

Financial Statements of

**THE GRADUATE STUDENTS
ASSOCIATION OF MCMASTER
UNIVERSITY**

Year ended May 31, 2016



KPMG LLP
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of the Graduate Students Association of McMaster University

We have audited the accompanying financial statements of The Graduate Students Association of McMaster University, which comprise the statement of financial position as at May 31, 2016, the statements of operations, changes 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 accounting standards for not-for-profit organizations, 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.

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 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 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 qualified audit opinion.



Basis for Qualified Opinion

In common with many not-for-profit organizations, The Graduate Students Association of McMaster University derives revenues from restaurant and bar sales, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of The Graduate Students Association of McMaster University.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Graduate Students Association of McMaster University as at May 31, 2016, and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

August 24, 2016
Hamilton, Canada

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Statement of Financial Position

May 31, 2016, with comparative information for 2015

	2016			2015		
	Phoenix Bar & Grill	GSA Membership	Total	Phoenix Bar & Grill	GSA Membership	Total
Assets						
Current assets:						
Cash (note 2)	\$ 51,229	\$ 761,766	\$ 812,995	\$ 66,440	\$ 516,216	\$ 582,656
Accounts receivable (note 3)	8,822	6,753	15,575	2,843	-	2,843
Other receivables (note 3)	-	-	-	1,170	-	1,170
Due to GSA from Phoenix	(172,849)	172,849	-	(273,833)	273,833	-
Due from McMaster University	-	17,366	17,366	-	-	-
Inventory	24,638	-	24,638	20,723	-	20,723
Prepaid expenses	11,796	14,000	25,796	9,685	17,019	26,704
	(76,364)	972,734	896,370	(172,972)	807,068	634,096
Capital assets (note 4)	50,291	2,190,757	2,241,048	50,730	2,290,947	2,341,677
	\$ (26,073)	\$ 3,163,491	\$ 3,137,418	\$ (122,242)	\$ 3,098,015	\$ 2,975,773
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued liabilities (note 5)	\$ 206,786	\$ 145,172	\$ 351,958	\$ 191,328	\$ 29,566	\$ 220,894
Due to McMaster University	21,285	89	21,374	5,267	9,762	15,029
Deferred revenue	-	25,764	25,764	3,889	35,571	39,460
Deferred sponsorship grants	-	2,184	2,184	-	2,184	2,184
Current portion of long-term debt (note 6)	-	180,000	180,000	-	180,000	180,000
	228,071	353,209	581,280	200,484	257,083	457,567
Long-term debt (note 6)	-	374,373	374,373	-	541,534	541,534
Deferred contributions related to capital building (note 7)	-	1,636,384	1,636,384	-	1,569,413	1,569,413
	228,071	2,363,966	2,592,037	200,484	2,368,030	2,568,514
Accumulated net assets:						
Invested in capital assets (note 8)	50,291	-	50,291	50,730	-	50,730
Unrestricted (deficiency)	(304,435)	799,525	495,090	(373,456)	729,985	356,529
	(254,144)	799,525	545,381	(322,726)	729,985	407,259
Commitment (note 9)						
Contingent liability (note 10)						
	\$ (26,073)	\$ 3,163,491	\$ 3,137,418	\$ (122,242)	\$ 3,098,015	\$ 2,975,773

