Consolidated Financial Statements of

CAPILANO UNIVERSITY

Year ended March 31, 2011

CAPILANO
UNIVERSITY

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation of the annual financial statements, and has prepared the accompanying consolidated financial statements for the year ended March 31, 2011 in accordance with generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which judgment is required.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that assets are safeguarded and that the financial records provide a reliable basis for the preparation of the financial statements.

The Board of Governors of the University carries out its responsibility for review of the consolidated financial statements. The Audit Committee of the Board meets with management and the external auditors to discuss the results of audit examinations and financial reporting matters.

These consolidated financial statements have been reported on by KPMG LLP, the University's external auditors appointed by the Board of Governors. The external auditors have full access to the Board with and without the presence of management.

Kris Bulcroft

Dr. Kris Bulcroft, President

Cindy Turner, Vice-President, Finance & Administration

June 14, 2011

KPMG Enterprise™
Metrotower II
Suite 2400 - 4720 Kingsway
Burnaby BC V5H 4N2
Canada

Telephone (604) 527-3600
Fax (604) 527-3636
Internet www.kpmg.ca/enterprise

INDEPENDENT AUDITORS' REPORT

To the Board of Governors

We have audited the accompanying consolidated financial statements of Capilano University, which comprise the consolidated statement of financial position as at March 31, 2011 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Capilano University as at March 31, 2011 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

June 14, 2011

Burnaby, Canada

CAPILANO UNIVERSITY

Consolidated Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 22,194,130	$ 17,800,562
Accounts receivable	4,027,208	1,568,320
Inventories (note 3)	630,367	593,624
Prepaid expenses	1,349,355	480,564
	28,201,060	20,443,070
Investments (note 4)	27,239,829	24,791,165
Capital assets (note 6)	75,221,246	58,520,301
Total assets	$ 130,662,135	$ 103,754,536
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 16,703,944	$ 11,585,920
Deferred revenue	5,827,201	5,485,432
	22,531,145	17,071,352
Deferred capital contributions (note 8)	56,559,882	38,170,527
Net assets:		
Invested in capital assets (note 6)	20,730,709	21,500,763
Internally restricted	870,182	928,198
Endowment	5,982,668	5,742,504
Unrestricted	23,987,549	20,341,192
	51,571,108	48,512,657
Contingent liabilities (note 12)		
Total liabilities and net assets	$ 130,662,135	$ 103,754,536

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

R Brayne

Robin Brayne
Chair, Board of Governors

Andrew Basford
Chair, Audit Committee

CAPILANO UNIVERSITY

Consolidated Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Grants from the Province of British Columbia	$ 41,782,160	$ 40,295,285
Amortization of deferred capital contributions	3,236,947	3,332,982
Tuition fees	29,089,190	26,876,353
Project and other revenue	4,904,255	6,347,121
Investment income	797,638	492,356
Fair value adjustment of investments (note 5)	1,078,077	1,352,471
Sales of goods	3,094,179	3,089,802
Parking, childcare and theatre	1,818,815	1,553,055
Donations and gifts in kind (note 9)	842,072	737,360
	86,643,333	84,076,785
Expenses:		
Salaries and benefits	58,902,188	58,027,478
Cost of goods sold	2,320,542	2,228,290
Buildings and grounds maintenance	4,964,878	3,568,891
Student support activities	1,500,184	1,360,862
International program expenses	526,978	391,579
Other operating expenses	10,269,284	8,353,254
Amortization of capital assets	5,100,828	4,938,478
	83,584,882	78,868,832
Excess of revenue over expenses	$ 3,058,451	$ 5,207,953

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

	Invested in capital assets (note 6)	Internally restricted	Endowment	Unrestricted	2011 Total	2010 Total
Net assets, beginning of year	$ 21,500,763	$ 928,198	$ 5,742,504	$ 20,341,192	$ 48,512,657	$ 43,304,704
Excess (deficiency) of revenue over expenses	(1,863,881)	-	240,164	4,682,168	3,058,451	5,207,953
Transfer out of restricted	-	(58,016)	-	58,016	-	-
Net change in invested in capital assets (note 6)	1,093,827	-	-	(1,093,827)	-	-
Net assets, end of year	$ 20,730,709	$ 870,182	$ 5,982,668	$ 23,987,549	$ 51,571,108	$ 48,512,657

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash and cash equivalents provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 3,058,451	$ 5,207,953
Items not involving cash:		
Amortization of capital assets	5,100,828	4,938,478
Amortization of deferred capital contributions	(3,236,947)	(3,332,982)
Fair value adjustment of investments	(1,078,077)	(1,352,471)
Net change in non-cash working capital	2,095,371	(595,498)
	5,939,626	4,865,480
Financing:		
Capital contributions received	21,626,302	2,268,049
Investments:		
Capital asset acquisitions	(21,801,773)	(3,937,308)
Purchase of investments	(1,370,587)	(6,898,785)
	(23,172,360)	(10,836,093)
Increase (decrease) in cash and cash equivalents	4,393,568	(3,702,564)
Cash and cash equivalents, beginning of year	17,800,562	21,503,126
Cash and cash equivalents, end of year	$ 22,194,130	$ 17,800,562

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.

