

THE UNIVERSITY OF BRITISH COLUMBIA

THE NEIGHBOURS' FUND

FINANCIAL STATEMENTS

March 31, 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statement of The Neighbours' Fund, which comprise the statement of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that is 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 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, 2013, March 31, 2012 and April 1, 2011, its results of operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian public sector accounting standards.

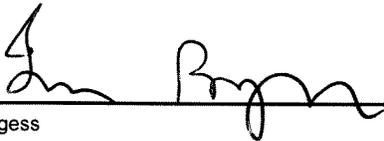
Chartered Accountants
September 5, 2013
Vancouver, Canada

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Financial Position
As at March 31, 2013, March 31, 2012 and April 1, 2011

	<u>March 31, 2013</u>	<u>March 31, 2012</u>	<u>April 1, 2011</u>
ASSETS			
Current Assets			
Due from the University of British Columbia (Note 3)	\$ 8,705,944	\$ 8,392,239	\$ 7,266,289
Due from University Neighbourhoods Association	579,276	44,964	60,000
Accounts receivable	41,568	65,234	33,109
Services levy receivable	<u>909,803</u>	<u>1,035,452</u>	<u>948,085</u>
Total assets	\$ <u>10,236,591</u>	\$ <u>9,537,889</u>	\$ <u>8,307,483</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued liabilities	<u>\$ 192,000</u>	<u>\$ 9,068</u>	<u>\$ 6,500</u>
Net assets			
Reserves			
Infrastructure Replacement Reserve (Note 5)	3,860,958	3,684,056	3,509,100
Capital Reserve (Note 6)	1,482,689	1,404,120	1,326,406
Community Access Reserve (Note 7)	871,449	852,218	833,215
Contingency Reserve (Note 8)	1,012,845	990,953	930,186
Rate Stabilization Reserve (Note 9)	<u>1,942,628</u>	<u>1,340,022</u>	<u>1,228,084</u>
	9,170,569	8,271,369	7,826,991
Unappropriated reserves (Note 10)	<u>874,022</u>	<u>1,257,452</u>	<u>473,992</u>
	<u>10,044,591</u>	<u>9,528,821</u>	<u>8,300,983</u>
Total liabilities and net assets	\$ <u>10,236,591</u>	\$ <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
Years ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenue		
Residential services levy	\$ 3,392,212	\$ 3,319,936
General municipal services levy	561,758	666,450
Interest and miscellaneous income	184,409	185,322
	<u>4,138,379</u>	<u>4,171,708</u>
Expenses		
University Neighbourhoods Association (Note 11)	2,776,582	2,897,754
Non-recoverable portion of HST on transfers to UNA (Note 12)	337,811	-
Athletics fees (Note 11)	245,936	-
Utilities (Note 11)	185,000	-
Administration (Note 11)	57,000	57,000
Collection agency fees (Note 13)	10,386	-
Professional fees	7,445	7,488
Communications	2,449	1,628
	<u>3,622,609</u>	<u>2,963,870</u>
Excess of revenue over expenses	<u>\$ 515,770</u>	<u>\$ 1,207,838</u>

(See accompanying notes to the financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Changes in Net Assets
Years ended March 31, 2013 and 2012

March 31, 2013	Unappropriated Reserves	Appropriated Reserves	Total
Net assets, beginning of year	\$ 1,257,452	\$ 8,271,369	\$ 9,528,821
Excess of revenue over expenses	332,765	183,005	515,770
Transfers (Note 10)	(716,195)	716,195	-
	<u>(383,430)</u>	<u>899,200</u>	<u>515,770</u>
Net assets, end of year	<u>\$ 874,022</u>	<u>\$ 9,170,569</u>	<u>\$ 10,044,591</u>
March 31, 2012	Unappropriated Reserves	Appropriated Reserves	Total
Net assets, beginning of year	\$ 473,992	\$ 7,826,991	\$ 8,300,983
Excess of revenue over expenses	1,031,662	176,176	1,207,838
UNA return of prior years' surplus	-	20,000	20,000
Transfers (Note 10)	(248,202)	248,202	-
	<u>783,460</u>	<u>444,378</u>	<u>1,227,838</u>
Net assets, end of year	<u>\$ 1,257,452</u>	<u>\$ 8,271,369</u>	<u>\$ 9,528,821</u>