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director _____ Director

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Statement of Operations

Year ended May 31, 2016, with comparative information for 2015

	Phoenix Bar & Grill	GSA Membership	2016 Total	Phoenix Bar & Grill	GSA Membership	2015 Total
Revenue:						
Bar and restaurant	\$ 1,489,811	\$ -	\$ 1,489,811	\$ 1,436,593	\$ -	\$ 1,436,593
Members' fees	-	1,382,081	1,382,081	-	1,381,608	1,381,608
Other income	-	2,540	2,540	1,992	3,856	5,848
League fees	-	74,537	74,537	-	78,158	78,158
	1,489,811	1,459,158	2,948,969	1,438,585	1,463,622	2,902,207
Cost of sales:						
Bar and food supplies	636,379	-	636,379	658,472	-	658,472
Wages and benefits	575,327	-	575,327	548,133	-	548,133
	1,211,706	-	1,211,706	1,206,605	-	1,206,605
	278,105	1,459,158	1,737,263	231,980	1,463,622	1,695,602
Expenses:						
Advertising	27,497	-	27,497	21,183	-	21,183
Bank charges	32,347	-	32,347	28,717	639	29,356
Group insurance	-	1,103,609	1,103,609	-	1,040,567	1,040,567
Honoraria	-	28,492	28,492	-	31,546	31,546
Insurance	12,140	21,984	34,124	13,792	16,354	30,146
Interest on long-term debt	-	48,704	48,704	-	60,068	60,068
League expenses	-	70,146	70,146	-	51,699	51,699
McMaster University fees	-	15,163	15,163	-	16,010	16,010
Membership and club support	-	3,673	3,673	-	6,694	6,694
Office supplies and maintenance	7,594	-	7,594	11,880	-	11,880
Office salaries	-	70,788	70,788	-	72,591	72,591
Professional fees	20,114	21,718	41,832	24,252	37,372	61,624
Rent	55,219	-	55,219	50,937	-	50,937
Repairs and maintenance	14,517	-	14,517	11,595	-	11,595
Supplies and services	30,012	7,741	37,753	20,792	7,218	28,010
Travel and events	-	42,523	42,523	-	27,835	27,835
Utilities	2,279	-	2,279	2,567	-	2,567
	201,719	1,434,541	1,636,260	185,715	1,368,593	1,554,308
Excess of revenue over expenses						
before amortization	76,386	24,617	101,003	46,265	95,029	141,294
Amortization of capital assets	(7,803)	(103,971)	(111,774)	(34,440)	(103,806)	(138,246)
Amortization of deferred contributions	-	148,893	148,893	-	144,407	144,407
Excess of revenue over expenses	\$ 68,583	\$ 69,539	\$ 138,122	\$ 11,825	\$ 135,630	\$ 147,455

See accompanying notes to financial statements

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Statement of Changes in Net Assets

Year ended May 31, 2016, with comparative information for 2015

May 31, 2016	Invested in capital assets	Unrestricted		Total
		Phoenix Bar & Grill	GSA Membership	
Balance, beginning of year	\$ 50,730	\$ (373,456)	\$ 729,985	\$ 407,259
Excess of revenue over expenses	37,119	76,386	24,617	138,122
Net change in investment in capital assets (note 8)	(37,558)	(7,365)	44,923	-
Balance, end of year	\$ 50,291	\$ (304,435)	\$ 799,525	\$ 545,381

May 31, 2015	Invested in capital assets	Unrestricted		Total
		Phoenix Bar & Grill	GSA Membership	
Balance, beginning of year	\$ 98,313	\$ (413,397)	\$ 574,888	\$ 259,804
Excess of revenue over expenses	6,161	46,265	95,029	147,455
Net change in investment in capital assets (note 8)	(53,744)	(6,324)	60,068	-
Balance, end of year	\$ 50,730	\$ (373,456)	\$ 729,985	\$ 407,259

See accompanying notes to financial statements.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Statement of Cash Flows

Year ended May 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 138,122	\$ 147,455
Items not involving cash:		
Amortization	111,774	138,246
Amortization of deferred capital contributions	(148,893)	(144,407)
Changes in non-cash operating working capital:		
Accounts receivable	(12,732)	43,991
Other receivables	1,170	-
Due from McMaster University	(17,366)	72,358
Inventory	(3,915)	19,646
Prepaid expenses	908	183
Accounts payable and accrued liabilities	131,064	(11,646)
Deferred revenue	(13,696)	(24,111)
Due to McMaster University	6,345	(71,012)
Deferred sponsorship grants	-	2,184
	192,781	172,887
Financing activities:		
Debt repayment	(167,161)	(159,239)
Deferred contributions related to capital building	215,864	219,307
	48,703	60,068
Capital activities:		
Purchase of capital assets	(11,145)	(6,324)
Increase in cash	230,339	226,631
Cash, beginning of year	582,656	356,025
Cash, end of year	\$ 812,995	\$ 582,656

See accompanying notes to financial statements.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

The Graduate Students Association of McMaster University (the "Association") was incorporated as a corporation without share capital under the laws of Ontario on November 13, 1970 and is exempt from income tax under the Income Tax Act.

