

THE UNIVERSITY OF BRITISH COLUMBIA

FOR INFORMATION ONLY

FORWARDED TO:

**BOARD OF GOVERNORS ON
RECOMMENDATION
OF PRESIDENT STEPHEN J. TOOPE**

APPROVED FOR SUBMISSION:


Stephen J. Toope, President & Vice-Chancellor

DATE

6.11.11.

PRESENTED BY:

Pierre Ouillet, Vice President, Finance, Resources & Operations
Ian Burgess, Comptroller

DATE OF MEETING:

November 22, 2011

SUBJECT:

**Great Northern Way Campus Trust
Financial Statements December 31, 2010**

DECISION REQUESTED:

For information only

EXECUTIVE SUMMARY:

The Board of Directors of Great Northern Way Campus Trust has approved the audited financial statements for the year ended December 31, 2010. The financial statements were prepared by the management of Great Northern Way Campus and have been audited by Grant Thornton LLP.

DISCUSSION SUMMARY:

Great Northern Way Campus Trust was established under the laws of the Province of British Columbia to develop a range of academic activities for the Vancouver area. British Columbia Institute of Technology (BCIT), Emily Carr University of Art and Design (ECUAD), Simon Fraser University (SFU), and the University of British Columbia (UBC) each owns a 25% interest.

Great Northern Way Campus (GNWC) is a partnership of four of British Columbia's top higher education organizations combining with industry and community to help create provincial and regional opportunities in the new economy.

The vision behind GNWC emerged in 2001 when Finning International Inc. donated a substantial parcel of land to SFU, UBC, BCIT and ECUAD.

GNWC's vision is "To develop GNWC into a vibrant, livable and sustainable community that attracts innovative businesses and academic programs and encourages collaboration between industry and the four partner institutions".

The real estate operation of GNWC derives its rental income from three principal buildings located at 555 and 577 Great Northern Way. These operations resulted in a \$71,000 profit during the year. An updated business plan has been developed for 2012. This business plan will focus on the following areas:

1. Advance the financing plan through land sales and repay debt
2. Further the site's development framework
3. Progress and add to the portfolio of vision-aligned projects for the site

The Masters of Digital Media (MDM) program derives its income principally from tuition revenue, grants and endowment income from portfolio investments. The revenue deficit from the MDM program was \$388,000 for the year. Business plans for this program have been developed that plans for financial sustainability through an increase in international enrollment. In order to improve academic governance and provide MDM students to be part of an academic institution (GNWC is not an academic institution), the management of this program has been adopted by SFU on behalf of the four partners. The number of students enrolled in the program was 83 for the year, with international enrollment over 40%. This growth is on target for the business plan adopted by the GNWC Board for the MDM program last autumn.

The Centre for Digital Media Building business plan was approved in April 2010 and construction began in June 2011. The estimated completion date is September 2012.

ATTACHMENTS:

Great Northern Way Campus Trust Audited Financial Statements for the Year Ended December 31, 2010



Financial statements

Great Northern Way Campus Trust

December 31, 2010

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Grant Thornton

Independent auditor's report

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To the Trustee of

Great Northern Way Campus Trust

We have audited the accompanying financial statements of Great Northern Way Campus Trust ("the Trust"), which comprise the balance sheet as at December 31, 2010, the statements of operations and comprehensive income, trust equity, and cash flows 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 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.

Auditor's 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 the auditor's 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, the auditor considers internal control relevant to the Trust'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 Trust'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 Great Northern Way Campus Trust as at December 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.

Other matter

The financial statements of Great Northern Way Campus Trust for the year ended December 31, 2009, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 31, 2010.

Grant Thornton LLP

Vancouver, Canada

April 28, 2011

Chartered accountants

Great Northern Way Campus Trust

Balance sheet

December 31

2010

2009

Assets

| | | |
|---------------------------------------|----------------------|----------------------|
| Cash | \$ 202,414 | \$ 554,602 |
| Short-term investments | 550,296 | - |
| Accounts receivable | 203,878 | 410,659 |
| Prepaid expenses | 28,477 | 10,448 |
| Due from related parties (Note 3) | 712,132 | 153,390 |
| Portfolio investments (Note 4) | 16,474,580 | 32,207,680 |
| Property under development (Note 5) | 5,156,891 | 3,886,587 |
| Revenue-producing properties (Note 6) | 44,437,989 | 44,510,565 |
| Equipment (Note 7) | 279,737 | 685,366 |
| | <u>\$ 68,046,394</u> | <u>\$ 82,419,297</u> |

