

Financial statements of

**STUDENT CENTER OF MCGILL
UNIVERSITY /
CENTRE ÉTUDIANT DE
L'UNIVERSITÉ MCGILL**

May 31, 1998

**STUDENT CENTER OF MCGILL UNIVERSITY /
CENTRE ÉTUDIANT DE L'UNIVERSITÉ MCGILL**

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Auditors' report

To the Directors of the
Student Center of McGill University /
Centre étudiant de l'Université McGill

We have audited the balance sheet of the Operating Fund, the Capital Expenditures Reserve Fund and Awards of Distinction Reserve Fund of the Student Center of McGill University / Centre étudiant de l'Université McGill as at May 31, 1998 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Students' Society Council. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Students' Society Council, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Center as at May 31, 1998 and the results of its operations and the changes in its cash flows for the year then ended in accordance with generally accepted accounting principles.

*Samson Bélair
Deloitte & Touche*

Chartered Accountants

August 7, 1998

**STUDENT CENTER OF MCGILL UNIVERSITY /
CENTRE ÉTUDIANT DE L'UNIVERSITÉ MCGILL**

**Balance sheet
as at May 31, 1998**

	Operating Fund	Capital Expenditures Reserve Fund	Awards of Distinction Reserve Fund	1998	Total 1997
	\$	\$	\$	\$	\$
Assets					
Current assets					
Cash	469,356	466,807	-	936,163	549,333
Short-term investments	19,651	-	193,979	213,630	628,225
Accounts receivable	154,275	-	-	154,275	95,103
Inventories	38,968	-	-	38,968	67,086
Prepaid expenses	61,810	-	-	61,810	51,357
* Due from Capital Expenditures Reserve Fund	125,252	-	-	-	-
* Due from Operating Fund	-	-	7,093	-	-
Capital assets (Note 5)	173,448	268,308	-	441,756	555,116
	1,042,760	735,115	201,072	1,846,602	1,946,220
Liabilities					
Current liabilities					
Accounts payable					
McGill University	51,647	-	-	51,647	64,840
Student health insurance plan	404,329	-	-	404,329	221,153
Other	293,684	-	-	293,684	322,774
* Due to Awards of Distinction Reserve Fund	7,093	-	-	-	-
* Due to Operating Fund	-	125,252	-	-	-
Due to library improvement fund – McGill University	178,760	-	-	178,760	313,155
Current portion of long-term debt (Note 6)	45,599	-	-	45,599	51,886
	981,112	125,252	-	974,019	973,808
Long-term debt (Note 6)	61,648	-	-	61,648	106,189
	1,042,760	125,252	-	1,035,667	1,079,997
Fund balances					
Invested in capital assets	-	268,308	-	268,308	323,994
Externally restricted (Note 3)	-	-	200,000	200,000	190,000
Internally restricted (Note 4)	-	341,555	1,072	342,627	352,229
	-	609,863	201,072	810,935	866,223
	1,042,760	735,115	201,072	1,846,602	1,946,220

* Interfund balances eliminated from total column so as not to overstate total assets and liabilities

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**Statement of operations and changes in fund balances
year ended May 31, 1998**

	Operating Fund		Capital Expenditures		Awards of Distinction	
	1998	1997	1998	1997	1998	1997
	\$	\$	\$	\$	\$	\$
Revenue						
Students' fees	929,290	915,991	-	-	-	-
Sadie's tabagie	173,241	270,227	-	-	-	-
Gert's Pub	278,455	359,168	-	-	-	-
Food and beverage operations	275,112	246,297	-	-	-	-
University center building operations	109,486	124,734	-	-	-	-
General, office and administrative	162,618	165,857	-	-	-	-
Programming activities	205,521	157,552	-	-	-	-
Publications	256,560	224,721	-	-	-	-
Services	92,929	108,256	-	-	-	-
Dividends	-	-	21,167	23,872	-	-
Gain on redemption	-	-	5,238	-	-	-
Contributions	-	-	-	-	10,000	10,000
Interest revenue	-	-	-	-	6,158	5,951
	2,483,212	2,572,803	26,405	23,872	16,158	15,951
Expenses						
Sadie's tabagie	160,736	261,794	-	-	-	-
Gert's Pub	310,713	333,605	-	-	-	-
Food and beverage operations	188,963	166,931	-	-	-	-
University center building operations	274,573	262,390	-	-	-	-
General, office and administrative	585,090	501,616	-	-	-	-
Council services	234,289	204,290	-	-	-	-
Programming activities	201,697	164,901	-	-	-	-
Publications	273,661	236,069	-	-	-	-
Services	115,036	126,955	-	-	-	-
Clubs	31,076	60,385	-	-	-	-
Amortization of capital assets	63,509	63,825	113,584	118,681	-	-
Interest expense	22,136	28,030	-	3,150	-	-
Awards granted	-	-	-	-	6,000	6,000
	2,461,479	2,410,791	113,584	121,831	6,000	6,000
Excess (deficiency) of revenue over expenses	21,733	162,012	(87,179)	(97,959)	10,158	9,951
Fund balances, beginning of year	-	-	675,309	611,256	190,914	180,963
Interfund transfers	(21,733)	(162,012)	21,733	162,012	-	-
Fund balances, end of year	-	-	609,863	675,309	201,072	190,914

