

Financial Statements of

**THE GRADUATE STUDENTS
ASSOCIATION OF MCMASTER
UNIVERSITY**

And Independent Auditors' Report thereon

Year ended May 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Members of the Graduate Students Association of McMaster University

Qualified Opinion

We have audited the financial statements of the Graduate Students Association of McMaster University (the "Association"), which comprise:

- the statement of financial position as at end of May 31, 2019
- the statement of operations for the year then ended
- the statement of 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, except for the possible effects of the matter described in the "*Basis for Qualified Opinion*" section of our auditors' report, the accompanying financial statements, present fairly, in all material respects, the financial position of the Association as at end of May 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Association 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 Association.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- current assets reported in the statements of financial position as at end of May 31, 2019 and end of May 31, 2018
- revenue and excess of revenue over expenses reported in the statement of operations for the years ended May 31, 2019 and May 31, 2018



- net assets at the beginning and end of the year, reported in the statements of changes in net assets for the years ended May 31, 2019 and May 31, 2018
- excess of revenues over expenses reported in the statements of cash flows for the years ended May 31, 2019 and May 31, 2018

Our opinion on the financial statements for the year ended May 31, 2018 was qualified accordingly because of the possible effects of this limitation in scope.

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 Association 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 qualified 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 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.

In preparing the financial statements, management is responsible for assessing the Association’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 Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association’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 Association'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 Association'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 Association 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.

KPMG LLP

Chartered Public Accountants, Licensed Public Accountants
Hamilton, Canada
August 28, 2019

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Statement of Financial Position

May 31, 2019, with comparative information for 2018

	2019			2018		
	Phoenix Bar & Grill	GSA Membership	Total	Phoenix Bar & Grill	GSA Membership	Total
Assets						
Current assets:						
Cash (note 2)	\$ 286,236	\$ 792,289	\$ 1,078,525	\$ 170,573	\$ 764,508	\$ 935,081
Short-term investments	-	225,412	225,412	-	10,000	10,000
Accounts receivable (note 3)	26,028	18,639	44,667	19,771	25,187	44,958
Due to GSA from Phoenix	(76,614)	76,614	-	(68,741)	68,741	-
Due from McMaster University	7,605	21,663	29,268	22,119	10,495	32,614
Inventory	21,113	-	21,113	16,952	-	16,952
Prepaid expenses	14,179	17,973	32,152	13,528	18,137	31,665
	278,547	1,152,590	1,431,137	174,202	897,068	1,071,270
Capital assets (note 4)	32,573	1,882,536	1,915,109	36,045	1,985,702	2,021,747
	\$ 311,120	\$ 3,035,126	\$ 3,346,246	\$ 210,247	\$ 2,882,770	\$ 3,093,017
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued liabilities (note 5)	\$ 163,048	\$ 44,130	\$ 207,178	\$ 152,630	\$ 44,198	\$ 196,828
Deferred revenue	-	24,413	24,413	-	25,500	25,500
Current portion of long-term debt (note 6)	-	-	-	-	136,324	136,324
	163,048	68,543	231,591	152,630	206,022	358,652
Deferred contributions related to capital building (note 7)	-	2,096,289	2,096,289	-	1,849,378	1,849,378
	163,048	2,164,832	2,327,880	152,630	2,055,400	2,208,030
Accumulated net assets:						
Invested in capital assets (note 8)	32,573	-	32,573	36,045	-	36,045
Unrestricted	115,499	870,294	985,793	21,572	827,370	848,942
	148,072	870,294	1,018,366	57,617	827,370	884,987
Commitment (note 9)						
	\$ 311,120	\$ 3,035,126	\$ 3,346,246	\$ 210,247	\$ 2,882,770	\$ 3,093,017

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, 2019, with comparative information for 2018