Liabilities

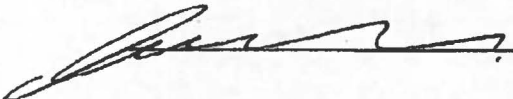

| | | |
|--|-------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 500,838 | \$ 1,307,394 |
| Deposits | 119,090 | 77,019 |
| Due to related parties (Note 3) | 189,450 | 10,454 |
| Loans payable (Note 9) | - | 15,138,636 |
| Promissory notes payable (Note 10) | - | 2,752,869 |
| Deferred revenue | 1,061,847 | 155,385 |
| Deferred funding (Note 11) | 20,393,875 | 20,784,768 |
| | <u>22,265,100</u> | <u>40,226,525</u> |

Trust equity

| | | |
|--|----------------------|----------------------|
| | <u>45,781,294</u> | <u>42,192,772</u> |
| | <u>\$ 68,046,394</u> | <u>\$ 82,419,297</u> |

Commitments (Note 13)
Subsequent event (Note 16)

On behalf of the Trust:

 Director  Director

See accompanying notes to the financial statements.

Great Northern Way Campus Trust

Statements of operations and comprehensive income

| Year ended December 31 | 2010 | 2009 |
|--|-------------------|-------------------|
| Revenue | | |
| Property management | \$ 1,938,635 | \$ 2,164,428 |
| Academic | 1,484,494 | 1,296,475 |
| Investment revenue | 477,377 | 610,784 |
| Grants | 404,963 | 522,690 |
| Projects | 238,620 | 288,226 |
| Other | 75,606 | 205,937 |
| | <u>4,619,695</u> | <u>5,088,540</u> |
| Operating expenses | | |
| Academic | 267,679 | 330,225 |
| Administration | 485,633 | 587,371 |
| Amortization | 621,948 | 1,127,320 |
| Bad debt | 50,000 | - |
| Information technology | 256,583 | 277,053 |
| Interest | 111,258 | 543,268 |
| Property management | 1,331,761 | 1,565,052 |
| Real estate development | - | 138,828 |
| Staff costs | 1,584,288 | 2,090,037 |
| Student recruitment | 213,132 | 165,545 |
| Loss on sale of portfolio investments | 14,051 | 146,206 |
| | <u>4,936,333</u> | <u>6,970,905</u> |
| Net loss | (316,638) | (1,882,365) |
| Other comprehensive income | | |
| Unrealized gain on portfolio investments | <u>1,189,160</u> | <u>1,878,820</u> |
| Comprehensive income (loss) | \$ <u>872,522</u> | \$ <u>(3,545)</u> |

See accompanying notes to the financial statements.

Great Northern Way Campus Trust

Statement of trust equity

Year ended December 31, 2010

| | <u>Deficit</u> | <u>Contributed surplus</u> | <u>Accumulated other comprehensive income (loss)</u> | <u>Total</u> |
|--|----------------|--------------------------------|--|---------------|
| Balance, January 1, 2009 | \$ (5,424,705) | \$ 52,472,416 | \$ (4,851,394) | \$ 42,196,317 |
| Net loss | (1,882,365) | - | - | (1,882,365) |
| Other comprehensive income | - | - | 1,878,820 | 1,878,820 |
| Balance, December 31, 2009 | (7,307,070) | 52,472,416 | (2,972,574) | 42,192,772 |
| Net loss | (316,638) | - | - | (316,638) |
| Other comprehensive income | - | - | 1,189,160 | 1,189,160 |
| Contributions by partner institutions | - | 2,716,000 | - | 2,716,000 |
| Balance, December 31, 2010 | \$ (7,623,708) | \$ 55,188,416 | \$ (1,783,414) | \$ 45,781,294 |

See accompanying notes to the financial statements.

