

The Students' Society of McGill University

Meeting - November 17, 1989

AGENDA

- ° Review of financial statements
- ° Letter of recommendations
- ° Letter of representation
- ° Audit fee

RECOMMENDATION FOR THE NEGOTIATIONS WITH SCOTT'S FOOD SERVICES

The negotiations committee will be composed of:

Santo Manna
Don McGerrigle
Jean Charles Viens
Jon Shifman
Debbie Penthesco
Corey Safran

Jon Feldman

The negotiations will be conducted by:

Debbie Penthesco
Jean Charles Viens
Jon Shifman

-reasons for this recommendation

- . ranking of individuals into the SSMU organization
- . involvement into the food & beverage tenders process
- . escape opportunity generated
- . degree of knowledge of Scott's officials

Strategy

- preliminary meetings will be conducted with every faculty associations to know specifics of faculty
 - . sub-committee of tenders
- preparation meeting will be held to lay down strategies and a list of minimum standards to expect from Scott's
 - . negotiations committee
- preparation meeting (pre-negotiations)
 - . negotiations team
- review meeting
 - . negotiations committee
- counter negotiations
 - . negotiations team
- final review
 - . negotiations committee

October 20, 1989

Mr. Jean-Charles Viens,
Vice-President (Finance),
Mr. Jon Shifman,
Comptroller,
The Students' Society of McGill University,
3480 McTavish Street,
Montreal, Quebec.
H3A 1X9

Dear Sirs:

In accordance with our regular practice, we are writing this letter to bring to your attention certain matters arising from our audit of the Students' Society for the year ended April 30, 1989. While none of the observations outlined below are of sufficient gravity to require us to substantially increase or amend the scope of our audit, we recommend that every effort should be made to remedy them.

a) CVC Operations

Observation - In last year's letter of recommendations it was noted that the Students' Society should investigate the drop in beverage and food operations' gross profit margin by 4.5% and 1.3% respectively. This year the gross profit margin fluctuated as follows:

	<u>1988</u>	<u>1989</u>	<u>Change</u>
Food	60.9%	60.1%	-0.8%
Beverage	58.7%	60.2%	+1.5%

It should also be noted that the profitability of CVC operations has also deteriorated. Beverage operations continue to record losses while the profit margin on food operations has declined substantially in 1989. Profit sharing is not as lucrative as originally expected.

The Students' Society of McGill University has commissioned Touche Ross Management Consultants to undertake a comprehensive review of its food and beverage operations. The findings of this review are currently being studied by the Students' Society.

a) CVC Operations (cont'd)

Recommendation - The Students' Society is currently in the process of negotiating an extension to the CVC contracts on food and beverage operations even though the contracts do not expire until 1990 and 1992 respectively. The extensions are deemed necessary by the CVC in order that they go ahead with capital expenditures at McGill.

If the Students' Society decides to extend its relationship with the CVC it should consider changing the nature of its contracts with the CVC. The profit sharing clauses of the contracts have proven unfruitful for McGill because of the large amount of operating costs that have been charged to McGill. Since the Students' Society has no way of verifying or challenging these costs, they should consider basing future profit sharing contracts with the CVC on percentage of sales alone. The verification of sales alone would be easier to monitor and the Students' Society would not have to worry about CVC cost overruns and high administration and management fees.

The report provided by Touche Ross Management Consultants provides the Students' Society with an in-depth list of recommendations related to this point.

b) Students' Society Year End

Observation - Last year it was recommended that the Students' Society change its year end back to May 31 in order to have the same year end as McGill University with which it has a very close relationship. The problem of using an April 30 year end is compounded by the fact that the CVC uses a last week in May year end to settle its accounts with the Students' Society. This difference has caused major accounting problems in preparing the April 30, 1989 financial statements and will continue to cause problems in the future unless rectified.

b) Students' Society Year End (cont'd)

Recommendation - In view of the problems the April 30 year end causes for reconciliation of transactions with McGill University and the C.V.C., a May 31 year end is strongly recommended.

c) Cash Deposits

Observation - The administration department of the Students' Society receives cash on a regular basis in settlement of accounts receivable. This money is first counted by the clerk who prepares a deposit slip. The deposit is then forwarded to the accounting department. The money is not, however, deposited on a timely basis. During our audit we discovered that a large deposit remained in the vault for one month. Such a delay poses a security problem.

Recommendation - The controller should ensure cash received in settlement of accounts receivable is deposited on a timely basis and does not stay in the vault for extended periods.

d) Inventory Controls

Observation - This year's ending inventory balance was \$10,000 higher than the inventory balance last year. Management has indicated that this was caused by the purchase of more inventory than was required near year end.

Recommendation - Management should consider implementing an economic order quantity system where a stock level point is set at which a certain amount of merchandise is ordered. This would be especially helpful for higher value items such as calculators. If this is not feasible, management should at least attempt to make sure that a minimal amount of merchandise is purchased towards the end of spring in order not to be overstocked during the slow summer months.

e) Profitability of Confectionery Products

Observation - The profit margin on confectionery products remains unchanged from last year's margin of 19%. In 1986 and 1987 the margin was about 25%.

