



SUBJECT THE NEIGHBOURS' FUND FINANCIAL STATEMENTS MARCH 31, 2018

MEETING DATE NOVEMBER 26, 2018

Forwarded on the Recommendation of the President

APPROVED FOR SUBMISSION

Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION

Report Date November 1, 2018

Presented By Peter Smalles, Vice-President Finance & Operations
Stuart Mackenzie, Interim Comptroller

EXECUTIVE SUMMARY

The Interim Comptroller has approved the audited financial statements of the Neighbours' Fund for the year ended March 31, 2018. The financial statements were prepared by the University and have been audited by KPMG LLP.

The Neighbours' Fund is an unincorporated entity that collects a services levy from residents and residential developers located on the University's properties. For fiscal year 2018, the services levy was collected on the properties of Acadia East, Chancellor Place, East Campus, Hampton Place, Hawthorn Place, Stadium Road, and Wesbrook Place. During the 2018 fiscal year, the Neighbours' Fund received \$2,994,078 of service levies (prior year \$3,127,566). Funding for the annual operations of the University Neighbourhoods Association (UNA) is transferred to UNA and managed directly by them.

As at March 31, 2018, the total reserves are \$8,062,308. The reserve policy establishes the composition of the funds as well as the amount of funding which will be allocated to each reserve annually. Interest accumulates on each appropriated reserve at a weighted average of approximately 1.56% per year.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
- Research
- Innovation
- Engagement (Internal / External)
- International

or a Operational

DESCRIPTION & RATIONALE

UBC is required to prepare audited consolidated financial statements on an annual basis, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. The financial statements of Neighbours' Fund are included in the audited consolidated financial statements of UBC.

BENEFITS Learning, Research, Financial, Sustainability & Reputational	UBC is ranked amongst the best worldwide and is regarded as a globally influential university with a reputation for excellence in advanced research and learning. Ensuring that the operating activities of related organizations are aligned with the University's objectives, and that the financial statements of related organizations are included in the consolidated financial statements in accordance with the required accounting framework, would continue to support the University in maintaining its reputation and credibility.
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RISKS Financial, Operational & Reputational	In light of funding constraints and continuing changes to the relevant accounting standards, it is imperative to ensure that the financial statements of related organizations are included in the consolidated financial statements in accordance with the required accounting framework. Otherwise it may result in further financial pressures, restrictions on the University's ability to maintain required service levels, negative impacts to the University's reputation, in addition to other risks.
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THE UNIVERSITY OF BRITISH COLUMBIA

THE NEIGHBOURS' FUND

FINANCIAL STATEMENTS

March 31, 2018

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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 statements of The Neighbours' Fund (the "Entity"), which comprise the statement of financial position as at March 31, 2018, the statement of operations, change 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 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, 2018 and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

November 1, 2018

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

		<u>2018</u>	<u>2017</u>
ASSETS			
Current Assets			
Due from the University of British Columbia	(Note 3)	\$ 7,145,187	\$ 7,949,401
Accounts receivable		45,090	58,421
Services levies receivable		<u>877,893</u>	<u>707,377</u>
Total assets		\$ <u>8,068,170</u>	\$ <u>8,715,199</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued liabilities		<u>\$ 5,862</u>	<u>\$ 7,500</u>
Due to the University Neighbourhoods Association		<u>-</u>	<u>-</u>
		5,862	7,500
Net assets			
Reserves			
Infrastructure Replacement Reserve	(Note 5)	4,616,950	4,479,250
Capital Reserve	(Note 6)	1,820,548	1,758,864
Community Access Reserve	(Note 7)	-	739,458
Contingency Reserve	(Note 8)	1,022,195	1,007,234
Rate Stabilization Reserve	(Note 9)	286,654	470,673
Community Field Replacement Reserve	(Note 10)	<u>315,961</u>	<u>252,220</u>
		8,062,308	8,707,699
Unappropriated Reserves	(Note 11)	<u>-</u>	<u>-</u>
		<u>8,062,308</u>	<u>8,707,699</u>
Total liabilities and net assets		\$ <u>8,068,170</u>	\$ <u>8,715,199</u>

(See accompanying notes to the financial statements)

Approved:



Stuart Mackenzie
Interim Comptroller

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

	2018	2017
Revenue		
Residential services levy	\$ 2,456,281	\$ 2,545,507
General municipal services levy	537,797	582,059
Interest and miscellaneous income	(Note 3) 133,202	130,650
University's contribution	(Notes 12 and 14) 70,172	250,000
	<u>3,197,452</u>	<u>3,508,216</u>
Expenses		
University Neighbourhoods Association	(Note 12) 2,211,562	2,664,412
Non-recoverable portion of GST/HST on transfers to UNA	36,491	44,623
Wesbrook Community Centre	(Note 12) -	80,000
Fire protection costs	(Note 14) 1,056,888	500,000
Athletics fees	(Note 12) 212,000	706,455
Utilities	(Note 12) 255,225	398,647
Administration	(Note 12) 57,000	57,000
Osborne Centre rental	(Note 12) -	15,000
Collection agency fees	(Note 13) 901	2,191
Professional fees	8,005	7,624
Communications	4,771	4,183
	<u>3,842,843</u>	<u>4,480,135</u>
Deficiency of revenue over expenses	\$ <u>(645,391)</u>	\$ <u>(971,919)</u>

