

THE GRADUATE STUDENTS ASSOCIATION OF MCMMASTER 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.

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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

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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.

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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>