Recommendation - Sadie's management should consider increasing the prices on confectionery products in order to attain the profit margin of 25% that it had in past years. Before increases are made, however, the prices of confectionery products in campus vending machines should be considered.

f) Sadie's II - McConnell Engineering

Observation - As in the past, the Sadie's II location showed poor financial results. This is due to added competition from the E.U.S. CO-OP also established in the McConnell Engineering Building.

Despite the poor results the Students' Society does not want to close Sadie's II because it is the "major lifeline" between the Students' Society and the Engineering students.

Recommendation - In order to improve performance at Sadie's II, costs should be reduced. Consideration should be given to reducing the number of hours the tabagie is open to save on non-productive labour costs. An analysis should be done to determine which time slots are most profitable in order to better organize Sadie's II business hours.

We shall be pleased to discuss further any matters raised in this letter.

Yours very truly,

Touche Ross

Phyllis L. Heaphy

PLH/hj
H-D12-19

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

REPORT AND FINANCIAL STATEMENTS

APRIL 30, 1989

AUDITORS' REPORT

The Executive Director and Members,
The Students' Society of McGill University.

We have examined the balance sheets of the operating fund, the debt repayment fund and the capital expenditures reserve fund of The Students' Society of McGill University as at April 30, 1989 and the statements of income and surplus of the operating fund, changes in the deficit of the debt repayment fund and changes in the reserve fund for capital expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Society as at April 30, 1989 and the results of its operations for the year then ended in accordance with accounting principles described in Note 1 to the financial statements applied on a basis consistent with that of the preceding period.

Montreal, Quebec,
October 20, 1989.

Touche Ross

Chartered Accountants

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

OPERATING FUND
BALANCE SHEET AS AT APRIL 30, 1989

	<u>1989</u>	<u>1988</u>
<u>ASSETS</u>		
Current		
Cash	\$ 48,024	\$ 3,800
Accounts receivable	119,318	117,371
Inventories	52,238	42,277
Prepaid expense	<u>4,717</u>	<u>5,966</u>
	<u>\$224,297</u>	<u>\$169,414</u>
<u>LIABILITIES</u>		
Current		
Accounts payable		
McGill University	\$ 13,061	\$ 19,146
Other	126,634	143,900
Due to debt repayment fund	800	800
Due to capital expenditures reserve fund	<u>83,802</u>	<u>5,568</u>
	<u>\$224,297</u>	<u>\$169,414</u>

Approved on behalf of the Society

.....
.....

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

DEBT REPAYMENT FUND
BALANCE SHEET AS AT APRIL 30, 1989

	<u>1989</u>	<u>1988</u>
<u>ASSETS</u>		
Due from operating fund	\$ 800	\$ 800
Fixed assets	<u>82,565</u>	<u>132,319</u>
	<u>\$ 83,365</u>	<u>\$133,119</u>
<u>LIABILITY AND DEFICIT</u>		
Loan payable to McGill University	\$219,685	\$352,062
Deficit	<u>(136,320)</u>	<u>(218,943)</u>
	<u>\$ 83,365</u>	<u>\$133,119</u>

STATEMENT OF CHANGES IN THE DEFICIT
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Deficit, beginning of year	\$218,943	\$299,061
Add		
Write-off of fixed assets	<u>49,754</u>	<u>48,244</u>
	268,697	347,305
Deduct		
Transfer from operating fund of students' contributions for debt repayment	<u>132,377</u>	<u>128,362</u>
Deficit, end of year	<u>\$136,320</u>	<u>\$218,943</u>

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

CAPITAL EXPENDITURES RESERVE FUND
BALANCE SHEET AS AT APRIL 30, 1989

	<u>1989</u>	<u>1988</u>
<u>ASSETS</u>		
Due from operating fund	\$ 83,802	\$ 5,568
Investments (market value 1989 - \$414,584; 1988 - \$410,258)	421,909	419,339
Capital expenditures	<u>288,530</u>	<u>153,672</u>
	<u>\$794,241</u>	<u>\$578,579</u>
<u>CAPITAL</u>		
Reserve fund for capital expenditures	<u>\$794,241</u>	<u>\$578,579</u>

STATEMENT OF CHANGES IN THE RESERVE FUND FOR CAPITAL EXPENDITURES
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Balance of fund, beginning of year	\$578,579	\$431,105
Add		
Transfer from operating fund	185,087	120,725
Interest revenue	<u>30,575</u>	<u>26,749</u>
Balance of fund, end of year	<u>\$794,241</u>	<u>\$578,579</u>

