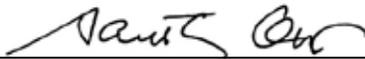


SUBJECT	THE NEIGHBOURS' FUND - FINANCIAL STATEMENTS MARCH 31, 2019
MEETING DATE	NOVEMBER 26, 2019

Forwarded on the Recommendation of the President

**APPROVED FOR
SUBMISSION**



 Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION

Report Date	November 1, 2019
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Presented By Peter Smailes, Vice-President Finance & Operations
 Karamjeet Heer, Comptroller

EXECUTIVE SUMMARY

The Comptroller has approved the audited financial statements of the Neighbours' Fund for the year ended March 31, 2019. 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 2019, 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 2019 fiscal year, the Neighbours' Fund received \$3,825,731 of service levies (prior year \$2,994,078). Funding for the annual operations of the University Neighbourhoods Association (UNA) is transferred to UNA and managed directly by them.

As at March 31, 2019, the total reserves are \$8,121,056. 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 1.64% per year.

STRATEGIC CORE AREAS SUPPORTED

- People and Places
 Research Excellence
 Transformative Learning
 Local / Global Engagement

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 UBC is ranked amongst the best worldwide and is regarded as a globally influential university with Learning, Research, Financial, Sustainability & Reputational 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.

RISKS In light of funding constraints and continuing changes to the relevant accounting standards, it is Financial, Operational & Reputational 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.

THE UNIVERSITY OF BRITISH COLUMBIA

THE NEIGHBOURS' FUND

FINANCIAL STATEMENTS

March 31, 2019

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Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

Opinion

We have audited the financial statements of The Neighbours' Fund (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations and changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the The Neighbours' Fund as at March 31, 2019, its results of operations and changes in net assets, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

Vancouver, Canada

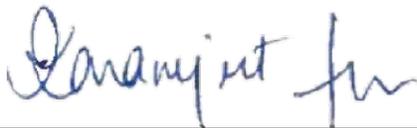
November 8, 2019

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

ASSETS	Note	2019	2018
Current assets			
Due from the University of British Columbia	3	\$ 7,152,720	\$ 7,145,187
Accounts receivable		54,371	45,090
Services levies receivable		<u>1,191,822</u>	<u>877,893</u>
Total assets		\$ <u>8,398,913</u>	\$ <u>8,068,170</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities		\$ <u>287,833</u>	\$ <u>5,862</u>
Net assets:			
Reserves			
Infrastructure Replacement Reserve	5	4,783,516	4,616,950
Capital Reserve	6	1,895,852	1,820,548
Contingency Reserve	8	1,038,912	1,022,195
Rate Stabilization Reserve	9	72,303	286,654
Community Field Replacement Reserve	10	<u>320,497</u>	<u>315,961</u>
		<u>8,111,080</u>	<u>8,062,308</u>
Total liabilities and net assets		\$ <u>8,398,913</u>	\$ <u>8,068,170</u>

(See accompanying notes to the financial statements)

Approved:



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

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Revenue			
Residential services levy		\$ 3,126,221	\$ 2,456,281
General municipal services levy		699,510	537,797
Interest income	3	130,099	137,061
University's contribution	12	77,629	70,172
		<u>4,033,459</u>	<u>3,201,311</u>
Expenses			
University Neighbourhoods Association	12	2,145,067	2,211,562
Non-recoverable portion of GST/HST on transfers to UNA		35,394	36,491
Fire protection costs	14	1,082,616	1,056,888
Athletics fees	12	263,368	212,000
Utilities	12	371,651	255,225
Administration	12	57,000	57,000
Interest expense		8,962	3,859
Collection agency fees	13	731	901
Professional fees		15,124	8,005
Communications		4,774	4,771
		<u>3,984,687</u>	<u>3,846,702</u>
Surplus (deficiency) of revenue over expenses		<u>\$ 48,772</u>	<u>\$ (645,391)</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>Note</u>	<u>Appropriated Reserves</u>	<u>Unappropriated Reserves</u>	<u>2019 Total</u>	<u>2018 Total</u>
Net assets, beginning of year		\$ 8,062,308	\$ -	\$ 8,062,308	\$ 8,707,699
Excess (deficiency) of revenue over expenses		130,099	(81,327)	48,772	(645,391)
Transfers	11	<u>(81,327)</u>	<u>81,327</u>	<u>-</u>	<u>-</u>
Net assets, end of year		<u>\$ 8,111,080</u>	<u>\$ -</u>	<u>\$ 8,111,080</u>	<u>\$ 8,062,308</u>

(See accompanying notes to the financial statements)

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

	<u>2019</u>	<u>2018</u>
Cash provided from:		
Operating activities		
Deficiency of revenue over expenses	\$ 48,772	\$ (645,391)
Change in:		
Due from the University of British Columbia	(7,533)	804,214
Accounts receivable	(9,281)	13,331
Services levies receivable	(313,929)	(170,516)
Accounts payable and accrued liabilities	<u>281,971</u>	<u>(1,638)</u>
	<u>(48,772)</u>	<u>645,391</u>
Change in cash	-	-
Cash, beginning of year	\$ <u>-</u>	\$ <u>-</u>
Cash, end of year	\$ <u>-</u>	\$ <u>-</u>

(See accompanying notes to the financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2019

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 2019, 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 cost.