The Association's objectives are to promote the welfare and interests of the members through the provision of facilities and opportunities for social, athletic, and intellectual activities. The Association operates the Phoenix Bar and Grill, a restaurant located on the McMaster University Campus.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(a) Revenue recognition:

The Association follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restaurant revenues are recorded when the services and related goods sold are provided to customers.

Contributions received for the purpose of capital assets are recorded as deferred capital contributions and are amortized on the same basis as the related capital assets.

(b) Cash:

Cash includes cash on hand and short-term deposits which are highly liquid with original maturities of less than three months.

(c) Inventory:

Inventory consists of various food and bar items including alcohol held for resale. Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

1. Significant accounting policies (continued):

(d) Capital assets:

Capital assets are recorded at cost. The Association provides for amortization using the following methods at rates designed to amortize the cost of the equipment over its estimated useful life. The annual amortization rates and methods are as follows:

Asset	Method	Rate
Restaurant equipment and fixtures	Straight-line	10 years
Office equipment	Declining balance	20%
Computer equipment	Declining balance	20%
Patio	Straight-line	7 years
Leasehold improvements	Straight-line	over term of the lease

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

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

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of the financial statements 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 year. Actual results could differ from those estimates.

2. Cash and operating line of credit:

The Association holds a bank account with internally designated amounts of \$286,389 (2015 - \$309,233) in relation to premiums collected for Member's health and dental coverage.

The Association has a \$25,000 operating line of credit available to the Phoenix Bar and Grill for its day to day cash flow requirements. At year end, this line had a balance of \$nil (2015 - \$nil) which has been included with cash on the statement of financial position. The line bears interest at the Bank's prime rate plus 1.75%. This line is secured by a security agreement granting a first security interest on all present and after acquired personal property of the Association.

3. Accounts receivable:

	2016	2015
Trade receivables	\$ 15,575	\$ 10,838
Other receivables	-	1,170
	15,575	12,008
Less allowance for doubtful accounts	-	(7,995)
	\$ 15,575	\$ 4,013

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

4. Capital assets:

May 31, 2016	Cost	Accumulated amortization	Net book value
Restaurant equipment and fixtures	\$ 465,514	\$ 415,223	\$ 50,291
Office equipment	42,804	37,011	5,793
Computer equipment	16,975	13,546	3,429
Leasehold improvements	2,534,867	354,961	2,179,906
Vehicles and equipment	1,900	271	1,629
	\$ 3,062,060	\$ 821,012	\$ 2,241,048

May 31, 2015	Cost	Accumulated amortization	Net book value
Restaurant equipment and fixtures	\$ 458,150	\$ 407,420	\$ 50,730
Office equipment	42,804	35,562	7,242
Computer equipment	15,094	12,689	2,405
Patio	97,365	97,365	-
Leasehold improvements	2,534,867	253,567	2,281,300
	\$ 3,148,280	\$ 806,603	\$ 2,341,677

The project surrounding the leasehold improvements was completed in 2012 with occupancy of the new facility in September 2012. The construction of this project was funded by the Association's capital building levy collected over the years from graduate students and the balance was financed by way of a loan granted by McMaster University. Included in the capital building levy was additional fees paid by the graduate students to support construction of the new facility. Total expenditures were \$3,120,982 including direct contributions provided by McMaster University in the amount of \$586,115. The contributions by McMaster University have not been recorded as leasehold improvements as the asset continues to reside with McMaster University.