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

OPERATING FUND
STATEMENT OF INCOME AND SURPLUS
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Income		
Students' fees	\$ 883,838	\$ 814,496
Students' contributions for debt repayment (Note 1)	132,377	128,362
Food and beverage operations, net	142,978	98,091
Sadie's tabagie, net	2,300	406
Games machine	<u>11,061</u>	<u>7,832</u>
	<u>1,172,554</u>	<u>1,049,187</u>
Expenditure		
University Centre Building operations	300,380	269,934
General office and administrative	342,222	279,735
Council services	93,659	83,697
Society activities and services, net	37,260	101,976
Functional groups, net	41,843	41,238
Interest groups, net	11,506	12,338
Special projects	<u>28,220</u>	<u>11,182</u>
	<u>855,090</u>	<u>800,100</u>
Excess of income over expenditure for the year	317,464	249,087
Transfer to capital expenditures reserve fund	185,087	120,725
Transfer of students' contributions to debt repayment fund	<u>132,377</u>	<u>128,362</u>
Accumulated surplus, end of year	<u>\$ -</u>	<u>\$ -</u>

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1989

1. Significant accounting policies

a. Fund accounting

The Society accounts for each fund separately. The purpose of each fund is as follows:

Operating fund

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

Debt repayment fund

This fund was established to facilitate the repayment of the debt owed to McGill University as of May 31, 1985. Accordingly, the amount of the debt outstanding to McGill University as of May 31, 1985, and the portion of fixed assets and accumulated deficit represented by such debt, were transferred to the debt repayment fund as of June 1, 1985. The debt repayment is being made from a special fee per semester to be collected from all members of the Society for a period of approximately six years which commenced January 1986. Accordingly, the fixed assets transferred are being written off to the deficit of the fund at a rate corresponding to the debt repayment.

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 surplus as deemed necessary to ensure the maintenance of an appropriate fixed 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.

b. Investments

Investments are carried at cost. Investment income 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.

The Students' Society of McGill University
Notes to financial statements
April 30, 1989

1. Significant accounting policies (continued)

d. Fixed assets

Acquisitions of fixed assets and improvements of a capital nature are considered as operating expenses except for those significant purchases made by the capital expenditures reserve fund which are recorded at cost as assets of that fund.

e. Operating income and expenditure

Operating income and expenditure are accounted for on an accrual basis.

2. Fixed assets

Fixed assets comprise the following:

	1989		1988	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Equipment - debt repayment fund	<u>\$705,350</u>	<u>\$622,785</u>	<u>\$82,565</u>	<u>\$132,319</u>

3. Food and beverage operations

The food and beverage services are managed and provided by Les Services Alimentaires C.V.C. Inc. Under the terms of the food services agreement terminating on May 31, 1990 and the beverage services agreement terminating on September 1, 1992, the Society is entitled to receive the following:

Food services

Years ending

- May 31, 1989, the greater of \$215,000 or 10.5% of gross sales
- May 31, 1990, the greater of \$225,750 or 10.5% of gross sales

plus, in each year, 50% of any excess of revenues over expenditures.

The Society is committed to pay rental fees to the various faculty undergraduate societies and several university departments where food services are provided through Les Services Alimentaires C.V.C. Inc. Such rental fees are defined within each rental agreement and are based on a percentage of gross sales by location. Some of the agreements also provide for a sharing of the profits earned from such services. For the year ended April 30, 1989, such rental fees, including distribution of profits, amounted to \$146,363 (1988 - \$136,312).

49754
\$ 132,319

The Students' Society of McGill University
Notes to financial statements
April 30, 1989

3. Food and beverage operations (continued)

Beverage services

Year ended September 1, 1988

The greater of \$30,000 or 10.5% of gross sales of Gertrude's Pub, the Ballroom and The Alley, plus

Gertrude's Pub profit share - 50% of amounts in excess of \$7,998 per annum, plus

Alley and Ballroom profit share - 50% of amounts in excess of the surplus from the alcoholic beverages account.

Years ending

September 1, 1989	\$37,500
September 1, 1990	\$40,000
September 1, 1991	\$42,500
September 1, 1992	\$45,000

or

10.5% for sales of \$350,000 or less
11.5% for sales of \$350,001 to \$400,000
12.5% for sales of \$400,001 to \$450,000
13.5% for sales of \$450,001 to \$500,000
14.5% for sales in excess of \$500,000,

whichever is greater.

4. Heat, electricity and air conditioning expense

The heat, electricity and air conditioning expense of \$259,140 for the University Centre has been paid by McGill University (1988 - \$224,100).

5. Comparative figures

Certain 1988 figures have been modified in order to conform with the presentation adopted in 1989.