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, 2019

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 collects and deposits service levies in the University's bank account on behalf of the Fund, and distributes annual operational funding. During the year, interest income of \$130,099 (2018 - \$137,061) was earned on the amounts held in the University's bank account at an average annual rate of 1.64% (2018 – 1.56%), and interest expense of \$8,962 (2018 - \$3,859) was charged at an average annual rate of 0.94% (2018 – 0.65%) on any outstanding balances during the year where the annual operational funding by the University exceeded the balance of the service levies collected.

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% (2018 - 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 (Note 3) based on the reserve balance in the account.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 4,616,950	\$ 4,479,250
Transfer from service levy revenue through transfer from unappropriated reserves	91,818	71,858
Interest earned during the year	74,748	65,842
	<u>166,566</u>	<u>137,700</u>
Balance, end of year	\$ <u>4,783,516</u>	\$ <u>4,616,950</u>

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2019

6. Capital Reserve

1.2% (2018 - 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 (Note 3) based on the reserve balance in the account.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 1,820,548	\$ 1,758,864
Transfer from service levy revenue through transfer from unappropriated reserves	45,909	35,929
Interest earned during the year	<u>29,395</u>	<u>25,755</u>
	<u>75,304</u>	<u>61,684</u>
Balance, end of year	\$ <u>1,895,852</u>	\$ <u>1,820,548</u>

7. Community Access Reserve

The Community Access Reserve was 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. During the year ended March 31, 2018, the balance of the Community Access Reserve was transferred to the Rate Stabilization Reserve.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ -	\$ 739,458
Interest earned during the year	-	10,981
Transfer to Community Field Replacement Reserve	-	(60,000)
Transfer to Rate Stabilization Reserve	<u>-</u>	<u>(690,439)</u>
	<u>-</u>	<u>(739,458)</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, 2019

8. Contingency Reserve

1.0% of the services levy (2018 - 1.0%) is set aside to pay for unexpected or unbudgeted repairs and expenses which require immediate action. Interest is calculated monthly using a rate determined by the University (Note 3) 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, 2019 and March 31, 2018 as the maximum amount was reached.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 1,022,195	\$ 1,007,234
Interest earned during the year	<u>16,717</u>	<u>14,961</u>
Balance, end of year	\$ <u>1,038,912</u>	\$ <u>1,022,195</u>

9. Rate Stabilization Reserve

1.0% of the services levy (2018 - 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, nil (2018 - \$690,439) was transferred from the Community Access Reserve and \$219,054 (2018 - \$890,239) 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 (Note 3) based on the reserve balance in the account.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 286,654	\$ 470,673
Interest earned during the year	4,703	15,781
Transfer from Community Access Reserve	-	690,439
Drawdown to cover current year deficits in unappropriated reserves	<u>(219,054)</u>	<u>(890,239)</u>
	<u>(214,351)</u>	<u>(184,019)</u>
Balance, end of year	\$ <u>72,303</u>	\$ <u>286,654</u>

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2019

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 (2018 - \$60,000) was transferred from the Community Access Reserve. Interest is calculated monthly using a rate determined by the University (Note 3) based on the reserve balance in the account.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 315,961	\$ 252,220
Interest earned during the year	4,536	3,741
Transfer from Community Access Reserve	-	60,000
	<u>4,536</u>	<u>63,741</u>
Balance, end of year	\$ <u>320,497</u>	\$ <u>315,961</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>2019</u>	<u>2018</u>
Balance, beginning of year	\$ -	\$ -
Deficiency of revenue over expenses	(81,327)	(782,452)
Less transfers to (payments from):		
Infrastructure Replacement Reserve	91,818	71,858
Capital Reserve	45,909	35,929
Community Access Reserve	-	(690,439)
Rate Stabilization Reserve	(219,054)	(199,800)
	<u>(81,327)</u>	<u>(782,452)</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, 2019

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 \$2,145,067 (2018 - \$2,211,562).

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

	<u>2019</u>	<u>2018</u>
UBC Athletics - use of athletic facilities	\$ 263,368	\$ 212,000
UBC Building Operations - utilities	371,651	255,225
	<u>\$ 635,019</u>	<u>\$ 467,225</u>

During the year, the University contributed \$77,629 (2018 - \$70,172) to cover the Fund's administrative costs of \$57,000 (2018 - \$57,000) to the University and other expenses. In addition, the University charged the Fund \$8,962 (2018 - \$3,859) in interest expense (Note 3).

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 \$1,082,616 (2018 - \$1,056,888) was paid from the unappropriated reserves.

THE UNIVERSITY OF BRITISH COLUMBIA
THE NEIGHBOURS' FUND
Notes to Financial Statements
Year ended March 31, 2019

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 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.

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, 2019 is the carrying value of these accounts receivables.

As at March 31, 2019 \$ 54,371 (2018 - \$45,090) amounts receivable were past due, but not impaired.

There have been no significant changes to the credit risk exposure from 2018.

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 2018'.