(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 fair 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 or completion 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 the Canadian Institute of Chartered Accountants (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.

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 the consolidated statement of operations. Unrealized gains and losses arising from changes in fair value are recognized in the consolidated 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 the consolidated statement of operations 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 consolidated statement of operations upon derecognition or impairment.

(l) Future changes in accounting framework:

Effective April 1, 2012, the University will be transitioning to Public Sector Accounting Standards (PSAB) on a retrospective basis. The University is reviewing the impact of this change on the consolidated financial statements.

3. Inventories:

Inventories consist of books and materials for sale.

During the year ended March 31, 2011, the University recognized $2,320,542 (2010 - $2,228,290) of expenses related to inventories as cost of goods sold in the consolidated statement of operations. During the year, there was no writedown of inventories to net realizable value or reversal of inventories previously written down.

4. Investments:

Investments as at March 31 are comprised as follows:

	2011	2010
Investment portfolio	$ 27,355,782	$ 25,229,635
Amount held in cash	(115,953)	(438,470)
	$ 27,239,829	$ 24,791,165

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 $1,078,077 (2010 - unrealized gain of $1,352,471) resulting from the measurement at fair value of held for trading financial instruments as at March 31, 2011.

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

Summary of cost and net book value:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 10,000,370	$ -	$ 10,000,370	$ 10,000,370
Buildings	77,947,822	39,826,341	38,121,481	41,287,351
Computer equipment	7,640,052	4,549,764	3,090,288	2,090,355
Construction in progress	19,608,905	-	19,608,905	959,010
Library books	1,278,585	998,091	280,494	393,424
Media equipment	253,641	233,858	19,783	35,620
Other furniture and equipment	5,840,451	3,233,673	2,606,778	1,845,137
Public works	4,148,537	3,002,952	1,145,585	1,516,972
Software	1,304,520	956,958	347,562	388,867
Vehicles	25,557	25,557	-	3,195
	$ 128,048,440	$ 52,827,194	$ 75,221,246	$ 58,520,301

Net assets invested in capital assets is calculated as follows:

	2011	2010
Capital assets, net of accumulated amortization	$ 75,221,246	$ 58,520,301
Amounts funded by deferred capital contributions (note 8)	(54,490,537)	(37,019,538)
	$ 20,730,709	$ 21,500,763

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

	2011	2010
Excess of revenue over expenses:		
Amortization of deferred capital contributions	$ 3,236,947	$ 3,332,982
Amortization of capital assets	(5,100,828)	(4,938,478)
	(1,863,881)	(1,605,496)
Net change in invested in capital assets:		
Capital asset additions	21,801,773	3,937,308
Amounts funded by deferred capital contributions	(20,707,946)	(1,117,060)
	1,093,827	2,820,248
	$ (770,054)	$ 1,214,752

7. Accrued vacation:

As at March 31, 2011, accrued vacation and related benefits payable is approximately $3,671,000 (2010 - $3,639,000) 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:

	2011	2010
Balance, beginning of year	$ 38,170,527	$ 39,235,460
Capital contributions spent from deferred revenue	21,626,302	2,268,049
Amounts amortized to revenue	(3,236,947)	(3,332,982)
Balance, end of year	$ 56,559,882	$ 38,170,527

Deferred capital contributions are comprised of the following:

	2011	2010
Contributions used to purchase capital assets	$ 54,490,537	$ 37,019,538
Unspent contributions	2,069,345	1,150,989
	$ 56,559,882	$ 38,170,527

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. 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.

11. 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 12,000 active members from senior administration and instructional staff and approximately 4,500 retired members. The Municipal Pension Plan has about 163,000 active members, with approximately 5,600 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, 2009 indicated an unfunded liability of $28 million for basic pension benefits. The next valuation will be as at August 31, 2012 with results available in 2013. The most recent valuation for the Municipal Pension Plan as at December 31, 2009 indicated an unfunded liability of $1,024 million for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. 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 $3,918,647 (2010 - $3,741,461).

12. Contingent liabilities:

Legal claims have been made against the University by a few contractors relating to the construction of the Bosa Film Centre in the aggregate amount of approximately $2,000,000, excluding applicable taxes. The University is also aware of certain potential claims, also relating to this construction. These claims and potential claims allege costs incurred due to extra work, delay, acceleration and additional storage costs incurred by these contractors. As the outcome of these claims cannot be reasonably determined at this time, no provision has been made in the consolidated financial statements although there is an allowance for contingency within the construction budget. Any actual cost relating to these claims will be capitalized to the cost of the building.

13. Comparative figures:

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