Great Northern Way Campus Trust

Statement of cash flows

Year ended December 31

2010

2009

Cash derived from (applied to)

Operations

| | | |
|---|----------------|------------------|
| Net loss | \$ (316,638) | \$ (1,882,365) |
| Items not involving cash | | |
| Amortization | 621,948 | 1,127,320 |
| Recognition of deferred funding | (390,893) | (522,690) |
| Loss on sale of portfolio investments | 14,051 | 146,206 |
| Amortization of deferred financing fees | 61,364 | (61,364) |
| Changes in non-cash operating working capital | | |
| Accounts receivable | 206,781 | (22,063) |
| Prepaid expenses | (18,029) | 30,684 |
| Accounts payable and accrued liabilities | (806,556) | 54,350 |
| Deposits | 42,071 | 35,436 |
| Deferred revenue | 906,462 | 155,385 |
| | <u>320,561</u> | <u>(939,101)</u> |

Financing

| | | |
|---------------------------------------|---------------------|---------------|
| Advances to related parties | (379,746) | (172,141) |
| Proceeds from loans payable | - | 1,000,000 |
| Repayments of loans payable | (15,200,000) | (800,000) |
| Repayment of promissory notes | (2,752,869) | - |
| Industry contributions | - | 20,000 |
| Contributions by partner institutions | 2,716,000 | - |
| | <u>(15,616,615)</u> | <u>47,859</u> |

Investments

| | | |
|----------------------------|-------------------|----------------|
| Portfolio investments | 16,908,209 | 3,178,085 |
| Property under development | (1,270,304) | (2,542,535) |
| Buildings | (112,859) | - |
| Equipment | (30,884) | (169,325) |
| | <u>15,494,162</u> | <u>466,225</u> |

| | | |
|--|-------------------|-------------------|
| Increase (decrease) in cash and cash equivalents | 198,108 | (425,017) |
| Cash and cash equivalents, beginning of year | 554,602 | 979,619 |
| Cash and cash equivalents, end of year | <u>\$ 752,710</u> | <u>\$ 554,602</u> |

Cash and cash equivalents consist of

| | | |
|------------------------|-------------------|-------------------|
| Cash | \$ 202,414 | \$ 554,602 |
| Short-term investments | 550,296 | - |
| | <u>\$ 752,710</u> | <u>\$ 554,602</u> |

Supplemental cash flow information

| | | |
|--|------------|------------|
| Interest paid | \$ 111,258 | \$ 543,268 |
| Non-cash transactions | | |
| Reclassification of land held for sale to property under development | - | 1,344,052 |

See accompanying notes to the financial statements.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

1. Nature of operations

Structure

Great Northern Way Campus Trust (the "Trust") was established under the laws of the Province of British Columbia to develop a range of academic activities for the Vancouver area. The trustee of the Trust is Great Northern Way Campus Ltd. (the "Trustee"). British Columbia Institute of Technology ("BCIT"), Emily Carr University of Art + Design ("ECUAD"), Simon Fraser University ("SFU"), and University of British Columbia ("UBC") (collectively the "partner institutions") each own a 25% interest in the Trustee. A shareholders' agreement governs the relationship of the partner institutions as well as the relationship between the partner institutions and the Trust's board of directors. Great Northern Way Campus ("GNWC") is on 18.5 acres of land that was 80% gifted by Finning International Inc. to the partner institutions in 2001.

Business activities

The GNWC vision is to develop the campus into a vibrant, liveable and sustainable community that attracts innovative businesses and academic programs and encourages collaboration between industry and the partner institutions. GNWC's activities currently comprise two distinct business areas: property management and site development activities, and educational activities.

Property management and site development activities

Short-term property management activities from renting existing buildings for interim income:

The site contains three existing industrial/office buildings totalling 164,000 square feet of rentable building space (66,000 square feet of offices and 98,000 square feet of warehouse space).

Site development:

In December 2009, a business plan was approved to guide the long-term development of the site.

Educational activities

Teaching of a master's degree program called the Masters of Digital Media (MDM):

This is a full time, twenty month graduate degree program that focuses on project learning in close collaboration with the digital media industry and includes a summer internship. MDM graduates receive a master's degree credentialed by the partner institutions.

2. Significant accounting policies

Cash and cash equivalents

The Trust considers all cash on hand, cash in bank accounts, and short-term investments with terms to maturity of three months or less at the date of purchase to be cash and cash equivalents.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

2. Significant accounting policies (continued)

Short-term investments

The Trust considers all term deposits with terms to maturity of one year or less at the date of purchase to be short-term investments.