	Phoenix Bar & Grill	GSA Membership	2019 Total	Phoenix Bar & Grill	GSA Membership	2018 Total
Revenue:						
Bar and restaurant	\$ 1,181,215	\$ -	\$ 1,181,215	\$ 1,395,831	\$ -	\$ 1,395,831
Members' fees	-	1,851,422	1,851,422	-	1,742,751	1,742,751
Other income and recoveries	5	20,172	20,177	490	3,000	3,490
League fees	-	64,041	64,041	-	54,852	54,852
Interest income	-	6,649	6,649	-	954	954
	1,181,220	1,942,284	3,123,504	1,396,321	1,801,557	3,197,878
Cost of sales:						
Bar and food supplies	406,283	-	406,283	465,648	-	465,648
Wages and benefits	505,512	-	505,512	507,859	-	507,859
	911,795	-	911,795	973,507	-	973,507
	269,425	1,942,284	2,211,709	422,814	1,801,557	2,224,371
Expenses:						
Advertising	21,462	-	21,462	22,107	-	22,107
Bank charges	26,304	33	26,337	31,086	158	31,244
Group insurance	-	1,478,256	1,478,256	-	1,469,390	1,469,390
Honoraria	-	31,584	31,584	-	37,272	37,272
Insurance	16,364	14,014	30,378	17,328	14,333	31,661
Interest on long-term debt	-	1,534	1,534	-	23,945	23,945
League expenses	-	60,688	60,688	-	63,266	63,266
McMaster University fees	-	20,921	20,921	-	19,872	19,872
Membership and club support	1,476	14,118	15,594	-	10,510	10,510
Office supplies and maintenance	4,678	-	4,678	7,267	-	7,267
Office salaries	-	103,020	103,020	-	94,367	94,367
Professional fees	16,652	11,908	28,560	20,195	24,058	44,253
Rent	61,366	-	61,366	60,889	-	60,889
Repairs and maintenance	4,461	-	4,461	9,625	-	9,625
Supplies and services	13,405	3,738	17,143	10,133	(708)	9,425
Travel and events	-	63,405	63,405	-	52,244	52,244
Utilities	4,829	-	4,829	5,380	-	5,380
	170,997	1,803,219	1,974,216	184,010	1,808,707	1,992,717
Excess (deficiency) of revenue over expenses before amortization	98,428	139,065	237,493	238,804	(7,150)	231,654
Amortization of capital assets	(7,973)	(103,166)	(111,139)	(7,973)	(103,389)	(111,362)
Amortization of deferred contributions	-	7,025	7,025	-	126,733	126,733
Excess of revenue over expenses	\$ 90,455	\$ 42,924	\$ 133,379	\$ 230,831	\$ 16,194	\$ 247,025

See accompanying notes to financial statements

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Statement of Changes in Net Assets

Year ended May 31, 2019, with comparative information for 2018

May 31, 2019	Invested in capital assets	Unrestricted		Total
		Phoenix Bar & Grill	GSA Membership	
Balance, beginning of year	\$ 36,045	\$ 21,572	\$ 827,370	\$ 884,987
Excess (deficiency) of revenue over expenses	(104,114)	98,428	139,065	133,379
Net change in investment in capital assets (note 8)	100,642	(4,501)	(96,141)	-
Balance, end of year	\$ 32,573	\$ 115,499	\$ 870,294	\$ 1,018,366

May 31, 2018	Invested in capital assets	Unrestricted		Total
		Phoenix Bar & Grill	GSA Membership	
Balance, beginning of year	\$ 44,018	\$ (217,232)	\$ 811,176	\$ 637,962
Excess (deficiency) of revenue over expenses	15,371	238,804	(7,150)	247,025
Net change in investment in capital assets (note 8)	(23,344)	-	23,344	-
Balance, end of year	\$ 36,045	\$ 21,572	\$ 827,370	\$ 884,987

See accompanying notes to financial statements.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Statement of Cash Flows

Year ended May 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 133,379	\$ 247,025
Items not involving cash:		
Amortization	111,139	111,362
Amortization of deferred capital contributions	(7,025)	(126,733)
Changes in non-cash operating working capital:		
Accounts receivable	291	(22,118)
Due from McMaster University	3,346	(7,412)
Inventory	(4,161)	2,782
Prepaid expenses	(487)	(1,792)
Accounts payable and accrued liabilities	10,350	(55,306)
Deferred revenue	(1,087)	1,875
Due to McMaster University	-	(31,877)
	245,745	117,806
Investing activities:		
Purchase of investments	(215,412)	(10,000)
Financing activities:		
Debt repayment	(136,324)	(218,411)
Deferred contributions related to capital building	40,183	242,357
Deferred contributions related to future capital expenses	213,753	-
	117,612	23,946
Capital activities:		
Purchase of capital assets	(4,501)	(602)
Increase in cash	143,444	131,150
Cash, beginning of year	935,081	803,931
Cash, end of year	\$ 1,078,525	\$ 935,081

See accompanying notes to financial statements.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2019

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) Short term investments:

Short-term investments consist of guaranteed investment certificates with remaining maturities of less than one year.

