assets

The University regularly reviews the carrying value of long-lived assets and continually makes estimates regarding future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the University may be required to record impairment charges for these assets.

h) Use of estimates

In preparing the University's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

i) Financial instruments

The University's financial instruments consist of cash and cash equivalents, short term investments, accounts receivable, accounts payable, and long term debt. Unless otherwise noted, it is management's opinion that the University is not exposed to significant interest or foreign currency risks arising from these financial instruments. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2007

Note 3 – Accounts Receivable

	2007	2006 <i>note 14</i>
Trade accounts receivable	\$ 1,210,489	\$ 712,292
GST receivable	100,898	138,938
Royal Roads University Foundation	393,345	-
Province of British Columbia	<u>-</u>	<u>1,465,200</u>
	1,704,732	2,316,430
Allowance for doubtful accounts	<u>(318,081)</u>	<u>(486,618)</u>
	<u>\$ 1,386,651</u>	<u>\$ 1,829,812</u>

Note 4 – Capital Assets and Invested in Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2007	2006
Automotive equipment	\$ 480,658	\$ 274,066	\$ 206,592	\$ 170,304
Computer equipment & systems	5,683,101	4,058,767	1,624,334	606,912
Furnishings & equipment	6,152,371	2,619,350	3,533,021	3,563,519
Library acquisitions	858,054	371,568	486,486	540,540
Leasehold improvements	23,736,105	12,436,486	11,299,619	12,342,984
Work in progress	<u>2,138,174</u>	<u>-</u>	<u>2,138,174</u>	<u>2,259,436</u>
	<u>\$ 39,048,463</u>	<u>\$ 19,760,237</u>	19,288,226	19,483,695
Unamortized deferred capital contributions, note 8			<u>(10,623,402)</u>	<u>(11,169,413)</u>
Invested in capital assets			<u>\$ 8,664,824</u>	<u>\$ 8,314,282</u>

During 2006/07, \$306,796 of work in progress for design work related to the Living Learning Centre was expensed to contracted services.

Note 5 – Capital Assets Lease

The University leases the Royal Roads University Campus and related assets from the Government of Canada for \$1 per annum. This lease covers approximately 59.5 hectares and is for a term of 50 years, commencing December 1, 2000 and terminating November 30, 2050, plus two renewal options of 25 years and 24 years respectively, for a total of 99 years. The University also leases the Adjacent Lands from the Government of Canada for \$1 per annum. This lease covers approximately 169.34 hectares, has an initial lease term of 5 years commencing December 1, 2000, and provides the University with renewal options, at its discretion, for subsequent 5 year terms. During 2003/04, the University exercised its option early in order to extend the lease term for the Adjacent Lands to November 30, 2010 under the same terms and conditions as the original lease. The fair value of the campus and related assets cannot be reasonably estimated at this time.

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2007

Note 6 – Deferred Revenue

	2007	2006 <i>note 14</i>
Deferred tuition	\$ 5,098,982	\$ 5,052,880
Other deferred revenue	1,780,140	1,253,750
Prepaid tuition	<u>926,960</u>	<u>674,496</u>
	<u>\$ 7,806,082</u>	<u>\$ 6,981,126</u>

- Deferred tuition relates to tuition fees for the period April 1 to June 30, 2007 that were charged to learners' Accounts Receivable as at March 31, 2007.
- Other deferred revenue relates to non-credit tuition for Executive Development, continuous learning programs, other student fees, and deferred research grants.
- Prepaid tuition relates to application fees and tuition deposits received for programs commencing in fiscal 2007/08 and tuition fees received for courses commencing after June 30, 2007.

Note 7 – Deferred Contributions

Deferred contributions represent externally restricted contributions that will be used in future years to acquire capital assets. Changes in deferred contributions are as follows:

	2007	2006
Balance, beginning of year	\$ 1,162,657	\$ 625,227
Provincial capital grants received during the year	522,815	815,080
Other capital grants received during the year	445,029	406,000
Funds used during the year for capital purposes	(469,984)	(537,990)
Funds used during the year for maintenance and related expenses	<u>(112,960)</u>	<u>(145,660)</u>
Balance, end of year	<u>\$ 1,547,557</u>	<u>\$ 1,162,657</u>

Note 8 – Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the portion of externally restricted contributions used to acquire capital assets that will be recognized as revenue in future periods over the remaining useful life of the assets. Changes in unamortized deferred capital contributions are as follows:

	2007	2006
Balance, beginning of year	\$ 11,169,413	\$ 11,730,269
Current year's acquisitions funded by provincial capital contributions	118,791	151,318
Current year's acquisitions funded by other capital contributions	351,193	399,672
Amortization of deferred capital contributions	<u>(1,015,995)</u>	<u>(1,111,846)</u>
Balance, end of year	<u>\$ 10,623,402</u>	<u>\$ 11,169,413</u>

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2007

Note 9 – Long Term Debt

The university has an unsecured bank loan expiring November 3, 2008 with a fixed interest rate of 4.21% per annum, which is repayable over 60 months with blended payments of principal and interest of \$23,138 per month. At year-end, the amount outstanding was as follows:

	2007	2006
Total principal outstanding at year end	\$ 424,704	\$ 678,654
Current portion	<u>(264,850)</u>	<u>(253,950)</u>
Long term debt	<u>\$ 159,854</u>	<u>\$ 424,704</u>