**STUDENT CENTER OF MCGILL UNIVERSITY /
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Statement of cash flows
year ended May 31, 1998

	Operating Fund	Capital Expenditures Reserve Fund	Awards of Distinction Reserve Fund	Total	
	\$	\$	\$	1998 \$	1997 \$
Operating activities					
Excess (deficiency) of revenue over expenses	21,733	(87,179)	10,158	(55,288)	74,004
Items not affecting cash					
Amortization of capital assets	63,509	113,584	-	177,093	182,506
Loss on sale of capital assets	-	-	-	-	1,692
	85,242	26,405	10,158	121,805	258,202
Changes in non-cash operating working capital items	(67,172)	476,567	(4,000)	405,395	362,297
	18,070	502,972	6,158	527,200	620,499
Financing activities					
Repayment of long-term debt	(50,828)	-	-	(50,828)	(188,981)
Investing activities					
Acquisition of capital assets	(5,835)	(57,898)	-	(63,733)	(123,120)
Net cash (outflow) inflow	(38,593)	445,074	6,158	412,639	308,398
Cash position, beginning of year	549,333	-	187,821	737,154	240,935
Interfund transfers	(21,733)	21,733	-	-	-
Cash position, end of year	489,007	466,807	193,979	1,149,793	549,333
Cash position comprises					
Cash	469,356	466,807	-	936,163	549,333
Short-term investments	19,651	-	193,979	213,630	-
	489,007	466,807	193,979	1,149,793	549,333

STUDENT CENTER OF MCGILL UNIVERSITY/ CENTRE ÉTUDIANT DE L'UNIVERSITÉ MCGILL

Notes to the financial statements

year ended May 31, 1998

1. Purpose of the Organization

The Student Center of McGill University is a not-for-profit organization dedicated to providing various services to McGill students. It was incorporated on August 19, 1992 under Part III of the *Companies Act* (Québec).

2. Significant accounting policies

The Canadian Institute of Chartered Accountants issued new accounting and disclosure requirements for not-for-profit organizations effective for years beginning on or after April 1, 1997. The changes in the financial statement presentation have been applied to the comparative figures.

a) *Fund accounting*

The Center follows the restricted fund method of accounting for contributions. The purpose of each fund is as follows:

Operating Fund

The resources available are used for the general operations of the Center.

Capital Expenditures Reserve Fund

This fund was established on June 1, 1985 for the purpose of defraying the cost of certain significant capital expenditures. The capital of this fund is derived from transfers made from the Operating Fund as deemed necessary to ensure the maintenance of an appropriate capital asset base.

The maximum expenditure in any given fiscal year will not exceed 30% of the current fiscal year's beginning balance in the Capital Expenditures Reserve Fund.

Significant capital expenditures made by the Capital Expenditures Reserve Fund are recorded at cost less accumulated amortization. Amortization is calculated based on the estimated useful lives of the assets and computed on a straight-line basis using the following annual rates:

	%
Building improvements	10
Equipment	20
Furniture and fixtures	20
Incorporation expenses	20
Computer equipment	20
Computer software	50
Smallwares	50

Other capital expenditures are fully amortized in the year of acquisition.

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Notes to the financial statements

year ended May 31, 1998

2. Significant accounting policies (cont'd)

a) Fund accounting (cont'd)

Awards of Distinction Reserve Fund

This fund was established on June 1, 1990 for the purpose of generating revenue to provide for the Center's awards of distinction.

b) Investments

Investments are recorded at the lower of cost and market value. Investment revenue is accounted for on an accrual basis.

c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

d) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

e) Financial instruments

The carrying amounts of the Center's financial assets and liabilities approximate their fair value.

f) Revenue recognition

Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income earned on Restricted Fund resources that must be spent on restricted activities is recognized as revenue of the Restricted Fund.

