Consolidated Financial Statements of

CAPILANO UNIVERSITY

Year ended March 31, 2010

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AUDITORS' REPORT

To the Board of Governors
Capilano University

We have audited the consolidated statement of financial position of Capilano University (the "University") as at March 31, 2010 and the consolidated statements of operations, 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 consolidated financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Burnaby, Canada

May 10, 2010

CAPILANO UNIVERSITY

Consolidated Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 17,800,562	$ 21,503,126
Accounts receivable	1,574,325	1,599,980
Inventories (note 3)	593,624	495,119
Prepaid expenses	480,564	242,390
Total current assets	20,449,075	23,840,615
Investments (note 4)	24,791,165	16,539,909
Capital assets (note 6)	58,520,301	59,521,471
Total assets	$ 103,760,541	$ 99,901,995
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 11,591,925	$ 11,845,801
Deferred revenue	5,485,432	5,516,030
Total current liabilities	17,077,357	17,361,831
Deferred capital contributions (note 8)	38,170,527	39,235,460
Net assets:		
Invested in capital assets (note 6)	20,349,774	20,286,011
Internally restricted	928,198	679,481
Endowment	5,742,504	5,557,144
Unrestricted	21,492,181	16,782,068
Total net assets	48,512,657	43,304,704
Total liabilities and net assets	$ 103,760,541	$ 99,901,995

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Pat Dejong
Chair, Board of Governors

Andrew Basford
Chair, Audit Committee

CAPILANO UNIVERSITY

Consolidated Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Grants from the Province of British Columbia	$ 40,295,285	$ 39,011,244
Amortization of deferred capital contributions	3,332,982	3,564,411
Tuition fees	26,876,353	23,986,920
Project and other revenue	6,843,447	6,200,030
Investment income	716,522	1,135,880
Fair value adjustment of investments (note 5)	1,352,471	(1,186,623)
Sales of goods	3,089,802	2,838,244
Parking, childcare and theatre	1,553,055	1,398,788
Donations and gifts in kind (note 9)	737,360	648,709
	84,797,277	77,597,603
Expenses:		
Salaries and benefits	58,027,478	54,414,637
Cost of goods sold	2,228,290	2,020,103
Buildings and grounds maintenance	3,568,891	3,183,564
Student support activities	1,360,862	1,284,113
International program expenses	391,579	370,211
Other operating expenses	9,073,746	8,455,962
Amortization of capital assets	4,938,478	4,898,585
	79,589,324	74,627,175
Excess of revenue over expenses	$ 5,207,953	$ 2,970,428

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

	Invested in capital assets (note 6)	Internally restricted	Endowment	Unrestricted	Total 2010	Total 2009
Net assets, beginning of year	$ 20,286,011	$ 679,481	$ 5,557,144	$ 16,782,068	$ 43,304,704	$ 38,286,309
Excess (deficiency) of revenue over expenses	(1,605,496)	(200,000)	185,360	6,828,089	5,207,953	2,970,428
Transfer out of restricted	-	448,717	-	(448,717)	-	-
Net change in invested in capital assets (note 6)	1,669,259	-	-	(1,669,259)	-	-
Acquisition of land funded by contribution	-	-	-	-	-	2,047,967
Net assets, end of year	$ 20,349,774	$ 928,198	$ 5,742,504	$ 21,492,181	$ 48,512,657	$ 43,304,704

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash and cash equivalents provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 5,207,953	$ 2,970,428
Items not involving cash:		
Amortization of capital assets	4,938,478	4,898,585
Amortization of deferred capital contributions	(3,332,982)	(3,564,411)
Fair value adjustment of investments	(1,352,471)	1,186,623
Net change in non-cash working capital	(595,498)	1,906,457
	4,865,480	7,397,682
Financing:		
Capital contributions received	2,268,049	662,267
Investments:		
Capital asset acquisitions	(3,937,308)	(4,676,093)
Disposition (acquisition) of investments	(6,898,785)	405,100
	(10,836,093)	(4,270,993)
Increase (decrease) in cash and cash equivalents	(3,702,564)	3,788,956
Cash and cash equivalents, beginning of year	21,503,126	17,714,170
Cash and cash equivalents, end of year	$ 17,800,562	$ 21,503,126

See accompanying notes to consolidated financial statements.