(See accompanying notes to the financial statements)

**THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Cash Flows
Years ended March 31, 2013 and 2012**

	2013	2012
Cash provided from:		
Operating activities		
Excess of revenue over expenses	\$ 515,770	\$ 1,207,838
UNA return of prior years' surplus	-	20,000
Change in:		
Due from the University of British Columbia	(313,705)	(1,125,950)
Due from University Neighbourhoods Association	(534,312)	15,036
Accounts receivable	23,666	(32,125)
Services levy receivable	125,649	(87,367)
Accrued liabilities	182,932	2,568
	(515,770)	(1,227,838)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

(See accompanying notes to the financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Years ended March 31, 2013 and 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 2013, 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).

On April 1, 2012, the Fund adopted Canadian Public Sector Accounting Standards. The Fund has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with these public sector accounting standards.

In accordance with the transitional provisions in Public Sector Accounting Standards, the Fund has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information has been presented by applying public sector accounting standards.

There was no impact of the adoption on the Fund's net assets as of April 1, 2011 and excess of revenue over expenses for the year ended March 31, 2012 as a result of the retrospective application of Public Sector Accounting Standards.

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations.

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 recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

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Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair values are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

There are no financial instruments carried at fair value as at year end and as a result, the statement of remeasurement gains and losses has not been prepared.

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
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Notes to Financial Statements
Years ended March 31, 2013 and 2012**

d) Change in Accounting Policy

On April 1, 2012, the Fund adopted Public Accounting Standards PS 3450 – Financial Instruments and PS 2601 – Foreign Currency Translation. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments, including derivatives, are included on the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Fund's accounting policy choices as described in (d) above.

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 by the University. Investment interest of \$184,409 (2012 - \$183,433), calculated at an average of 2.26% per annum (2012 – 2.28%), was earned on this balance during 2013.

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% (March 31, 2012 – 2.4%; April 1, 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>2013</u>	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 3,684,056	\$ 3,509,100	\$ 3,367,937
Transfer from unappropriated reserves	94,895	95,673	76,662
Interest earned during the year	82,007	79,283	64,501
	<u>176,902</u>	<u>174,956</u>	<u>141,163</u>
Balance, end of year	<u>\$ 3,860,958</u>	<u>\$ 3,684,056</u>	<u>\$ 3,509,100</u>

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6. Capital Reserve

1.2% (March 31, 2012 – 1.2%; April 1, 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>2013</u>	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,404,120	\$ 1,326,406	\$ 1,263,872
Transfer from unappropriated reserves	47,448	47,837	38,331
Interest earned during the year	31,121	29,877	24,203
	<u>78,569</u>	<u>77,714</u>	<u>62,534</u>
Balance, end of year	<u>\$ 1,482,689</u>	<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>2013</u>	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 852,218	\$ 833,215	\$ 817,555
Interest earned during the year	19,231	19,003	15,660
Balance, end of year	<u>\$ 871,449</u>	<u>\$ 852,218</u>	<u>\$ 833,215</u>

8. Contingency Reserve

1.0% of the service levy (March 31, 2012 – 1.0%; April 1, 2011 – 1%) is set aside to pay for unexpected or unbudgeted repairs and expenses which require immediate action. Interest is calculated monthly based on the reserve balance in the account. The maximum amount of the reserve is \$1 million. Once the maximum is reached, annual contributions are to cease. There were no contributions to the reserve during the year ended March 31, 2013 as the maximum amount was reached.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 990,953	\$ 930,186	\$ 881,146
Transfer from unappropriated reserves	-	39,864	31,943
Interest earned during the year	21,892	20,903	17,097
	<u>21,892</u>	<u>60,767</u>	<u>49,040</u>
Balance, end of year	<u>\$ 1,012,845</u>	<u>\$ 990,953</u>	<u>\$ 930,186</u>

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Years ended March 31, 2013 and 2012