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

2008	264,850
2009	<u>159,850</u>
	<u>\$ 424,704</u>

Note 10 – Commitments

The University has operating lease commitments for computers as follows:

2008	\$ 753,023
2009	538,040
2010	305,311
2011	168,695
2012	74,856

Note 11 – Employee Benefits

The University and its employees contribute to the College Pension Plan and the Municipal Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the Plans, including the payment of pension benefits on behalf of employers and employees to whom the Act applies. The Plans are multi-employer defined benefit plans. Under joint trusteeship, which became effective April 1, 2000 for the College Pension Plan and April 5, 2001 for the Municipal Pension Plan, the risks and rewards associated with each Plan's unfunded liability or funding surplus are shared between the employers and the Plans' members and may be reflected in their future contributions. Portions of the unfunded liability or funding surplus are not attributed to individual employers. Based on the most recent actuarial valuations, the Municipal Pension Plan and the College Pension Plan each have an unfunded liability. As a result of the unfunded liability, the employer and the employee contributions to the College Pension Plan were increased effective September 1, 2004, and to the Municipal Pension Plan were increased effective July 1, 2005.

**Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2007**

Note 11 – Continued

The University contributes to a health care benefit plan covering extended health, dental, life insurance, and long term disability for regular employees. The plan is administered by the Manufacturers Life Insurance Company (Manulife). Manulife retains the ultimate liability for these health care benefits.

During 2006/07, the University contributed \$1,151,756 (2005/06: \$1,067,501) to the College Pension Plan and the Municipal Pension Plan and \$832,072 (2005/06: \$766,211) to the extended health care benefit plan.

Note 12 – Restricted Net Assets

The Board of Governors has internally restricted the following funds:

	2007	2006
Infrastructure Fund	\$ 5,679,973	\$ 5,679,973
Program Development & Research Fund	350,000	350,000
Marketing & Market Research Fund	350,000	350,000
Human Resources Strategy Fund	<u>1,000,000</u>	<u>-</u>
	<u>\$ 7,379,973</u>	<u>\$ 6,379,973</u>

a) Infrastructure Fund

The purpose of this Fund is to create a reserve to help finance major capital improvements in the near future. The fund, which was first established in 1997/98, is funded by Board approved appropriations. Project expenditures from the fund are pre-approved by the Board.

b) Program Development & Research Fund

During 1998/99, the Board approved the appropriation of \$350,000 to be used in future years for program development and research.

c) Marketing & Market Research Fund

During 1998/99, the Board approved the appropriation of \$350,000 to be used in future years for marketing and market research.

d) Human Resources Strategy Fund

During 2006/07, the Board approved the appropriation of \$1 million to be used in future years to implement a comprehensive human resources plan and strategy.

Note 13 – Royal Roads University Foundation

The Royal Roads University Foundation was incorporated November 25, 1998 under the Society Act, Province of British Columbia and commenced operations on April 1, 1999. The main purpose of the Foundation is fundraising in order to further the interests and objective of Royal Roads University.

Royal Roads University
Notes to the Financial Statements
for the year ending March 31, 2007

Note 13 – Continued

Endowments to the Foundation must be held in perpetuity. The balance is not available for other purposes without the approval of the Board of Directors of the Foundation. Income earned on these Endowments is to be used for the operating expenses of the Foundation, for named scholarships and bursaries for Royal Roads University learners, or other specific purposes as directed by the donors.

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

During the current year the Foundation received \$119,141 (2005/06: \$1,707,040) in endowed contributions and \$726,355 (2005/06: \$559,665) in restricted donations and other contributions.

During the current year the Foundation transferred \$587,244 (2005/06: \$551,009) to the University in support of learner bursaries, heritage capital projects, and gardens and grounds.

During the current year the Foundation completed a feasibility study and commenced planning for a major capital fund raising campaign. The University is providing cash flow financing to cover all of the costs associated with the capital campaign, and will recover these costs from the Foundation as capital donations are received by the Foundation.

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

As at March 31	2007	2006
Assets		
Cash	\$ 178,520	\$ 216,607
Accounts receivable	1,732	3,225
Investments	4,783,562	4,405,032
Investment in life insurance	21,993	23,343
	<u>\$ 4,985,807</u>	<u>\$ 4,648,207</u>
Liabilities		
Accounts payable	\$ 2,800	\$ 2,768
Due to Royal Roads University – donations	69,769	157,719
Due to Royal Roads University – capital campaign	393,345	-
	<u>465,914</u>	<u>160,487</u>
Fund Balances	<u>4,519,893</u>	<u>4,487,720</u>
	<u>\$ 4,985,807</u>	<u>\$ 4,648,207</u>
For the year ending March 31		
Excess of revenues over expenses	<u>\$ 32,173</u>	<u>\$ 1,835,864</u>

Note 14 – Comparative Figures

Certain of the comparative figures have been restated to conform to the current year's presentation. During 2006/07 the University changed from annual to quarterly recording of tuition fees in Deferred Revenue and Accounts Receivable. At March 31, 2007 tuition fees for the period April 1 to June 30, 2007 only have been charged to Deferred Revenue and Accounts Receivable and the prior year's amounts have, therefore, been restated for comparative purposes.