1. Operations:

Capilano University (the "University") is a post-secondary educational institution funded by the Provincial Government. The University is incorporated under the amended University Act (Bill 34 was enacted on September 1, 2008). The University is a special purpose teaching university and has regional campuses in the Province of British Columbia in North Vancouver, Squamish and the Sunshine Coast.

The University is a registered charity under the Income Tax Act and is exempt from income tax.

These consolidated financial statements incorporate the financial position and results of operations and changes in net assets and cash flows of the University and its controlled foundation, the Capilano University Foundation (the "Foundation"). The purpose of the Foundation is to raise funds for student financial assistance, capital needs, and program development at Capilano University. The Foundation is a registered charity under the Income Tax Act and is exempt from income taxes.

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements of the University have been prepared by management in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

(b) Revenue recognition:

Tuition fees are deferred to the extent that they relate to courses, or portions thereof, that will be held in the next fiscal year.

The University follows the deferral method of accounting for contributions, which include donations and government grants.

Unrestricted contributions are recorded as revenue in the period they are received.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred or the restrictions are met.

Externally restricted capital contributions are recorded as deferred revenue in the Capital Fund until the amount is invested in capital assets. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired. Contributions for capital assets that will not be amortized, such as land, are not transferred to unamortized deferred capital contributions or recognized as revenue, but are recorded as direct increases in net assets in the period the asset is acquired. Donations of depreciable assets that would otherwise be purchased are accounted for as deferred capital contributions at fair value when a fair value can be reasonably estimated.

Deferred capital contributions are recognized as revenue on the same basis as the related capital assets are amortized to indicate how the amortization expense has been funded. Unamortized deferred capital contributions relating to capital assets disposed of are recognized as revenue in the period of disposal provided all restrictions have been complied with.

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Government grants are accounted for as unrestricted contributions or externally restricted contributions in accordance with the terms of funding.

Project revenue and expenses are recognized as the related activities are performed. The zero profit margin method is used when a contract's financial outcome is not reasonably determinable. This method of accounting requires that equal amounts of revenue and expense be recognized until the financial outcome of a contract can be reasonably estimated. Provision for anticipated losses is made in the period in which they become evident.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash and short-term instruments with a maturity date of less than ninety days from acquisition.

(d) Inventories:

Inventories, consisting of books and materials held in the bookstore for sale, are recorded at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. When conditions indicate that losses previously recognized have been recovered, the loss is reversed to the extent of the amount recovered. Acquisition of supplies used in operations is charged as an expense at the time of purchase.

(e) Pension plans:

The University is a member of multi-employer pension plans and applies defined contribution plan accounting and, accordingly, contributions are expensed.

(f) Investments:

Investments are classified as held for trading (note 2(j)) and are recorded at market value.

(g) Capital assets:

Capital asset acquisitions are recorded at cost, except donated assets which are recorded at fair market value at the date of acquisition.

Capital assets are stated at cost less accumulated amortization. Amortization begins at the estimated date of acquisition and is provided on a straight-line basis over the estimated useful lives as follows:

Buildings, concrete/steel	40 years
Buildings, wood frame	20 years
Computer equipment	4 years
Furniture, fixtures and equipment	5 years
Library books	10 years
Public works	10 years
Software	3 years
Vehicles	4 years

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Specific areas of estimate include the rate of amortization of capital assets and the related deferred capital contributions, the timing of recording contract revenue and the valuation of accounts receivable. Actual results could differ from those estimates.

(i) Asset retirement obligations:

The University recognizes asset retirement obligations in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset, including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

(j) Financial instruments:

Disclosure and presentation:

The University has chosen to continue to apply CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation, rather than adopting CICA Handbook Section 3862, *Financial Instruments - Disclosures* and CICA Handbook Section 3863, *Financial Instruments - Presentation* as permitted in these sections for not-for-profit organizations.