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

STATEMENT OF SADIE'S TABAGIE OPERATIONS
FOR THE YEAR ENDED APRIL 30, 1989

	McConnell Engineering		University Centre		Chancellor Day		Total	
	1989 (12 months)	1988 (11 months)	1989 (12 months)	1988 (11 months)	1989 (12 months)	1988 (11 months)	1989 (12 months)	1988 (11 months)
Income								
Sales								
Metro tickets and stamps	\$ 9,718	\$ 9,075	\$ 57,901	\$ 60,319	\$ 3,380	\$ -	\$ 70,999	\$ 69,394
Tobacco products	16,041	18,219	92,188	93,789	2,336	-	110,565	112,008
Confectionery	20,750	16,468	81,456	65,475	4,254	-	106,460	81,943
Calculators	2,984	34,968	51,247	7,056	-	-	54,231	42,024
Miscellaneous	16,819	14,729	63,076	46,970	5,006	-	84,901	61,699
	<u>66,312</u>	<u>93,459</u>	<u>345,868</u>	<u>273,609</u>	<u>14,976</u>	<u>-</u>	<u>427,156</u>	<u>367,068</u>
Cost of sales								
Metro tickets and stamps	9,400	8,905	56,027	59,160	3,297	-	68,724	68,065
Tobacco products	14,277	16,033	79,582	82,454	2,079	-	95,938	98,487
Confectionery	16,808	13,339	65,979	53,286	3,446	-	86,233	66,625
Calculators	2,208	25,875	41,756	5,127	-	-	43,964	31,002
Miscellaneous	13,642	12,962	45,889	41,061	1,393	-	60,924	54,023
	<u>56,335</u>	<u>77,114</u>	<u>289,233</u>	<u>241,088</u>	<u>10,215</u>	<u>-</u>	<u>355,783</u>	<u>318,202</u>
Gross profit	9,977	16,345	56,635	32,521	4,761	-	71,373	48,866
Commission income	3,420	3,256	12,288	6,960	1,981	-	17,689	10,216
	<u>13,397</u>	<u>19,601</u>	<u>68,923</u>	<u>39,481</u>	<u>6,742</u>	<u>-</u>	<u>89,062</u>	<u>59,082</u>
Expenditure								
Material and supplies	-	17	1,798	33	143	-	1,941	50
Postage and miscellaneous	1,123	1,055	1,863	2,001	2,385	-	5,371	3,056
Advertising	421	1,870	2,098	1,077	152	-	2,671	2,947
Salaries	2,819	10,268	25,371	10,752	-	-	28,190	21,020
Casual wages	7,149	7,258	28,710	19,329	2,966	-	38,825	26,587
Fringe benefits	1,157	2,017	4,559	2,999	131	-	5,847	5,016
New equipment	-	-	2,667	-	1,250	-	3,917	-
	<u>12,669</u>	<u>22,485</u>	<u>67,066</u>	<u>36,191</u>	<u>7,027</u>	<u>-</u>	<u>86,762</u>	<u>58,676</u>
Net income (expenditure)	<u>\$ 728</u>	<u>(\$ 2,884)</u>	<u>\$ 1,857</u>	<u>\$ 3,290</u>	<u>(\$ 285)</u>	<u>\$ -</u>	<u>\$ 2,300</u>	<u>\$ 406</u>

Unaudited.

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

AUDITORS' REPORT
SUPPLEMENTARY INFORMATION RELATED TO THE OPERATING FUND

APRIL 30, 1989

AUDITORS' REPORT
SUPPLEMENTARY INFORMATION RELATED TO THE OPERATING FUND

Our examination of the financial statements of The Students' Society of McGill University for the year ended April 30, 1989 was made primarily in order to express an opinion on the basic financial statements as a whole. The supplementary information related to the operating fund which is contained in the accompanying schedules is drawn principally from accounting records and other documents of the Society. In our opinion, this information is not necessary for a fair presentation of the financial position of the Society and the results of its operations. We have not carried out sufficient tests and other audit procedures in connection with this information to be able to express an opinion on the fairness of each item contained in these schedules and, consequently, do not express an opinion on this supplementary information.

Montreal, Quebec,
October 20, 1989.


Chartered Accountants

Schedule 1

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

STATEMENT OF FOOD AND BEVERAGE OPERATIONS
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Contribution from Les Services Alimentaires C.V.C. Inc. (Note 3)		
Food operations		
Base income	\$257,830	\$227,021
Profit sharing	(7,922)	23,537
Beverage operations (Gertrude's Pub and Ballroom, The Alley)		
Base income	<u>43,739</u>	<u>39,105</u>
	293,647	289,663
Other income	<u>1,298</u>	<u>1,775</u>
	<u>294,945</u>	<u>291,438</u>
Expenditure		
Rent (Note 3)	146,363	136,312
Amortization of fixed assets	-	47,200
Other	<u>5,604</u>	<u>9,835</u>
	<u>151,967</u>	<u>193,347</u>
Net income	<u>\$142,978</u>	<u>\$ 98,091</u>

Unaudited.

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY
STATEMENT OF UNIVERSITY CENTRE BUILDING OPERATIONS
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Income		
Parking income	\$ 17,904	\$ 12,125
Room rentals	<u>28,973</u>	<u>26,596</u>
	<u>46,877</u>	<u>38,721</u>
Expenditure		
Salaries and wages	182,103	151,641
Cleaning and security	99,122	95,889
Repairs and alterations	17,958	22,927
Materials and supplies	36,607	31,610
Stationery and postage	157	1,181
Telephone	1,454	1,296
Miscellaneous	2,587	1,426
New equipment	<u>7,269</u>	<u>2,685</u>
	<u>347,257</u>	<u>308,655</u>
Net expenditure	<u>\$300,380</u>	<u>\$269,934</u>

Unaudited.

