
Quest University Canada

**Financial Statements
For the year ended May 31, 2011**

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Independent Auditors' Report

**To the Members of:
Quest University Canada**

We have audited the accompanying financial statements of Quest University Canada ("the University"), which comprise the financial position as at May 31, 2011 and the statement of operations, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statements in accordance with Canadian generally accepted accounting principles, 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 error or fraud.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditors judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the 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 University'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 financial statements.

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

Opinion

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

Vancouver, British Columbia
November 8, 2011



Chartered Accountants

Quest University Canada
Statement of Financial Position

May 31	2011	2010
Assets		
Current		
Cash	\$ 299,532	\$ 297,100
Term deposits	171,123	171,361
Accounts receivable	329,699	212,962
Prepaid expenses & other current assets	172,163	465,380
Inventory	86,545	39,735
	<u>1,059,062</u>	<u>1,186,538</u>
Restricted cash (Note 3)	505,050	351,506
Property & equipment (Note 4)	85,045,021	87,510,366
	<u>\$ 86,609,133</u>	<u>\$ 89,048,410</u>
Liabilities, Deferred Contributions and Net Assets		
Current		
Accounts payable & accrued liabilities	\$ 727,012	\$ 743,953
Current portion of capital lease obligations (Note 6)	-	94,245
Deferred tuition revenues	210,013	196,442
Deferred contributions	-	158,876
Demand loan (Note 5)	75,023,352	75,023,352
	<u>75,960,377</u>	<u>76,216,868</u>
Deferred library contributions (Note 7)	187,485	171,390
	<u>76,147,862</u>	<u>76,388,258</u>
Net assets		
Unrestricted	122,037	87,267
Invested in property & equipment (Note 8)	9,802,477	12,189,254
Invested in library collection	31,707	32,125
Restricted for certification (Note 3)	505,050	351,506
	<u>10,461,271</u>	<u>12,660,152</u>
	<u>\$ 86,609,133</u>	<u>\$ 89,048,410</u>

Commitments (Note 9)

Subsequent events (Note 11)

Approved on behalf of the Board of Governors:

Director

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Quest University Canada
Statement of Operations

For the year ended May 31	2011	2010
(with comparatives for the 9 month period ended May 31, 2010)		
Revenues		
Tuition	\$ 7,335,442	\$ 4,588,750
Room and boarding (Note 12)	2,131,838	1,307,020
Ancillary rentals	488,986	290,212
School operations	262,527	139,652
	<u>10,218,793</u>	<u>6,325,634</u>
Expenses		
Administration	379,307	234,618
Advertising, promotion and student recruitment	231,589	183,376
Ancillary rental costs	167,600	59,617
Amortization of property & equipment	2,575,855	1,979,054
Campus accommodations	3,428,821	2,183,876
Campus operations	920,946	1,025,407
Consulting	92,882	273,152
Insurance	159,710	142,506
Loss (gain) on disposal	278,993	(1,366)
Professional fees	79,881	46,052
Programs	912,471	398,175
Salaries and employee benefits	4,106,432	2,448,669
Scholarships and bursaries	4,612,878	2,926,756
	<u>17,947,365</u>	<u>11,899,892</u>
Loss from operations before other items	<u>(7,728,572)</u>	<u>(5,574,258)</u>
Other items		
Donations	5,485,263	1,876,958
Interest	1,647	100
Amortization of deferred library contributions	39,875	26,360
Amortization of deferred athletic contributions	2,906	1,080
Other income	-	2,200,598
	<u>5,529,691</u>	<u>4,105,096</u>
Loss from operations	<u>\$ (2,198,881)</u>	<u>\$ (1,469,162)</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Quest University Canada
Statement of Changes in Net Assets

For the year ended May 31, 2011

(with comparatives for the 9 month period ended May 31, 2010)