(See accompanying notes to the financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Statement of Changes in Net Assets
Year ended March 31

	<u>Appropriated Reserves</u>	<u>Unappropriated Reserves</u>	<u>2018 Total</u>	<u>2017 Total</u>
Net assets, beginning of year	\$ 8,707,699	\$ -	\$ 8,707,699	\$ 9,679,618
Excess (deficiency) of revenue over expenses	137,061	(782,452)	(645,391)	(971,919)
Transfers (Note 11)	<u>(782,452)</u>	<u>782,452</u>	<u>-</u>	<u>-</u>
	(645,391)	-	(645,391)	(971,919)
Net assets, end of year	<u>\$ 8,062,308</u>	<u>\$ -</u>	<u>\$ 8,062,308</u>	<u>\$ 8,707,699</u>

(See accompanying notes to the financial statements)

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

	2018	2017
Cash provided from:		
Operating activities		
Deficiency of revenue over expenses	\$ (645,391)	\$ (971,919)
Change in:		
Due from the University of British Columbia	804,214	863,715
Accounts receivable	13,331	2,080
Services levies receivable	(170,516)	106,124
Accounts payable and accrued liabilities	(1,638)	-
Due to the University Neighbourhoods Association	-	-
	645,391	971,919
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
Year ended March 31, 2018

1. Nature of Fund

The Neighbours' Fund (the Fund) is an unincorporated entity within the University of British Columbia (UBC or the University) 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 within the Neighbourhood Housing Areas. For fiscal year 2018, the Neighbourhood Housing Areas include Acadia East, Chancellor Place, East Campus, Hampton Place, Hawthorn Place, Stadium Road and Wesbrook Place.

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 (Notes 4 and 12).

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.

Contributions of services that are used in the operations of the Fund and would have otherwise been purchased are recognized as revenue when the fair value of the services can be reasonably estimated.

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

b) Financial Instruments

Financial instruments are classified into two categories: fair value or amortized costs.

The carrying amount of financial instruments such as accounts receivables and services levies receivables approximate fair value due to their short-term maturities.

The Fund does not have any financial instruments required or elected to be subsequently recorded at fair value, as a result the Statement of Remeasurement Gains and Losses has not been prepared.

**THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2018**

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, services levies receivable, provisions for accrued liabilities and contingencies. Actual results could differ from those estimates, as additional information becomes available in the future.

3. Due from the University of British Columbia

The University of British Columbia deposits service levies in the University's account on behalf of the Fund. These funds are invested by the University. Investment interest of \$133,202 (2017 - \$130,650), calculated at an average of 1.56% per annum (2017 - 1.05%), was allocated by the University to the Fund during the year.

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% (2017 - 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 using a rate determined by the University based on the reserve balance in the account.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 4,479,250	\$ 4,346,319
Contribution from service levy revenue	71,858	75,062
Interest earned during the year	65,842	57,869
	<u>137,700</u>	<u>132,931</u>
Balance, end of year	\$ <u>4,616,950</u>	\$ <u>4,479,250</u>

**THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2018**

6. Capital Reserve

1.2% (2017 - 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 using a rate determined by the University based on the reserve balance in the account.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,758,864	\$ 1,698,851
Contribution from service levy revenue	35,929	37,531
Interest earned during the year	25,755	22,482
	<u>61,684</u>	<u>60,013</u>
Balance, end of year	\$ <u>1,820,548</u>	\$ <u>1,758,864</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 using a rate determined by the University based on the reserve balance in the account. During the year, nil (2017 - \$15,000) was transferred from the reserve to UBC for the use of athletic facilities and the Osborne Centre on Campus, \$60,000 (2017 - nil) was transferred to fund the Community Field Replacement Reserve, and \$690,439 (2017 - nil) was transferred to fund the Rate Stabilization Reserve.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 739,458	\$ 744,848
Interest earned during the year	10,981	9,610
Transfer to UBC	-	(15,000)
Transfer to Community Field Replacement Reserve	(60,000)	-
Transfer to Rate Stabilization Reserve	(690,439)	-
	<u>(739,458)</u>	<u>(5,390)</u>
Balance, end of year	\$ <u>-</u>	\$ <u>739,458</u>