Held for trading:

The University has designated its cash and investments as held for trading. These instruments are initially recognized at their fair value, with the carrying value subsequently adjusted for changes in fair value, as determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in income. Unrealized gains and losses arising from changes in fair value are recognized in the statement of operations.

Loans and receivables:

The University has classified accounts receivable as loans and receivables. This asset is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

2. Significant accounting policies (continued):

(j) Financial instruments (continued):

Other financial liabilities:

The University has classified accounts payable and accrued liabilities as other financial liabilities. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

(k) Adoption of new accounting standards:

(i) Revisions to Not-for-Profit accounting standards:

Effective April 1, 2009, the University adopted the amendments to the CICA Handbook Sections 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, and 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments removed the requirement to disclose net assets invested in capital assets, clarified capital asset recognition criteria and amortization, expanded interim financial statement requirements to not-for-profit organizations that prepare interim financial statements, and added requirements for disclosure of allocated fund raising and general support expenses by not-for profit organizations, and a requirement to follow Handbook Section 1540, *Cash Flow Statements*. The application of these amendments did not have a material impact on the University's financial statements.

(ii) Financial instruments:

During the University's 2010 fiscal year, the CICA announced that not-for-profit organizations could elect to continue to apply Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, in place of Handbook Sections 3862, *Financial Instruments – Disclosure*, and 3863, *Financial Instruments – Presentation*. The University has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

(l) Future changes in accounting standards:

Changes in accounting framework:

The Canadian Institute of Chartered Accountants ("CICA") has decided to transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS") and for non-publicly accountable entities to Private Enterprise Standards effective January 1, 2011. The University is currently classified as a not-for-profit organization under the University Act and is applying the CICA Accounting Standards for non-profit organizations ("NPOs").

2. Significant accounting policies (continued):

(l) Future changes in accounting standards (continued):

The Public Sector Accounting Standards Board ("PSAB") proposes to incorporate into the PSA Handbook, the current NPO Sections (4400 Standards) of the CICA Handbook to deal with areas not currently addressed by the PSAB framework. PSAB has decided not to make any further substantive changes to the Sections at this time. The exposure draft proposes to amend the introduction so that the PSAB standards will be applicable to all government not-for-profit organizations, for fiscal periods beginning on or after January 1, 2012.

The University intends to continue applying the existing NPO standards and is awaiting the finalization of the new standards. Once the new standards are finalized, the University will determine the impact to the consolidated financial statements.

3. Inventories:

Inventories consist of books and materials for sale.

During the year ended March 31, 2010, the University recognized $2,228,290 (2009 - $2,020,103) of expenses related to inventories as cost of goods sold in the statement of operations. During the year, there was no write-down of inventories to net realizable value or reversal of inventories written down previously.

4. Investments:

Investments as at March 31 are comprised as follows:

	2010	2009
Investment portfolio	$ 25,229,635	$ 17,637,366
Amount held in cash	(438,470)	(1,097,457)
	24,791,165	16,539,909

The University's investment portfolio was established in February 2008 and the Foundation's investment portfolio was established in June 2009. Both are managed by Genus Capital Management.

5. Fair value adjustment of investments:

The fair value adjustment of investments is comprised of an unrealized gain of $1,352,471 (2009 – unrealized loss of $1,186,623) resulting from the measurement at fair value of held for trading financial instruments as at March 31, 2010.

6. Capital assets and net assets invested in capital assets:

Summary of cost and net book value:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	$ 10,000,370	$ -	$ 10,000,370	$ 10,000,370
Buildings	78,843,502	37,556,151	41,287,351	43,164,641
Computer equipment	5,357,676	3,267,321	2,090,355	2,423,640
Construction in progress	959,010	-	959,010	-
Library books	1,278,475	885,051	393,424	521,525
Media equipment	253,642	218,022	35,620	69,685
Other furniture and equipment	4,257,842	2,412,705	1,845,137	1,716,514
Public works	4,148,537	2,631,565	1,516,972	1,198,689
Software	1,121,947	733,080	388,867	416,823
Vehicles	25,557	22,362	3,195	9,584
	$ 106,246,558	$ 47,726,257	$ 58,520,301	$ 59,521,471