	<u>Unrestricted</u>	<u>Invested in property & equipment</u>	<u>Invested in library collection</u>	<u>Externally restricted for certification</u>	<u>Total</u>
Net Assets, August 31, 2009	\$ (164,592)	\$ 13,904,605	\$ 37,795	\$ 351,506	\$ 14,129,314
Loss from operations, as restated (Note 14)	(1,469,162)	-	-	-	(1,469,162)
Investment in property & equipment, as restated (Note 14)	(231,673)	231,673	-	-	-
Amortization of property & equipment	1,979,054	(1,947,024)	(32,030)	-	-
Amortization of deferred library contributions, as restated (Note 14)	(26,360)	-	26,360	-	-
Net Assets, May 31, 2010, as restated (Note 14)	\$ 87,267	\$ 12,189,254	\$ 32,125	\$ 351,506	\$ 12,660,152
Loss from operations	(2,198,881)	-	-	-	(2,198,881)
Investment in property & equipment	(148,785)	142,110	6,675	-	-
Amortization of property & equipment	2,575,855	(2,528,887)	(46,968)	-	-
Amortization of deferred library contributions	(39,875)	-	39,875	-	-
Interfund transfers	(153,544)	-	-	153,544	-
Net Assets, May 31, 2011	\$ 122,037	\$ 9,802,477	\$ 31,707	\$ 505,050	\$ 10,461,271

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Quest University Canada
Statement of Cash Flows

For the year ended May 31	2011	2010
(with comparatives for the 9 month period ended May 31, 2010)		
Cash flows from operating activities		
Cash received from students	\$ 9,364,114	\$ 4,643,704
Cash received from contributions	6,088,422	4,423,823
Cash used for program and administrative expenditures	(14,863,051)	(10,193,528)
	<u>589,485</u>	<u>(1,126,001)</u>
Cash flows from investing activities		
Proceeds from sale of term deposits	159,143	1,600,000
Purchases of term deposits	(158,905)	(999,063)
Purchase of equipment	(389,502)	(122,311)
	<u>(389,264)</u>	<u>478,626</u>
Cash flows from financing activities		
Library contributions received	50,000	50,000
Capital lease payments	(94,245)	(118,328)
	<u>(44,245)</u>	<u>(68,328)</u>
Increase (decrease) in cash during the year	155,976	(715,703)
Cash, beginning of period	648,606	1,364,309
Cash, end of period	\$ 804,582	\$ 648,606
Supplemental cash flow information		
Cash comprised of:		
Cash	\$ 299,532	\$ 297,100
Restricted cash (Note 3)	505,050	351,506
	<u>\$ 804,582</u>	<u>\$ 648,606</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Quest University Canada
Notes to Financial Statements

May 31, 2011

1. Nature and Purpose of Operations

Quest University Canada (the "University") is incorporated under the Sea to Sky University Act of the Province of British Columbia. The University began operations in September 2007 as an independent university and focuses exclusively on liberal arts and sciences.

The University is registered with the Canada Revenue Agency as a charitable organization and is therefore exempt from income tax under section 149 of the Income Tax Act. The University is also exempt from provincial property taxes as the land is used exclusively for educational purposes.

2. Significant Accounting Policies

(a) Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Specific areas of estimate include allowance for doubtful accounts, the rate of amortization of capital assets, accrued liabilities and deferred library contributions. Actual results may differ from these estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known.

(b) Revenue recognition

The University uses the deferral method of accounting for contributions.

Under the deferral method of accounting for contributions, unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Restricted contributions relating to the library collection are deferred and amortized to revenue on a basis consistent with the amortization rate for the library collection.

Revenues from tuition, room and boarding, and University operations are recognized when earned.

(c) Term deposits

Term deposits consist of guaranteed investment certificates with maturities greater than 90 days with an annual interest rate ranging from 0.15% - 0.25%.

(d) Accounts receivable

Accounts receivable are stated net of allowances for uncollectible accounts. Management develops the estimate of the allowance based on the University's assessment of its accounts.

(e) Deferred tuition

Deferred tuition is comprised of prepaid tuition fees.

Quest University Canada Notes to Financial Statements

May 31, 2011

2. Significant Accounting Policies (continued)

(f) Property & equipment

Property & equipment are recorded at cost and are amortized in the following manner:

Buildings		straight-line over 40 years
Computer equipment	30%	declining balance
Equipment under capital lease	20%	declining balance
Furniture and equipment	20%	declining balance
Leasehold improvements		straight-line over the lease term
Library collection	20%	declining balance
Vehicles	20%	declining balance
Website	30%	declining balance

Amortization is calculated at one-half of the rate in the year of acquisition except for buildings and leasehold improvements.