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2018

8. Contingency Reserve

1.0% of the services levy (2017 - 1.0%) is set aside to pay for unexpected or unbudgeted repairs and expenses which require immediate action. During the year, a withdrawal of nil (2017 - \$80,000) was made from the reserve to UNA to fund the remaining projects at Wesbrook Community Centre. Interest is calculated monthly using a rate determined by the University 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 years ended March 31, 2018 and March 31, 2017 as the maximum amount was reached.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,007,234	\$ 1,072,855
Interest earned during the year	14,961	14,379
Transfer to UNA	-	(80,000)
	<u>14,961</u>	<u>(65,621)</u>
Balance, end of year	\$ <u>1,022,195</u>	\$ <u>1,007,234</u>

9. Rate Stabilization Reserve

1.0% of the services levy (2017 - 1.0%) is normally 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 surpluses from the UNA's annual budget are deposited to this reserve and deficits in unappropriated reserves are funded from this reserve. During the year, \$690,439 (2017 - nil) was transferred from the Community Access Reserve and \$890,239 (2017 - \$1,160,195) was drawn from the reserve to cover the current year deficits in the unappropriated reserves. Interest is calculated monthly using a rate determined by the University based on the reserve balance in the account.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 470,673	\$ 1,607,450
Interest earned during the year	15,781	23,418
Transfer from Community Access Reserve	690,439	-
Drawdown to cover current year deficits in unappropriated reserves	(890,239)	(1,160,195)
	<u>(184,019)</u>	<u>(1,136,777)</u>
Balance, end of year	\$ <u>286,654</u>	\$ <u>470,673</u>

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2018

10. Community Field Replacement Reserve

The Community Field Replacement Reserve was established to set aside funds for the replacement of the turf field. The maximum amount of the reserve to be allocated from unappropriated reserves is \$600,000. During the year, nil (2017 - \$40,000) contribution was received from UNA and \$60,000 was transferred from the Community Access Reserve (2017 - nil). Interest is calculated monthly using a rate determined by the University based on the reserve balance in the account. The UNA Standing Committee on Finance and Audit will assess the contributions next year.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 252,220	\$ 209,295
Interest earned during the year	3,741	2,925
Transfer from Community Access Reserve	60,000	-
Transfer from UNA	-	40,000
	<u>63,741</u>	<u>42,925</u>
Balance, end of year	\$ <u>315,961</u>	\$ <u>252,220</u>

11. Unappropriated Reserves

The unappropriated reserves are the accumulated excess of revenues over expenses, if any, net of amounts transferred to (from) the Infrastructure Replacement, Capital, Community Access, Contingency, Rate Stabilization and Community Field Replacement Reserves.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ -	\$ -
Deficiency of revenue over expenses	<u>(782,452)</u>	<u>(1,102,602)</u>
	<u>(782,452)</u>	<u>(1,102,602)</u>
Less transfers to (payments from):		
Infrastructure Replacement Reserve	71,858	75,062
Capital Reserve	35,929	37,531
Community Access Reserve	(690,439)	(15,000)
Contingency Reserve	-	(80,000)
Rate Stabilization Reserve	(199,800)	(1,160,195)
Community Field Replacement Reserve	-	40,000
	<u>(782,452)</u>	<u>(1,102,602)</u>
Balance, end of year	\$ <u>-</u>	\$ <u>-</u>

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2018

12. Related Party

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

Related party transactions include operational funding provided to the UNA of \$2,211,562 (2017 - \$2,704,412) as well as nil funding (2017 - \$80,000) provided to the UNA to fund the remaining projects at Wesbrook Community Centre. During the year, nil (2017 - \$40,000) contribution was received from the UNA.

Related party transactions also include the following payments made to UBC:

	<u>2018</u>	<u>2017</u>
UBC Athletics - use of athletic facilities	\$ 212,000	\$ 706,455
UBC Building Operations - utilities	255,225	398,647
UBC - administrative costs	-	57,000
UBC School of Kinetics - Osborne Centre gym rental	-	15,000
	<u>\$ 467,225</u>	<u>\$ 1,177,102</u>

The University contributed \$70,172 (2017 - \$250,000) to the Fund to cover administrative costs and other expenses.

13. Collection Agency Fees

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

14. Fire protection costs

Fire protection costs relate to amounts paid to the Province for annual fire protection services for the university community.

During the fiscal year, the entire cost of \$1,056,888 was paid from the unappropriated reserves. In the previous fiscal year, \$250,000 was paid out of the Rate Stabilization Reserve, with \$250,000 contributed by the University to the Neighbours' Fund to cover the other half of the cost.

**THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2018**

15. 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, 2018 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 Statement of Operations 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 Statement of Operations.

As at March 31, 2018 \$45,090 (2017 - \$58,421) amounts receivable were past due, but not impaired.

There have been no significant changes to the credit risk exposure from 2017.

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 2017.