Net assets invested in capital assets is calculated as follows:

	2010	2009
Capital assets, net of accumulated amortization	$ 58,520,301	$ 59,521,471
Amounts funded by:		
Deferred capital contributions (note 8)	(38,170,527)	(39,235,460)
	$ 20,349,774	$ 20,286,011

Changes in net assets invested in capital assets is calculated as follows:

	2010	2009
Excess of revenue over expenses:		
Amortization of deferred capital contributions	$ 3,332,982	$ 3,564,411
Amortization of capital assets	(4,938,478)	(4,898,585)
	(1,605,496)	(1,334,174)
Net change in investment in capital assets:		
Capital asset acquisitions	3,937,308	2,628,126
Amounts funded by deferred capital contributions	(2,268,049)	-
Acquisition of land funded by contribution	-	2,047,967
	1,669,259	4,676,093
	$ 63,763	$ 3,341,919

7. Accrued vacation:

As at March 31, 2010, accrued vacation and related benefits payable is approximately $3,639,000 (2009 - $4,010,000) and is included in accounts payable.

8. Deferred capital contributions:

Deferred capital contributions represent unamortized external funding that was restricted for the purchase of capital assets. Unamortized amounts which will be recognized as revenue in future periods are as follows:

	2010	2009
Balance, beginning of year	$ 39,235,460	$ 44,185,571
Capital contributions spent from deferred revenue	2,268,049	-
Amounts amortized to revenue	(3,332,982)	(3,564,411)
Contribution received for acquisition of land	-	662,267
Acquisition of land recognized in net assets	-	(2,047,967)
Balance, end of year	$ 38,170,527	$ 39,235,460

Included in the balance of deferred capital contributions at March 31, 2010 is an unspent amount of $1,150,989 (2009 - $1,385,700) for the purchase of land.

9. Gifts in kind:

Gifts in kind represent physical assets and services donated to the Foundation to support University programs. Gifts in kind are recorded at the estimated fair market value at the date of receipt.

10. Land purchase and remediation obligation:

During the year ended March 31, 2005, the University purchased land with a total recorded cost of $1,878,444. The Ministry of Advanced Education contributed $1,646,038 in cash towards this acquisition. The acquisition price of the land was reduced by $295,000 representing required remediation costs approximating this amount. The difference was recorded as a liability due to the legal requirement to perform the remediation. As remediation costs are incurred, this liability will be reduced accordingly. As of March 31, 2010, $29,488 (2009 - $29,488) of remediation costs have been incurred. The remaining $265,512 will be incurred as development of the land is undertaken. The timing of the development and the remediation is uncertain.

11. Capital management:

The University receives its principal source of capital through funding received from the Ministry of Advanced Education and Labour Market Development and from tuition collected from students. The University defines capital to be net assets and deferred capital contributions.

The University's objective when managing capital is to fund its operations and capital asset additions, and to meet its growth strategies. The University manages the capital structure in conjunction with the Ministry of Advanced Education and Labour Market Development and makes adjustments based on available government funding and economic conditions. Currently, the University's strategy is to monitor expenditures to preserve capital in accordance with budgeted funding granted by the Ministry of Advanced Education and Labour Market Development.

The University is not subject to debt covenants or any other capital requirements except for endowment funds which are required to be maintained in perpetuity. Funding received for designated purposes must be used for the purposes outlined in their respective contracts. The University has complied with the external restrictions on the funding provided.

12. Pension plans:

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trusteed pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The College Pension Plan has about 11,000 active members from senior administration and instructional staff and approximately 3,500 retired members. The Municipal Pension Plan has about 150,000 active members, with approximately 5,000 from colleges.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The most recent valuation for the College Pension Plan as at August 31, 2006 indicated an unfunded liability of $54 million for basic pension benefits. The next valuation will be as at August 31, 2009 with results available in 2010. The most recent valuation for the Municipal Pension Plan as at December 31, 2006 indicated a surplus of $438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the unfunded liability to individual employers.

Payments made to the plans and expensed by the University for the year totaled $3,741,461 (2009 - $3,443,314).

13. Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.