Schedule 4

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

STATEMENT OF GENERAL OFFICE AND ADMINISTRATIVE EXPENDITURE
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Salaries and benefits	\$213,890	\$169,631
Casual wages	52,448	52,590
Postage, stationery and printing	2,745	877
Telephone and telegraph	7,422	8,370
Legal and audit fees	38,507	23,651
Supplies	3,707	4,459
Advertising	229	427
Insurance	11,190	11,185
Computer charges	9,500	8,500
Investment income	(5,714)	(2,276)
Miscellaneous	8,298	2,321
	<u>\$342,222</u>	<u>\$279,735</u>

Unaudited.

Schedule 5

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

STATEMENT OF COUNCIL SERVICES EXPENDITURE
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Council and committees	\$57,517	\$51,026
Communications	12,971	8,707
Elections	14,393	16,203
External Affairs - general	7,498	6,606
External Affairs - South Africa committee	<u>1,280</u>	<u>1,155</u>
	<u>\$93,659</u>	<u>\$83,697</u>

Unaudited.

Schedule 6

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

STATEMENT OF SOCIETY ACTIVITIES AND SERVICES (NET)
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> 11 months)
Activities Night	\$ 1,676	\$ 1,567
Advertising Office	636	1,906
Blood Donor Clinic	2,166	4,226
Educational Programming	911	1,782
McGill Annual	(10,007)	4,909
Multicultural Society Fiesta	3,293	5,060
Network - Alternative Programming	4,107	4,429
Network - Concerts and Events	2,254	15,038
Network - General	4,689	3,699
Network - Volunteers	199	257
Network - Speakers	5,619	6,020
Network - Performing Arts	4,869	3,147
Ombudsman	1,724	750
Student Directory	394	73
Student Handbook	3,358	11,806
Student Security	7,272	15,931
Tribune Newsletter	600	15,203
User's Guide	848	-
Winter Carnival and Welcome Week	<u>2,652</u>	<u>6,173</u>
	<u>\$37,260</u>	<u>\$101,976</u>

Unaudited.

Schedule 7

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY
STATEMENT OF FUNCTIONAL GROUPS EXPENDITURE (NET)
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Campus Legal Aid	\$17,659	\$16,292
Debating Union Society	6,655	7,703
Film Society	-	2,553
McGill Volunteer Bureau	1,138	1,162
Multicultural Society	1,878	2,379
Players' Club	3,668	-
Savoy Society	6,181	4,918
Women's Union	4,664	6,231
	<u>\$41,843</u>	<u>\$41,238</u>

Unaudited.

Schedule 8

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY
STATEMENT OF INTEREST GROUPS EXPENDITURE (NET)
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Access McGill	\$ 960	\$ 1,814
Americans Abroad	878	248
Amnesty International	(311)	-
Arab Student Association	1,150	149
Armenian Club	553	369
Black Students' Network	543	237
Caribbean Students' Association	(317)	1,135
Censorwatch	165	-
Central America Group	(1)	186
Chess Association	(30)	49
Choral Society	(995)	-
Entrepreneurs' Club	846	-
Folk Music Society	417	-
Foster Parents' Association	182	238
Galom	284	412
Go Club	245	-
Hellenic Club	32	-
Inter-Fraternity Council	289	943
Iranian Students' Association	577	304
Mature Students' Association	20	173
McGill Crossroads	6	191
McGill Quebec	1,290	856
Model U.N.	1,532	1,443
Pakistan Students' Association	479	248
Personal Finance Club	732	456
Project Ploughshares	(219)	-
Red Herring	(750)	-
Simulation Gamers Guild	349	102
Southeast Asian Students' Association	672	510
Student Pugwash	874	488
Uhuru Na Ufahamu	361	97
Ukrainian Students' Association	250	50
Vietnamese Students' Association	(120)	539
W.U.S.C. McGill	(71)	-
Youth Parliament	616	-
Miscellaneous Clubs	18	1,101
	<u>\$11,506</u>	<u>\$12,338</u>

Unaudited.

Schedule 9

THE STUDENTS' SOCIETY OF MCGILL UNIVERSITY

STATEMENT OF SPECIAL PROJECTS
FOR THE YEAR ENDED APRIL 30, 1989

	<u>1989</u> (12 months)	<u>1988</u> (11 months)
Players' Theatre - Light Project	\$10,000	\$ -
University Affairs	2,550	-
Sexual Assault Awareness	1,995	-
McGill Business Consulting	1,615	-
Internal Affairs - General	1,167	-
C.U.L.T. Project	1,000	-
AQEUQAM	800	-
Burger King	-	4,444
Club Reception	-	1,923
External Affairs - McGill	-	1,374
Loans and Bursaries	-	630
Miscellaneous	<u>9,093</u>	<u>2,811</u>
	<u>\$28,220</u>	<u>\$11,182</u>

Unaudited.

July 26, 1988

Mr. Don McGerrigle
Executive Director
McGill Students' Society
McGill University
3480 McTavish Street
Montreal, Quebec
H3A 1X9

Dear Don:

The purpose of this letter is to propose an analysis of the profitability of the Student Society's food and beverage operations, as discussed at our recent meeting.