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$46,044 (2015 - \$34,940), which includes amounts payable for HST and payroll related taxes.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

6. Long-term debt:

On November 1, 2011, the Association entered into a loan agreement with McMaster University to assist the Association with the renovation and construction of the new facilities that contain the Association offices and the Phoenix Bar and Grill at the Refectory Building on campus. The facility included two parts, with facility 1 being used for interim construction financing. The interim construction financing in facility 1 was closed and transferred to facility II in 2013.

Facility II: Term Loan Facility replaced the interim construction loan upon completion of construction and relocation. This loan bears interest at 6.75% fixed rate, repaid in lump sum payments due and payable within sixty days of the closing of each of the trimestral Graduate registration period in the amount equivalent to the Association's Capital Building Fee collected by the University. Total repayments in any year (September 1 to August 31) should not be less than \$180,000.

These facilities are secured by a specific assignment, security interest and set-off agreement of the Association's Capital Building fees to the Association through McMaster University and a general security agreement over all of the property and assets of the Association duly registered under the PPSA.

	2016	2015
Amounts due under Facility II	\$ 554,373	\$ 721,534
Less current portion	180,000	180,000
	<u>\$ 374,373</u>	<u>\$ 541,534</u>

Future principal payments required on long-term debt for the next five years are as follows:

2017	\$ 142,580
2018	152,204
2019	162,478
2020	97,111
2021 and thereafter	-
	<u>\$ 554,373</u>

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

7. Deferred contributions related to capital building:

During the year, McMaster University collected fees from the members of the Association in the amount of \$215,864 (2015 - \$219,307) for the capital building fund. These funds were collected to finance the capital improvements/relocation of the GSA offices and the Phoenix Bar and Grill.

Deferred contributions related to capital building represent restricted contributions which the Association is using to fund the leasehold improvements of the new location. This balance will be amortized to revenue on the same basis as the amortization expense related to the leasehold improvements. The changes in deferred contributions related to capital assets for the year are as follows:

	2016	2015
Balance, beginning of year	\$ 1,569,413	\$ 1,494,513
Contributions received for capital building	215,864	219,307
Less amortization of deferred capital contributions	(148,893)	(144,407)
	<u>\$ 1,636,384</u>	<u>\$ 1,569,413</u>

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

8. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

	2016	2015
Capital assets	\$ 2,241,048	\$ 2,341,677
Amounts financed by:		
Deferred contributions	(1,636,384)	(1,569,413)
Long-term debt	(554,373)	(721,534)
	<u>\$ 50,291</u>	<u>\$ 50,730</u>

(b) Change in net assets invested in capital assets is calculated as follows:

	2016	2015
Excess of revenues over expenses:		
Amortization of capital assets	\$ (111,774)	\$ (138,246)
Amortization of deferred capital contributions	148,893	144,407
	<u>\$ 37,119</u>	<u>\$ 6,161</u>
Net change in investment in capital assets:		
Purchase of capital assets	\$ 11,145	\$ 6,324
Amounts funded by:		
Deferred capital contributions	(215,864)	(219,307)
Repayment of long-term debt	167,161	159,239
	<u>\$ (37,558)</u>	<u>\$ (53,744)</u>

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

9. Commitment:

The Association is committed under a lease for premises with McMaster University, the annual rentals of which are negotiated on a year to year basis. Monthly rent payments are \$5,503 inclusive of HST, base and additional rent charges. Additional rent charges are subject to annual inflation adjustments.

10. Contingent liability:

The Association is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. These claims are not expected to have a material impact on financial position or operating results of the Association.

11. Financial instruments:

(a) Liquidity risk:

Liquidity risk is the risk that the Association will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Association manages its liquidity risk by monitoring its operating requirements. The Association prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2015.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Association is exposed to credit risk with respect to accounts receivable. The Association assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

(c) Interest rate risk:

The Association is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate long-term debt is included in note 6.