Property under development

Property under development is recorded at the lower of cost and net realizable value. Cost includes all expenditures incurred in connection with the acquisition, development and construction of the property.

Revenue-producing properties

Revenue-producing properties are recorded at cost less accumulated amortization. Amortization of the buildings and improvements is provided on a straight-line basis over 10 to 20 years commencing on the date the properties are ready for their intended use.

During the year, the Trust revised its estimated useful lives of certain buildings from 10 years to 20 years to better reflect expected future asset utilization. The change in estimate is recognized prospectively in the statement of operations and results in a decrease in amortization of \$381,458 during the year.

Equipment

Equipment is recorded at cost. Amortization is provided on a straight-line basis over three years for computer equipment and ten years for other equipment. Computer software is completely amortized in the year of purchase.

Impairment of long-lived assets

The Trust monitors the recoverability of long-lived assets based on estimates using factors such as expected future asset utilization, economic outlook and future cash flows expected to result from the use of the related assets or be realized on sale. The Trust recognizes an impairment loss if the projected undiscounted aggregate cash flows are less than the carrying amount. The amount of impairment charge, if any, is defined as the excess of carrying value over its fair value.

Asset retirement obligations

A liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. This liability is initially recorded at its estimated fair value, based on a discounted value of the expected costs to be paid when the assets are retired. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and amortized over the life of the asset. The liability increases each period as the amount of the discount decreases over time. The resulting expense is referred to as accretion expense and is included in operating expenses. As at December 31, 2010, the Trust determined there were no significant asset retirement obligations associated with its assets.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

2. Significant accounting policies (continued)

Government funding and industry contributions

Government funding and industry contributions relating to start-up expenditures are deferred and amortized to income as start-up expenditures are incurred. Government funding and industry contributions relating to depreciable capital expenditures are deferred and amortized to income on the same basis as the related capital assets are amortized. Government funding and industry contributions relating to land and endowment funding are recorded as contributed surplus.

Financial Instruments

Financial assets and financial liabilities, including derivatives, are measured at fair value on initial recognition and recorded on the balance sheet. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in net earnings. The Trust's cash has been classified as held-for-trading.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Trust's portfolio investments and short-term investments have been classified as available-for-sale.

Financial assets and financial liabilities classified as held-to-maturity, as loans and receivables, and as other financial liabilities are measured at amortized cost using the effective interest method of amortization. These classifications have been applied to the Trust's accounts receivable, accounts payable and accrued liabilities, loans payable, deposits, due to/from related parties, and promissory notes payable.

Revenue recognition

Land sales

Sales of land are recognized as revenue when the agreement for sale has been entered into, an appropriate down payment has been received, and all conditions of the agreement have been met including the passage of the risks and rewards of ownership.

Rental operations

The Trust has retained substantially all of the risks and benefits of ownership of its revenue-producing properties and, therefore, accounts for leases with its tenants as operating leases. Rental revenue is recorded when services are rendered.

Academic fees

Academic fees are recorded when services are rendered. Academic fees received in advance are deferred and are recognized over the duration of the program.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the 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 revenue and expenses during the reporting period. Significant areas requiring the use of estimates include the valuation of revenue producing properties, property under development, and equipment, and the determination of useful lives for amortization. Actual results could differ from those estimates.

Comparative figures

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

Future accounting standards

The Accounting Standards Board and the Public Sector Accounting Board are transitioning to new financial reporting standards for years beginning on or after January 1, 2011. Non-publicly accountable enterprises may select either International Financial Reporting Standards ("IFRS") or Accounting Standards for Private Enterprises. Government business enterprises are required to adopt IFRS. Other government organizations may select either IFRS or Public Sector Accounting Standards. The Trust is currently evaluating the impact of the transition to new financial reporting standards.