BACKGROUND

Over the past 10 years, the Students' Society has successfully pursued a strategy of centralizing the administration of food and beverage services on campus. The University has supported this goal as a means of rationalizing these services and involving students in their operation. The Students' Society now provides food and beverage services at ten cafeterias, two pubs and ten vending machine locations. A catering service is also available to McGill and outside groups. Revenues from these services account for about three-quarters of the Society's approximately \$4 million annual budget.

All of the Society's food beverage services are presently managed and operated by an outside contractor, CVC Food Services. A profit-sharing formula in the contracts is intended to provide CVC with the incentive to supply quality services to the McGill community while at the same time generating income for the Society. Since the initial contracts were signed, concerns have been raised about the food and beverage operations. Key among these concerns are:

- ° the quality and variety of foods, beverages and services offered;
- ° profits which appear to be low given the opportunities for business, the scale of operations and food industry experience; and

- a lack of timely and informative management and financial information which could permit adequate control by the Society.

OBJECTIVE

The objective of the proposed assignment will be to assist management in making decisions with respect to the food and beverage operations covered by the present contracts with CVC. More specifically, Touche Ross proposes to carry out a detailed analysis of available profit, cost and revenue data for those services and report to management our assessment of the current situation with recommendations for further action.

APPROACH

The proposed study could have significant benefits for the various key stakeholders in the food and beverage service operations:

- the Students' Society Council will gain a firm idea of the present cost effectiveness and profitability of its food and beverage operations with recommendations which could provide a basis for long-term success;
- Students' Society management will have a plan for further action and a basis for the negotiation of future contracts; and
- the University administration will be assured that one of the key recommendations of the Society's auditors is being acted upon and that action is being taken to ensure that food operations are well-managed.

Our approach will permit maximum input from the Students' Society and ensure that final results are useful. Our approach is characterized by:

- orientation to solutions which can be realistically implemented;
- close collaboration with senior management and with the Executive Committee through the appointment of a member of the Committee to advise on the work; and
- timely delivery.

WORKPLAN

We propose that the assignment be split into three parts, or phases, to allow the Students' Society to proceed with subsequent phases if and when it chooses. The first phase, covered by this letter, will be an assessment, based on available financial and operating data, of the current situation in the food and beverage services. Depending on the results of Phase I, Phase II will consist of the development of detailed recommendations of improvement. Phase III will be to render assistance in the negotiation of any new contract.

The following workplan will be followed in the execution of Phase I:

- ° familiarization with the overall situation;
- ° gathering of available financial and management information relevant to profitability;
- ° gathering of comparative industry data;
- ° analysis of internal and external data;
- ° identification of possible opportunities for improvement or further action;
- ° discussion with CVC representatives, if possible;
- ° development of an action plan for Phases II and III;
- ° discussion with Society management at a progress meeting; and
- ° presentation of a report covering our opinion on the financial results of the food and beverage operations and our suggestions for an action plan.

OUR FIRM AND EXPERIENCE

Touche Ross Management Consultants employs over 100 professionals in offices in major Canadian cities. The firm has carried out an in-depth review of the food and beverage service operations for the University of Ottawa and recently completed a business planning engagement for an important McGill affiliate. Touche Ross, Chartered Accountants does the annual audit for both McGill and the Students' Society giving us complete familiarity with McGill and Society finances.

STAFFING, TIMING & FEES

Jean S. Picard, CA, CMC, a Partner in the Montreal consulting practice, will assume overall responsibility for the assignment. He consults chiefly in financial management and productivity improvement. He played a major role in the University of Ottawa assignment.

David J. Smith, MBA, is a Consultant in the Montreal office and will play the major role in the execution of the engagement. Mr. Smith has participated in a variety of operational reviews in the public and private sector, and has prior consulting experience with McGill.

Resumes for Messrs. Picard and Smith can be provided upon request.

Mrs. Phyllis Heaphy, who is responsible for the Society's annual audit, will be a resource and advisor on the study.

Assuming the availability of persons to be interviewed and data to be consulted, the presentation of final results could be achieved within three weeks. Professional fees for Phase I only are estimated at \$4,000. Related expenses for travel and report preparation are charged separately and billed at cost. These expenses should not exceed \$700. We normally bill on a monthly basis for fees and expenses incurred during the month.

We appreciated the opportunity to meet with you and Mr. Shifman and want to assure you of our best efforts to address your concerns.