9. Rate Stabilization Reserve

1.0% of the service levy (March 31, 2012 – 1.0%; April 1, 2011) 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>2013</u>	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,340,022	\$ 1,228,084	\$ 1,117,866
Transfer from unappropriated reserves	39,540	39,864	31,943
Transfer from UNA	534,312	44,964	60,000
Interest earned during the year	28,754	27,110	18,275
	<u>602,606</u>	<u>111,938</u>	<u>110,218</u>
Balance, end of year	<u>\$ 1,942,628</u>	<u>\$ 1,340,022</u>	<u>\$ 1,228,084</u>

10. Unappropriated Reserves

The unappropriated reserves are the accumulated excess of revenues over expenses net of amounts transferred to the Infrastructure Replacement, Capital, and Rate Stabilization Reserves.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,257,452	\$ 473,992	\$ 199,140
Excess of revenue over expenses	332,765	1,031,662	513,731
	<u>1,590,217</u>	<u>1,505,654</u>	<u>712,871</u>
Less transfers to:			
Infrastructure Replacement Reserve	94,895	95,673	76,662
Capital Reserve	47,448	47,837	38,331
Contingency Reserve	-	39,864	31,943
Rate Stabilization Reserve	39,540	39,864	31,943
Transfer from UNA to Rate Stabilization	534,312	24,964	60,000
	<u>716,195</u>	<u>248,202</u>	<u>238,879</u>
Balance, end of year	<u>\$ 874,022</u>	<u>\$ 1,257,452</u>	<u>\$ 473,992</u>

11. Related Party

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

Related party transactions for the 2013 fiscal year are funding of \$2,776,582 (2012 - \$2,897,754) provided to the UNA, and administration fees of \$57,000 (2012 - \$57,000) charged to the Fund by UBC for administrative costs. The Fund made payments on behalf of the UNA to UBC Athletics

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Notes to Financial Statements
Years ended March 31, 2013 and 2012

of \$245,936 (2012 – nil) and to UBC Building Operations for utilities of \$185,000 (2012 – nil). In 2012 and prior years, payments to UBC Athletics and UBC Building Operations were made directly by UNA from amounts transferred from the Fund to UNA.

12. Non-recoverable Portion of HST on Transfers to UNA

During the year, Canada Revenue Agency (CRA) assessed for Harmonized Sales Tax (HST) and Goods and Services Tax (GST) on the service levies transferred from the Fund to UNA for fiscal years 2011 and 2012. UNA had previously not collected or remitted HST or GST on the service levies it received from the Fund. The assessment of \$519,978 included HST \$450,046, GST \$33,584 and interest and penalties in the amount of \$36,348. UNA remitted the assessed amounts directly to CRA from amounts transferred from the Fund. The Fund was able to recover a portion of the HST and GST on amounts paid to UNA by claiming GST/HST rebates through the University. The Fund has recorded an expense of \$337,811 on the Statement of Operations. This amount represents \$188,907 of non-recoverable HST and GST and \$36,348 interest and penalties on the CRA assessment, and \$112,556 non-recoverable HST on current year transfers to UNA.

13. Collection Agency Fees

Collection agency fees relate to amounts paid to an external agency to collect unpaid and overdue service levies.

14. Financial Risks and Concentration of Credit Risk

a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Fund is exposed to credit risk with respect to accounts receivable.

The Fund assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Fund at March 31, 2013 is the carrying value of these assets.

The carrying value of amounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the income statement and is set up based on the Fund's historical experience regarding collections. Subsequent recoveries of impairment losses related to accounts receivable are credited to the income statement.

As at March 31, 2013 \$86,532 (2012 - \$65,234, 2011 - \$33,109) amounts receivable were past due, but not impaired.

There have been no significant changes to the credit risk exposure from 2012.

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Years ended March 31, 2013 and 2012**

b) Liquidity risk:

Liquidity risk is the risk that the Fund will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The fund manages its liquidity risk by monitoring its operating requirements.

Accounts payable and accrued liabilities are generally due 60 days of receipt of an invoice.

There have been no significant changes to the liquidity risk exposure from 2012.

15. Comparative figures

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