3. Due from / to related parties

| Due from related parties | 2010 | 2009 |
|--------------------------|-------------------|-------------------|
| ECUAD | \$ 128,630 | \$ 153,390 |
| SFU | <u>583,502</u> | <u>-</u> |
| | <u>\$ 712,132</u> | <u>\$ 153,390</u> |

The amount due from ECUAD consists of two promissory notes relating to equity and tenant improvement loans bearing interest at the prime rate and is unsecured. The aggregate of the promissory notes is repayable in ten equal principal payments of \$24,759 plus interest until maturity on March 31, 2016. The amount due from SFU is non-interest bearing and unsecured with no fixed terms of repayment.

| Due to related parties | 2010 | 2009 |
|------------------------|-------------------|------------------|
| SFU | \$ 185,804 | \$ 6,808 |
| UBC | <u>3,646</u> | <u>3,646</u> |
| | <u>\$ 189,450</u> | <u>\$ 10,454</u> |

The amounts due to SFU and UBC are non-interest bearing and unsecured with no fixed terms of repayment.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

4. Portfolio investments

The following describes the investments held:

| | 2010 | | | 2009 | | |
|---|----------------------|----------------------|-------------------|----------------------|----------------------|-------------------|
| | Historical cost | Market value | % of portfolio | Historical cost | Market value | % of portfolio |
| Leith Wheeler money market fund | \$ 606,032 | \$ 606,032 | 4% | \$ 17,600,356 | \$ 17,600,356 | 55% |
| Leith Wheeler unrestricted diversified fund | 15,443,737 | 15,868,548 | 96% | 15,371,958 | 14,607,324 | 45% |
| | <u>\$ 16,049,769</u> | <u>\$ 16,474,580</u> | <u>100%</u> | <u>\$ 32,972,314</u> | <u>\$ 32,207,680</u> | <u>100%</u> |

Investments are within pooled investment funds which are valued at the unit value supplied by the pooled fund administrator which represent the Trust's proportionate share of underlying net assets at fair value determined using closing market values.

Due to the inherent nature of pooled funds, it is not possible to determine the weighted average yield or maturity date.

5. Property under development

Property under development consists of the following:

| | 2010 | 2009 |
|--------------------------|---------------------|---------------------|
| Lot O | \$ 3,971,723 | \$ 3,886,587 |
| Centre for Digital Media | 331,956 | - |
| Property development | 853,212 | - |
| | <u>\$ 5,156,891</u> | <u>\$ 3,886,587</u> |

In 2007, the Trust entered into a letter of intent to sell a portion of the westerly site that was expected to close in fiscal 2008. However, the sale was not concluded and the letter of intent was rendered void. Subsequently, negotiations began with an alternate party with whom a letter of intent was expected to be signed in fiscal 2009. The sale transaction was not completed and, accordingly, the land has been reclassified from land held-for-sale to property under development. The Trust purchased the remaining interest in the parcel of land (Lot O) from a third party and this transaction closed on December 16, 2009. According to its business plan, the Trust intends to sell Lot O by December 2012.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

6. Revenue-producing properties

The revenue-producing properties consist of three principal buildings located at 555 and 577 Great Northern Way in Vancouver.

| | | | 2010 | 2009 |
|-------------------------------|----------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Net book value</u> | <u>Net book value</u> |
| Land | \$ 42,119,566 | \$ - | \$ 42,119,566 | \$ 42,119,566 |
| Buildings and improvements | <u>5,753,228</u> | <u>3,434,805</u> | <u>2,318,423</u> | <u>2,390,999</u> |
| | <u>\$ 47,872,794</u> | <u>\$ 3,434,805</u> | <u>\$ 44,437,989</u> | <u>\$ 44,510,565</u> |

7. Equipment

| | | | 2010 | 2009 |
|------------------------|---------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Net book value</u> | <u>Net book value</u> |
| Computer equipment | \$ 1,332,227 | \$ 1,325,267 | \$ 6,960 | \$ 369,191 |
| Office equipment | 411,557 | 314,497 | 97,060 | 138,215 |
| Furniture and fixtures | 248,563 | 72,846 | 175,717 | 177,960 |
| Software | <u>172,623</u> | <u>172,623</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,164,970</u> | <u>\$ 1,885,233</u> | <u>\$ 279,737</u> | <u>\$ 685,366</u> |

8. Bank indebtedness

The Trust has available a \$500,000 demand revolving operating loan from HSBC under the same facility letter described in Note 9 that bears interest at prime plus 1.3% per annum. It is secured by the same security as the loans payable as described in Note 9. Interest is due monthly and the principal is due on demand. At December 31, 2010, the balance of the bank indebtedness was \$Nil.