(d) 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, 2019

1. Significant accounting policies (continued):

(e) 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

(f) 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, 2019

1. Significant accounting policies (continued):

(g) 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 \$107,396 (2018 - \$93,981) 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 (2018 - \$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:

	2019	2018
Trade receivables	\$ 44,667	\$ 44,958
Less allowance for doubtful accounts	-	-
	\$ 44,667	\$ 44,958

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2019

4. Capital assets:

May 31, 2019	Cost	Accumulated amortization	Net book value
Restaurant equipment and fixtures	\$ 471,714	\$ 439,142	\$ 32,572
Office equipment	44,960	40,716	4,244
Computer equipment	16,975	15,219	1,756
Leasehold improvements	2,534,867	659,144	1,875,723
Vehicles and equipment	1,900	1,086	814
	\$ 3,070,416	\$ 1,155,307	\$ 1,915,109

May 31, 2018	Cost	Accumulated amortization	Net book value
Restaurant equipment and fixtures	\$ 467,213	\$ 431,168	\$ 36,045
Office equipment	44,960	39,655	5,305
Computer equipment	16,975	14,780	2,195
Leasehold improvements	2,534,867	557,751	1,977,116
Vehicles and equipment	1,900	814	1,086
	\$ 3,065,915	\$ 1,044,168	\$ 2,021,747

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 \$34,678 (2018 - \$39,078), 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, 2019

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.

During the year, the Association repaid the remaining amount of loan to McMaster University.

	2019	2018
Amounts due under Facility II	\$ -	\$ 136,324
Less current portion	-	(136,324)
	\$ -	\$ -

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2019

7. Deferred contributions related to capital building:

During the year, McMaster University collected fees from the members of the Association in the amount of \$40,183 (2018 - \$242,357) for the capital building fund and \$213,753 (2018 – \$nil) for future capital projects. The capital building 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:

	2019	2018
Balance, beginning of year	\$ 1,849,378	\$ 1,733,754
Contributions received for capital building	40,183	242,357
Contributions received for future capital projects	213,753	-
Less amortization of deferred capital contributions	(7,025)	(126,733)
Balance, end of year	\$ 2,096,289	\$ 1,849,378

The balance of capital contributions related to capital assets consists of the following:

	2019	2018
Unamortized capital contributions used to purchase capital assets	\$ 1,882,536	\$ 1,849,378
Unspent capital contributions	213,753	-
	\$ 2,096,289	\$ 1,849,378

Unspent capital contributions are excluded from net assets invested in capital assets until the related capital expenditures are incurred.

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2019

8. Investment in capital assets:

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

	2019	2018
Capital assets	\$ 1,915,109	\$ 2,021,747
Amounts financed by:		
Deferred contributions	(1,882,536)	(1,849,378)
Long-term debt	-	(136,324)
	<u>\$ 32,573</u>	<u>\$ 36,045</u>

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

	2019	2018
Excess of revenues over expenses		
Amortization of capital assets	\$ (111,139)	\$ (111,362)
Amortization of deferred capital contributions	7,025	126,733
	<u>\$ (104,114)</u>	<u>\$ 15,371</u>
Net change in investment in capital assets:		
Purchase of capital assets	\$ 4,501	\$ 602
Amounts funded by:		
Deferred capital contributions	(40,183)	(242,357)
Repayment of long-term debt	136,324	218,411
	<u>\$ 100,642</u>	<u>\$ (23,344)</u>

THE GRADUATE STUDENTS ASSOCIATION OF MCMASTER UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2019

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 \$6,216 inclusive of HST, base and additional rent charges. Additional rent charges are subject to annual inflation adjustments.

10. 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 2018.

(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.

11. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.