Yours truly,

TOUCHE ROSS



David J. Smith
Consultant

DS/sh

C.C. Jean S. Picard, Touche Ross
Phyllis Heaphy, Touche Ross

October 20, 1989

Mr. Jean-Charles Viens,
Vice-President (Finance),
Mr. Jon Shifman,
Comptroller,
The Students' Society of McGill University,
3480 McTavish Street,
Montreal, Quebec.
H3A 1X9

Dear Sirs:

In accordance with our regular practice, we are writing this letter to bring to your attention certain matters arising from our audit of the Students' Society for the year ended April 30, 1989. While none of the observations outlined below are of sufficient gravity to require us to substantially increase or amend the scope of our audit, we recommend that every effort should be made to remedy them.

a) CVC Operations

Observation - In last year's letter of recommendations it was noted that the Students' Society should investigate the drop in beverage and food operations' gross profit margin by 4.5% and 1.3% respectively. This year the gross profit margin fluctuated as follows:

	<u>1988</u>	<u>1989</u>	<u>Change</u>
Food	60.9%	60.1%	-0.8%
Beverage	58.7%	60.2%	+1.5%

It should also be noted that the profitability of CVC operations has also deteriorated. Beverage operations continue to record losses while the profit margin on food operations has declined substantially in 1989. Profit sharing is not as lucrative as originally expected.

The Students' Society of McGill University has commissioned Touche Ross Management Consultants to undertake a comprehensive review of its food and beverage operations. The findings of this review are currently being studied by the Students' Society.

a) CVC Operations (cont'd)

Recommendation - The Students' Society is currently in the process of negotiating an extension to the CVC contracts on food and beverage operations even though the contracts do not expire until 1990 and 1992 respectively. The extensions are deemed necessary by the CVC in order that they go ahead with capital expenditures at McGill.

If the Students' Society decides to extend its relationship with the CVC it should consider changing the nature of its contracts with the CVC. The profit sharing clauses of the contracts have proven unfruitful for McGill because of the large amount of operating costs that have been charged to McGill. Since the Students' Society has no way of verifying or challenging these costs, they should consider basing future profit sharing contracts with the CVC on percentage of sales alone. The verification of sales alone would be easier to monitor and the Students' Society would not have to worry about CVC cost overruns and high administration and management fees.

The report provided by Touche Ross Management Consultants provides the Students' Society with an in-depth list of recommendations related to this point.

b) Students' Society Year End

Observation - Last year it was recommended that the Students' Society change its year end back to May 31 in order to have the same year end as McGill University with which it has a very close relationship. The problem of using an April 30 year end is compounded by the fact that the CVC uses a last week in May year end to settle its accounts with the Students' Society. This difference has caused major accounting problems in preparing the April 30, 1989 financial statements and will continue to cause problems in the future unless rectified.

b) Students' Society Year End (cont'd)

Recommendation - In view of the problems the April 30 year end causes for reconciliation of transactions with McGill University and the C.V.C., a May 31 year end is strongly recommended.

c) Cash Deposits - SADIE'S

Observation - The administration department of the Students' Society receives cash on a regular basis in settlement of accounts receivable. This money is first counted by the clerk who prepares a deposit slip. The deposit is then forwarded to the accounting department. The money is not, however, deposited on a timely basis. During our audit we discovered that a large deposit remained in the vault for one month. Such a delay poses a security problem.

Recommendation - The controller should ensure cash received in settlement of accounts receivable is deposited on a timely basis and does not stay in the vault for extended periods.

d) Inventory Controls

Observation - This year's ending inventory balance was \$10,000 higher than the inventory balance last year. Management has indicated that this was caused by the purchase of more inventory than was required near year end.

Recommendation - Management should consider implementing an economic order quantity system where a stock level point is set at which a certain amount of merchandise is ordered. This would be especially helpful for higher value items such as calculators. If this is not feasible, management should at least attempt to make sure that a minimal amount of merchandise is purchased towards the end of spring in order not to be overstocked during the slow summer months.

e) Profitability of Confectionery Products

Observation - The profit margin on confectionery products remains unchanged from last year's margin of 19%. In 1986 and 1987 the margin was about 25%.

Recommendation - Sadie's management should consider increasing the prices on confectionery products in order to attain the profit margin of 25% that it had in past years. Before increases are made, however, the prices of confectionery products in campus vending machines should be considered.

f) Sadie's II - McConnell Engineering

Observation - As in the past, the Sadie's II location showed poor financial results. This is due to added competition from the E.U.S. CO-OP also established in the McConnell Engineering Building.

Despite the poor results the Students' Society does not want to close Sadie's II because it is the "major lifeline" between the Students' Society and the Engineering students.

Recommendation - In order to improve performance at Sadie's II, costs should be reduced. Consideration should be given to reducing the number of hours the tabagie is open to save on non-productive labour costs. An analysis should be done to determine which time slots are most profitable in order to better organize Sadie's II business hours.

We shall be pleased to discuss further any matters raised in this letter.

Yours very truly,

Touche Ross

Phyllis L. Heaphy

PLH/hj
H-D12-19

st

November 25, 1988

Mr. Casey Fukada,
Vice-President, Finance,
Mr. Jon Shifman,
Comptroller,
The Students' Society of McGill University,
3480 McTavish Street,
Montreal, Quebec
H3A 1X9

Dear Sirs:

In accordance with our regular practice, we are writing this letter to bring to your attention certain matters arising from our audit of the Students' Society for the eleven-month period ended April 30, 1988. While none of the observations outlined below are of sufficient gravity to require us to substantially increase or amend the scope of our audit, we recommend that every effort should be made to remedy them.

a) C.V.C. Operations

Observation - By comparing gross profit on sales for C.V.C. operations for 1987 and 1988, we noticed that both the beverage and food operations' gross profit margins have dropped by 4.5% and 1.3% respectively this year. There were no explanations given by C.V.C. as to the reasons for these decreases. Furthermore, the comfort letter from C.V.C.'s auditors does not provide the Students' Society with this kind of pertinent information.