9. Loans payable

| | 2010 | 2009 |
|---|-------------|----------------------|
| HSBC mortgage bearing interest at prime plus 1.3% per annum, secured by a promissory note, a general security agreement, a first charge over the revenue-producing properties and property under development, and an assignment of all risk insurance. Interest is due monthly and the principal is due on demand. The loan shall, in any event, if not earlier demanded, be repaid in full not later than December 31, 2012 | \$ - | \$ 15,200,000 |
| Deferred financing fees | - | (61,364) |
| | <u>\$ -</u> | <u>\$ 15,138,636</u> |

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

9. Loans payable (continued)

The mortgage is part of a \$20 million demand revolving capital loan facility. In March 2010, the loan was repaid. The loan will be redrawn in 2011 to finance the construction of the Centre for Digital Media building. Standby fees equal to 0.5% per annum are being incurred on the daily unadvanced portion of the loan in excess of \$5 million.

10. Promissory notes payable

The promissory notes were fully repaid in March 2010. The promissory notes payable in 2009 were due to the partner institutions in the amount of \$688,217 each. The notes were non-interest bearing, unsecured and had no fixed terms of repayment.

| 11. Deferred funding | 2010 | 2009 |
|---|---------------|---------------|
| Balance, beginning of year | \$ 20,784,768 | \$ 21,287,458 |
| Additional contributions received | | |
| BC Innovation Council | - | 20,000 |
| Less | | |
| Amount recognized as government funding | (290,393) | (290,394) |
| Amount recognized as industry grants | (100,500) | (232,296) |
| Balance, end of year | \$ 20,393,875 | \$ 20,784,768 |

On April 3, 2006, the Trust received one-time funding of \$40.5 million from the Province of British Columbia, Ministry of Economic Development, in response to a funding request for the development and operation of a Masters of Digital Media program and the Centre for Digital Media building.

Of the \$40.5 million, \$1.5 million was allocated to New Media BC in 2007 and is, therefore, not recorded by the Trust. The remaining \$39 million grant is intended for use as follows:

| | |
|----------------|----------------------|
| Start-up costs | \$ 2,000,000 |
| Building | 20,000,000 |
| Endowment | 17,000,000 |
| | <u>\$ 39,000,000</u> |

Deferred funding at December 31, 2010, is as follows:

| | |
|-----------------------|----------------------|
| Start-up principal | \$ 25,770 |
| Building principal | 20,000,000 |
| Industry contribution | 368,105 |
| | <u>\$ 20,393,875</u> |

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

12. Related party transactions

In addition to transactions described elsewhere in these financial statements, the Trust had the following transactions with related parties during the period:

| | 2010 | 2009 |
|---------------------------------|--------------|--------------|
| Base rent and amounts recovered | | |
| BCIT | \$ 1,067,997 | \$ 1,074,171 |
| ECUAD | - | 1,640 |
| UBC | 153,043 | 167,398 |
| UBC Properties Trust | 135,870 | 148,219 |
| Interest income | | |
| ECUAD | 2,639 | 6,408 |
| Management fee | | |
| SFU | 55,000 | - |

13. Commitments

- a The site is currently zoned pursuant to CD-1 (402) Comprehensive Development Zone. A condition of the CD-1 zoning is related to servicing and engineering obligations both on and off the site. When the site was partially gifted, these obligations were assumed by the Trust when it and the partner institutions entered into an Assignment and Assumptions Agreement with the City of Vancouver in 2002. This agreement pertains to the entire land area under the CD-1 (402) zoning, including land not owned by the Trust. This agreement obligates the Trust to reimburse the City of Vancouver for certain costs in addition to carrying out certain on- and off-site servicing works. The timing of payments is largely contingent on activities that may be performed by the Trust in the coming years as part of its site development plan.

- b The Trust has provided letters of guarantee totalling \$60,000 in favour of the City of Vancouver for future sewer connection upgrades.

- c The Trust leases certain computer and printing equipment under operating leases. Minimum annual lease payments to the end of the lease terms are as follows:

| | |
|------|-----------|
| 2011 | \$ 19,681 |
| 2012 | 19,681 |
| 2013 | 9,840 |

- d Effective September 1, 2010, the Trust entered into a Management Services Agreement with SFU whereby SFU will provide certain budget and financial services, student services, and academic and administrative services relating to the MDM program. The Trust agrees to pay SFU five percent (5%) of the gross tuition and mandatory fees in return for these services.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

14. Financial instruments

The Trust is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives. The principal risks to which the Trust is exposed, and the actions taken to manage them, are described below.