(g) Financial instruments

During 2009, the CICA announced that not-for-profit organizations could elect to continue to apply CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation in place of CICA 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 CICA Handbook Section 3861.

The University has designated cash, restricted cash and term deposits as "held for trading"; accounts receivable as "loans and receivables"; accounts payable and accrued liabilities and demand loan as "other financial liabilities". All financial instruments are recognized at fair value on initial recognition.

Subsequent to initial recognition, financial assets designated as "held for trading" are recorded at fair value. Gains and losses realized on disposal, unrealized gains and losses from market fluctuations and other investment income are reported in the statement of operations.

Subsequent to initial recognition, financial instruments classified as loans and receivables or other financial liabilities are measured at amortized cost using the effective interest rate method.

It is management's opinion that the University is not exposed to significant currency risk on its financial instruments. The University is exposed to interest rate risk on fixed income term deposits held. The risk arises from fluctuations in interest rates and the degree of volatility of these risks. The University is exposed to credit risk. Credit risk is monitored on a regular basis, and management determines the probable losses and sets up a provision for doubtful accounts, as needed, based on the estimated realizable value. The University is exposed to market risk as the fair value or future cash flows from investments will fluctuate due to changes in market prices.

The fair value of the University's financial instruments approximates carrying value due to their short term nature.

Quest University Canada
Notes to Financial Statements

May 31, 2011

2. Significant Accounting Policies (continued)

(h) Foreign currency transactions

Transactions denominated in a currency other than Canadian dollars are translated into Canadian dollars by applying exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate at that date. Any resulting foreign currency translation gains and losses are included in income in the current period.

3. Restricted Cash

Restricted cash is a guaranteed investment certificate held in trust [REDACTED] for \$505,050 (2010 - \$351,506). This asset is held in accordance with an agreement with the Ministry of Advanced Education, and is a requirement of certification as a post-secondary and degree granting institution.

4. Property & Equipment

	Cost	Accumulated amortization	Net 2011
Buildings	\$ 91,721,453	\$ 8,442,014	\$ 83,279,439
Computer equipment	1,010,893	662,986	347,907
Furniture and equipment	813,000	323,472	489,528
Land	650,000	-	650,000
Leasehold improvements	58,803	58,803	-
Library collection	386,835	167,643	219,192
Vehicles	98,133	48,529	49,604
Website	70,594	61,243	9,351
	\$ 94,809,711	\$ 9,764,690	\$ 85,045,021

	Cost	Accumulated amortization	Net 2010
Buildings	\$ 91,721,453	\$ 6,148,978	\$ 85,572,475
Computer equipment	830,730	552,489	278,241
Equipment under capital lease	447,234	168,241	278,993
Furniture and equipment	666,304	219,427	446,877
Land	650,000	-	650,000
Leasehold improvements	58,803	53,903	4,900
Library collection	324,190	120,675	203,515
Vehicles	98,133	36,127	62,006
Website	70,594	57,235	13,359
	\$ 94,867,441	\$ 7,357,075	\$ 87,510,366

Quest University Canada
Notes to Financial Statements

May 31, 2011

5. Demand Loan

The University has a non-interest bearing demand loan payable at the earlier of written demand or August 15, 2017 for \$75,023,352 (2010 - \$75,023,352). This loan has registered security on the University's property up to \$75,000,000.

6. Capital Lease Obligations

	2011	2010
Capital lease repaid during the year	\$ -	\$ 94,245
Less: current portion	-	(94,245)
	\$ -	\$ -

7. Deferred Library Contributions

Deferred library contributions represent the unamortized amount of contributions received for the purchase of the library collection. The amortization of deferred contributions for library collection is recorded as revenue in the statement of operations.

