

THE UNIVERSITY OF BRITISH COLUMBIA

THE NEIGHBOURS' FUND

FINANCIAL STATEMENTS

March 31, 2012

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KPMG LLP
Chartered Accountants
Metrotower II
Suite 2400 - 4720 Kingsway
Burnaby BC V5H 4N2

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

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Governors of the University of British Columbia

We have audited the accompanying financial statements of The Neighbours Fund, which comprise the statement of financial position as at March 31, 2012, the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of The Neighbours Fund as at March 31, 2012, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
September 14, 2012
Burnaby, Canada

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Financial Position
As at March 31

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Due from the University of British Columbia (Note 3)	\$ 8,392,239	\$ 7,266,289
Accounts receivable	110,198	93,109
Services levy receivable	<u>1,035,452</u>	<u>948,085</u>
Total assets	<u>\$ 9,537,889</u>	<u>\$ 8,307,483</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and Accrued liabilities	<u>\$ 9,068</u>	<u>\$ 6,500</u>
Net assets		
Reserves		
Infrastructure Replacement Reserve (Note 5)	3,684,056	3,509,100
Capital Reserve (Note 6)	1,404,120	1,326,406
Community Access Reserve (Note 7)	852,218	833,215
Contingency Reserve (Note 8)	990,953	930,186
Rate Stabilization Reserve (Note 9)	<u>1,340,022</u>	<u>1,228,084</u>
	8,271,369	7,826,991
Unappropriated reserves	<u>1,257,452</u>	<u>473,992</u>
	<u>9,528,821</u>	<u>8,300,983</u>
Total liabilities and net assets	<u>\$ 9,537,889</u>	<u>\$ 8,307,483</u>

(See accompanying notes to the financial statements)

Approved:

Ian Burgess
Comptroller

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Operations
Year ended March 31

	<u>2012</u>	<u>2011</u>
Revenue		
Residential services levy	\$ 3,319,936	\$ 2,755,598
General municipal services levy	666,450	438,669
Interest and miscellaneous income	<u>189,507</u>	<u>146,524</u>
	<u>4,175,893</u>	<u>3,340,791</u>
Expenses		
University Neighbourhoods Association (Note 10)	2,897,754	2,626,762
Administration (Note 10)	57,000	50,000
Bad debts	4,185	1,465
Professional fees	7,488	7,436
Communications	<u>1,628</u>	<u>1,661</u>
	<u>2,968,055</u>	<u>2,687,324</u>
Excess of revenue over expenses	<u>\$ 1,207,838</u>	<u>\$ 653,467</u>

(See accompanying notes to the financial statements)

**THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Changes in Net Assets
As at March 31**

	<u>Unappropriated Reserves</u>	<u>Appropriated Reserves</u>	<u>2012</u>	<u>2011</u>
Net assets, beginning of year	\$ 473,992	\$ 7,826,991	\$ 8,300,983	\$ 7,647,516
Excess of revenue over expenses	1,031,662	176,176	1,207,838	653,467
UNA return of prior years' surplus	-	20,000	20,000	-
Transfers	(248,202)	248,202	-	-
	<u>783,460</u>	<u>444,378</u>	<u>1,227,838</u>	<u>653,467</u>
Net assets, end of year	<u>\$ 1,257,452</u>	<u>\$ 8,271,369</u>	<u>\$ 9,528,821</u>	<u>\$ 8,300,983</u>

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Cash Flows
Year ended March 31

	2012	2011
Cash provided from:		
Operating activities		
Excess of revenue over expenses	\$ 1,207,838	\$ 653,467
UNA return of prior years' surplus	20,000	-
Change in:		
Due from the University of British Columbia	(1,125,950)	(229,067)
Accounts receivable	(17,089)	334,337
Services levy receivable	(87,367)	(205,747)
Accrued liabilities	2,568	(552,990)
	(1,227,838)	(653,467)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2012

1. Nature of Fund

The Neighbours' Fund (the Fund) is an unincorporated entity that collects a Services Levy from residents and residential developers, together with a portion of a General Municipal Services Levy for rental housing and commercial space, all located at the University of British Columbia (UBC or the University) within the Designated Local Areas. For fiscal year 2012, the Designated Local Areas are the neighbourhood properties of Hampton Place, Hawthorn Place, Chancellor Place, Wesbrook Place and East Campus.

Funding for the annual operations of the University Neighbourhoods Association (UNA) is transferred to the UNA from the Fund and managed directly by the UNA (Note 4).

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

a) Revenue Recognition

Residential service levies, general municipal service levies and funding from the University are recognized as revenue in the year received or receivable if the amount to be received can be reasonably established and collection is reasonably assured.

Residential service levies and general municipal service levies are charged to tenants on a calendar year basis and reported in the financial statements on an accrual basis.

The Fund also receives investment interest income which is recorded on an accrual basis.

b) Financial Instruments

Financial instruments are classified as loans and receivables, or other financial liabilities, which are measured at amortized cost using the effective interest rate method. The Fund's financial instruments include due from the University of British Columbia, accounts receivable, services levy receivable and accrued liabilities. The Fund classifies all of its assets as loans and receivables and its accrued liabilities as other financial liabilities. The fair values of these financial instruments approximate book values due to their short-term nature.

c) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to valuation of accounts receivable and services levy receivable and provisions for accrued liabilities and contingencies. Actual results could differ from those estimates, as additional information becomes available in the future.

**THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2012**

d) Future Accounting and Reporting Changes

Effective April 1, 2012, the Fund will transition to a new accounting framework which will include Public Sector Accounting Standards (PSAB) supplemented by directives from the Government of British Columbia Treasury Board. The transition to the new framework will be applied on a retroactive basis. The Fund is currently reviewing the impact of these standards on the financial statements.

3. Due from the University of British Columbia

The University of British Columbia collects service levies on behalf of the Fund and deposits these monies in the University's account. These funds are invested with the overall cash reserves of the University. Investment interest of \$183,433 (2011 - \$139,694), calculated at an average of 2.28% per annum (2011 – 1.91%), was earned on this balance during 2012.

4. University Neighbourhoods Association (UNA)

The UNA was formed under the Society Act in May 29, 2002 to act as the organization to serve certain residential housing communities on UBC lands. Commencing April 2004, the UNA is responsible for providing municipal-like services, such as landscaping and street and road maintenance to the residents. The Fund pays a portion of the Services Levy collected by the University to the UNA as funding for the UNA's operations. The amount recognized as expenses in the year is the net amount paid to the UNA. The amount paid to the UNA in a year is established based on the UNA budget, which represents the estimated expense for the year.

5. Infrastructure Replacement Reserve

2.4% (2011 – 2.4%) of the services levy is set aside to replace infrastructure works, such as sidewalks, roads, water lines, storm and sanitary sewers in future years. Once the reserve reaches \$10 million, the Board of Directors of UNA and Board of Governors of UBC will review future funding levels. Interest is calculated monthly based on the reserve balance in the account.

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 3,509,100	\$ 3,367,937
Transfer from unappropriated reserves	95,673	76,662
Interest earned during the year	79,283	64,501
	<u>174,956</u>	<u>141,163</u>
Balance, end of year	<u>\$ 3,684,056</u>	<u>\$ 3,509,100</u>

THE UNIVERSITY OF BRITISH COLUMBIA
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Notes to Financial Statements
Year ended March 31, 2012

6. Capital Reserve

1.2% (2011 – 1.2%) of the services levy is set aside to fund the community centre facility. Once the reserve reaches \$5 million, the Board of Directors of UNA and Board of Governors of UBC will review future funding levels. Interest is calculated monthly based on the reserve balance in the account.

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,326,406	\$ 1,263,872
Transfer from unappropriated reserves	47,837	38,331
Interest earned during the year	<u>29,877</u>	<u>24,203</u>
	<u>77,414</u>	<u>62,534</u>
Balance, end of year	\$ <u>1,404,120</u>	\$ <u>1,326,406</u>

7. Community Access Reserve

The Community Access Reserve is comprised of funds set aside to make payments to UBC for the operating costs of the facilities to which the UNA has obtained access in accordance with an agreement between UBC and the UNA. Interest is calculated monthly based on the reserve balance in the account.

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 833,215	\$ 817,555
Interest earned during the year	<u>19,003</u>	<u>15,660</u>
Balance, end of year	\$ <u>852,218</u>	\$ <u>833,215</u>

8. Contingency Reserve

1.0% of the service levy (2011 – 1.0%) is set aside to pay for unexpected or unbudgeted repairs and expenses which require immediate action. The maximum amount of the reserve is \$1 million. Once the maximum is reached, annual contributions are to cease. Interest is calculated monthly based on the reserve balance in the account.

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 930,186	\$ 881,146
Transfer from unappropriated reserves	39,864	31,943
Interest earned during the year	<u>20,903</u>	<u>17,097</u>
	<u>60,767</u>	<u>49,040</u>
Balance, end of year	\$ <u>990,953</u>	\$ <u>930,186</u>

THE UNIVERSITY OF BRITISH COLUMBIA
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Notes to Financial Statements
Year ended March 31, 2012

9. Rate Stabilization Reserve

1.0% of the service levy (2011 – 1.0%) is set aside to guard against unforeseen changes in the City of Vancouver tax rates. The maximum amount of the reserve is \$2 million. Once the maximum is reached, annual contributions are to cease. Any surplus from the UNA's annual budget is deposited to this reserve. Interest is calculated monthly based on the reserve balance in the account.

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,228,084	\$ 1,117,866
Transfer from unappropriated reserves	84,828	91,943
Interest earned during the year	27,110	18,275
	<u>111,938</u>	<u>110,218</u>
Balance, end of year	<u>\$ 1,340,022</u>	<u>\$ 1,228,084</u>

10. Related Party

Two of the seven members of the UNA Board of Directors are appointed by UBC.

Related party transactions for the 2012 fiscal year are funding of \$2,897,754 (2011 - \$2,626,762) provided to the UNA, and administration fees of \$57,000 (2011 - \$50,000) charged to the Fund by UBC for administrative costs. The UNA also returned prior years' surplus funds in the amount of \$20,000 to the Fund during 2012.

11. Capital Disclosures

The Fund receives its principal source of capital through residential service levies and general municipal service levies charged to tenants and investment income. The Fund defines capital to be net assets. The Fund's objective when managing capital is to promote the creation of a vibrant and sustainable community for the residents of UBC's residential neighbourhoods.

The Fund's capital is used to replace infrastructure works, to fund the community centre facility, to make annual payment for the operating costs of the facilities, to pay for unexpected or unbudgeted repairs and expenses, and to guard against unforeseen changes in the tax rate.

The Fund's capital is set aside annually in the applicable reserves in the amounts established by the UNA's reserve policy. Expenditures from any of the reserves may only be made with the approval of the UNA Board of Directors.

12. Comparative figures

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current period.