Interest rate risk

The Trust is exposed to interest rate risk on loans payable that bear interest at floating rates. Fluctuations in interest rates will impact the cost of financing in the future.

Liquidity risk

Liquidity risk is the risk that the Trust is not able to meet its financial obligations as they become due, or can only do so at excessive cost. The Trust establishes budgets and cash flow projections to ensure it has the necessary funds, including access to a demand revolving operating loan (Note 8) to fulfill its obligations when due.

Credit risk

Credit risk is the risk of financial loss to the Trust if a student or counterparty to a financial instrument fails to meet its contractual obligations.

The Trust's exposure to credit risk is influenced mainly by the individual characteristics of each student or counterparty. The Trust is exposed to credit risk in the event of non-payment of billings. This risk is mitigated by the Trust's ability to suspend graduation of delinquent students and through a prompt collection process.

The Trust accounts for a specific bad debt provision when management considers that the expected recovery is less than the account receivable.

Financial assets and liabilities

The carrying values of cash, short-term investments, accounts receivable, portfolio investments, accounts payable and accrued liabilities, deposits, loans payable, and promissory notes payable approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

It is not practicable to determine the fair value of amounts due from / to related parties due to the limited amount of comparable market information available.

15. Capital management

The capital structure of the Trust consists of trust equity. The primary objective of the Trust's capital management is to preserve the assets held in order to ensure the Trust is able to achieve its mandate to further the goals, objective and strategic interest of GNWC.

Certain government funding and industry contributions included in contributed surplus are invested in assets that are intended to maintain their value. Investment income earned must be distributed in accordance with the provisions of each respective agreement.

Great Northern Way Campus Trust

Notes to the financial statements

December 31, 2010

16. Subsequent event

Effective January 1, 2011, the Trust is directly managing its rental properties and, correspondingly, entered into a facilities management agreement with CRES Commercial Real Estate Services Incorporated for a fee of \$148,000 per annum.

Great Northern Way Campus Trust **Schedule of operations** **Real estate and property management**

| Year ended December 31 | 2010 | 2009 |
|-------------------------|------------------|-----------------------|
| Revenue | | |
| Property management | \$ 1,938,635 | \$ 2,164,428 |
| Investment revenue | - | 6,408 |
| Inter-divisional rent | 200,000 | - |
| Other | 51,795 | 130,612 |
| | <u>2,190,430</u> | <u>2,301,448</u> |
| Operating expenses | | |
| Administration | 238,192 | 322,367 |
| Amortization | 115,917 | 495,924 |
| Information technology | 765 | - |
| Interest | 110,647 | 543,268 |
| Property management | 1,331,761 | 1,565,052 |
| Real estate development | - | 138,828 |
| Staff costs | 322,182 | 492,587 |
| | <u>2,119,464</u> | <u>3,558,026</u> |
| Net earnings (loss) | \$ <u>70,966</u> | \$ <u>(1,256,578)</u> |

Great Northern Way Campus Trust
Schedule of operations
Masters of Digital Media program

| Year ended December 31 | 2010 | 2009 |
|---------------------------------------|---------------------|---------------------|
| Revenue | | |
| Academic | \$ 1,484,494 | \$ 1,296,475 |
| Investment revenue | 477,377 | 604,376 |
| Grants | 404,963 | 522,690 |
| Projects | 238,620 | 288,226 |
| Other | 23,811 | 75,325 |
| | <u>2,629,265</u> | <u>2,787,092</u> |
| Operating expenses | | |
| Academic | 267,679 | 330,225 |
| Administration | 247,441 | 265,004 |
| Amortization | 506,031 | 631,396 |
| Bad debt | 50,000 | - |
| Information technology | 255,818 | 277,053 |
| Interest | 611 | - |
| Inter-divisional rent | 200,000 | - |
| Staff costs | 1,262,106 | 1,597,450 |
| Student recruitment | 213,132 | 165,545 |
| Loss on sale of portfolio investments | 14,051 | 146,206 |
| | <u>3,016,869</u> | <u>3,412,879</u> |
| Net loss | \$ <u>(387,604)</u> | \$ <u>(625,787)</u> |