	2011	2010
Balance, beginning of year	\$ 171,390	\$ 153,720
Contributions received during the year	55,970	44,030
Amortization	(39,875)	(26,360)
Balance, end of year	\$ 187,485	\$ 171,390

8. Net Assets Invested in Property & Equipment

Net assets invested in property & equipment is calculated as follows:

	2011	2010
Property & equipment	\$ 85,045,021	\$ 87,510,366
Less: Library collection	(219,192)	(203,515)
Due to Sea to Sky Foundation	(75,023,352)	(75,023,352)
Capital lease obligations	-	(94,245)
Total	\$ 9,802,477	\$ 12,189,254

Quest University Canada
Notes to Financial Statements

May 31, 2011

9. Commitments

The University has various operating leases for equipment & student residences. The annual commitments for the next four years are as follows:

2012	\$ 2,544,778
2013	2,542,482
2014	429,395
2015	<u>3,051</u>
	<u>\$ 5,519,706</u>

10. Related Party Transactions

The University is related to Quest University Canada Foundation due to common economic interest. During the year, Quest University Canada Foundation donated \$275,000 (2010 - \$Nil) to the University.

11. Subsequent Events

The following events occurred subsequent to the fiscal year-end:

- (a) In June 2011, the University entered into an agreement to borrow \$1,500,000 from Global Charity Fund. The loan is non-interest bearing until January 31, 2013. Effective February 1, 2013, interest will accrue at 5% per annum and will be due on demand.

The loan was used to finance a letter of credit as required by the [REDACTED] in order to secure student financial aid for [REDACTED] students attending the University.

- (b) In June 2011, the University entered into an agreement to borrow \$1,500,000 at 7% interest per annum from the Almoner Foundation, due on demand. At the time of the issuance of these financial statements, the University was in the process of negotiating the terms of this agreement.
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12. Room and Boarding

During fiscal 2011, the University's contract with a cafeteria operator ceased, and the University assumed the cafeteria operations for a two-month period. The following are revenues and expenses related to the cafeteria operations, which have been recorded in room and boarding:

Cafeteria revenue	\$ 205,272
Related expenses	<u>196,833</u>
	<u>\$ 8,439</u>

Quest University Canada
Notes to Financial Statements

May 31, 2011

13. Major Contributors

During fiscal 2011, three major contributors provided 99.8% of donation revenue (2010 - three major contributors provided 95.5%), which funded 31% of expenses (2010 - 15% of expenses).

14. Restatements

Certain financial statement line items in the 2010 financial statements have been restated as follow:

(a) Vacation pay payable

These financial statements have been adjusted to record vacation pay payable as at fiscal 2010, which was previously not accrued.

(b) Deferred library contributions

These financial statements have been adjusted to correct a misstatement in amortization of deferred library contributions and additions to deferred library contributions during fiscal 2010, together with the corresponding impact on various related accounts.

The cumulative effect of the above restatements on the 2010 balances is summarized below:

	As previously stated	Increase (decrease)	As restated
Deferred library contributions	\$ 167,976	\$ 3,414	\$ 171,390
Deferred contributions	152,906	5,970	158,876
Amortization of deferred library contributions	35,744	(9,384)	26,360
Accounts payable & accrued liabilities	625,253	118,700	743,953
Net assets - Unrestricted, May 31, 2010	211,937	(124,670)	87,267
Net assets - Invested in library collection, May 31, 2010	35,539	(3,414)	32,125
Loss from operations	(1,341,078)	(128,084)	(1,469,162)

15. Capital Disclosures

The University's objective when managing capital is to safeguard its ability to continue operating as an independent liberal arts and sciences university. Therefore, it strives to hold sufficient unrestricted net assets to enable it to withstand unexpected financial events.

The University maintains sufficient liquidity to meet its obligations as they become due.

Quest University Canada
Notes to Financial Statements

May 31, 2011

16. Future Accounting Changes

The Accounting Standards Board has issued a new financial reporting framework for Canadian private sector not-for-profit organizations which is effective for reporting periods beginning on or after January 1, 2012. These organizations may apply accounting standards for not-for-profit organizations in the CICA Handbook - Accounting (Part III) or International Financial Reporting Standards in the Handbook (Part I). Earlier application is permitted.

The University is planning on adopting the accounting framework in CICA Handbook - Accounting (Part III) and is currently evaluating the impact on its systems and financial reporting. The University believes that this adoption will not have any significant change in its current systems or financial reporting.

17. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

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