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Notes to the financial statements

year ended May 31, 1998

3. Externally restricted net assets

Externally imposed restrictions on net assets is as follows:

	<u>1998</u>	<u>1997</u>
	\$	\$
Endowments, the income from which must be used for grants awarded	200,000	190,000

In 1991, the Students' Society of McGill University established an endowed scholarship fund for an initial amount of \$100,000. Contributions received to date have been invested in marketable securities.

4. Interfund transfers and internally restricted net assets

Excess of revenue over expenses generated in the Operating Fund is transferred to the Capital Expenditures Reserve Fund on an annual basis.

The internally restricted funds of \$341,555 in the Capital Expenditure Reserve Fund is to be used for capital expenditure purposes. The internally restricted funds of \$1,072 in the Awards of Distinction Reserve Fund is to be used for awards granted.

5. Capital assets

Capital Expenditures Reserve Fund

Capital assets in the Capital Expenditures Reserve Fund comprise the following:

	<u>1998</u>		<u>1997</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
	\$	\$	\$	\$
Building improvements	443,410	302,401	141,009	163,882
Computer equipment	106,148	60,444	45,704	50,322
Computer software	11,118	10,882	236	4,009
Equipment	321,315	250,739	70,576	85,201
Furniture and fixtures	134,169	123,386	10,783	20,580
	<u>1,016,160</u>	<u>747,852</u>	<u>268,308</u>	<u>323,994</u>

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Notes to the financial statements
year ended May 31, 1998

5. Capital assets (cont'd)

Operating Fund

Capital assets in the Operating Fund comprise the following:

	1998		1997	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Building improvements	77,089	23,119	53,970	61,680
Equipment	255,611	142,417	113,194	161,032
Furniture and fixtures	11,078	5,920	5,158	7,074
Smallwares	12,832	11,706	1,126	1,336
	356,610	183,162	173,448	231,122

The above includes assets acquired under capital leases having an original cost of \$202,787 and a net book value of \$76,439.

6. Long-term debt

	1998	1997
	\$	\$
Operating Fund		
Obligations under capital leases, expiring at varying dates between 1999 and 2001, subject to imputed interest at annual rates between 11% and 15%, secured by the assets acquired thereunder	107,247	158,075
Current portion	45,599	51,886
	61,648	106,189

Interest expense on long-term debt for the current year amounted to \$21,065.

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Notes to the financial statements
year ended May 31, 1998

6. Long-term debt (cont'd)

Principal repayments of long-term debt over the forthcoming years are as follows:

	Capital leases
	\$
1999	57,217
2000	48,544
2001	19,321
Total future minimum lease payments	125,082
Less amount representing interest	(17,835)
	107,247

7. Food and beverage operations

In 1995, the Center entered into an agreement with Services Alimentaires Miraval Inc. ("Miraval") for the management of the food and beverage services. Under the terms of the agreement terminating June 30, 2000, the Center is entitled to receive certain minimum monthly instalments. Either the Center or Miraval may terminate the agreement at any time during the term of the agreement or any renewed term by giving ninety days' written notice.

The Center is committed to pay rental fees based on gross sales to the various faculty undergraduate societies and several university departments where food services are provided through Miraval. In addition, the Center is committed to establish a restricted capital reserve fund (calculated at 0.5% of annual gross sales, where applicable) for the sole purpose of financing the purchase and/or replacement of furnishings and equipment required at these locations. As at May 31, 1998, \$33,625 has been set aside for this purpose and is included in Accounts Payable - Other on the balance sheet.

8. Heat, electricity and air conditioning expense

The heat, electricity and air conditioning expense of \$372,396 for the University center has been paid by McGill University (1997 - \$339,933).

9. Contingency

A legal action in the amount of approximately \$2,800,000 has been brought against the Center for an alleged breach of contract. Management and legal counsel are of the opinion that this claim is without merit. No provision with respect to this claim has been made in the financial statements. In the event any loss is incurred, it would be expensed in the year judgement is rendered.

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Notes to the financial statements
year ended May 31, 1998

10. Financial instruments

Risk management

The Student Center is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Center uses financial instruments to reduce those risks and does not hold or issue financial instruments for trading purposes.

Interest rate risk

The Student Center's exposure to interest rate risk relates to its long-term debt.

Credit risk

The Student Center is exposed to credit risk from customers. This risk is alleviated by minimizing the amount of exposure the Student Center has to any one customer thereby ensuring a diversified customer mix.

11. Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.