Recommendation - An in-depth audit of C.V.C. operations and systems would provide the Students' Society with the necessary information as to the profitability of C.V.C. which would, in turn, help the Students' Society in its decision making.

Observation - In preparing the Statement of Food and Beverage Operations, we noticed that an error had been made by C.V.C. in the calculation of the Students' Society share of net profit.

Recommendation - C.V.C.'s contract system should be reviewed to ensure that contract modifications made in the system are properly approved and agree with the most recent contracts, and that calculations are correct. Also, a monthly check could be made by the Students' Society to ensure that the stipulated profits are effectively recorded by C.V.C.

The Students' Society of McGill University
Montreal, Quebec

2.

b) The Students' Society Year End

Observation - May is a very important month for the recording of transactions as the University closes its books at May 31 and requires all departments to process the current year's invoices or transactions. As a direct consequence, the Students' Society has a high volume of transactions during that month.

Recommendation - In view of the above observations, a May 31 year end would be more appropriate.

c) Profitability of Confectionery Products

Observation - We noticed that the unit cost increase of confectionery products was not compensated by a corresponding unit sales increase.

Recommendation - To prevent a loss in profitability, a unit cost increase should be matched with a unit sales increase on a timely basis.

d) Sadie's Inventory Transfer

Observation - While the McConnell (Sadie's II) inventory is physically transferred to the University Centre (Sadie's I) at year end, the accounting entries are put through based on estimated costs. This produces inaccurate information as to gross profit margins for Sadie's I and II.

Recommendation - Implement proper procedures to ensure that costs of the transferred items are correctly recorded in the books.

e) Monthly Reporting

Observation - The Students' Society has no information as to its operations during the year.

Recommendation - A trial balance similar to the Students' Society year-end working papers could easily be set up using a computer spreadsheet package to obtain a summary of monthly operations.

We shall be pleased to discuss further any matters raised in this letter.

Yours very truly,

Touche Ross

Phyllis L. Heaphy/mcg

THE STUDENTS' SOCIETY

STATEMENT OF FOOD AND
FOR THE YEAR ENDE

	Gertrude's Pub	The Alley	Cafeteria and catering	Law	Arts	Education
Sales - food	\$234,884	\$ 61,327	\$612,733	\$95,918	\$197,164	\$168,718
Sales - beverage	346,954	45,466	-	-	-	-
	<u>581,838</u>	<u>106,793</u>	<u>612,733</u>	<u>95,918</u>	<u>197,164</u>	<u>168,718</u>
Cost of sales - food	82,613	18,688	273,137	37,509	75,275	62,076
Cost of sales - beverage	138,269	13,379	-	-	-	-
	<u>220,882</u>	<u>32,067</u>	<u>273,137</u>	<u>37,509</u>	<u>75,275</u>	<u>62,076</u>
Gross profit	360,956	74,726	339,596	58,409	121,889	106,642
Less						
Operating expenses	304,825	71,943	361,913	49,755	87,054	75,637
Base income to the Society - Food	24,663	6,439	64,337	10,071	20,702	17,715
Base income to the Society - Beverage	36,909	4,606	-	-	-	-
Net profit (loss) per C.V.C. Inc.	<u>(\$ 5,441)</u>	<u>(\$ 8,262)</u>	<u>(\$ 86,654)</u>	<u>(\$ 1,417)</u>	<u>\$ 14,133</u>	<u>\$ 13,290</u>
Breakdown of net profit (loss) per C.V.C. Inc.						
Food	\$ 9,500	(\$ 4,139)	(\$ 86,654)	(\$ 1,417)	\$ 14,133	\$ 13,290
Beverage	(14,941)	(4,123)	-	-	-	-
Total net profit (loss)	<u>(\$ 5,441)</u>	<u>(\$ 8,262)</u>	<u>(\$ 86,654)</u>	<u>(\$ 1,417)</u>	<u>\$ 14,133</u>	<u>\$ 13,290</u>
Food and beverage results for vending agreement purposes						
Base income - food	\$ 24,663	\$ 6,439	\$ 64,337	\$10,071	\$ 20,702	\$ 17,715
Base income - beverage	36,909	4,606	-	-	-	-
Share of net profit (loss) - food	4,750	(2,070)	(43,326)	(709)	7,067	6,644
Rental fees - vending agreements	-	-	-	(9,592)	(19,716)	(16,872)
	<u>66,322</u>	<u>8,975</u>	<u>21,011</u>	<u>(230)</u>	<u>8,053</u>	<u>7,487</u>
Distribution of profit (50%) to vending satellites	-	-	-	-	(4,027)	(3,744)
Amortization of fixed assets	-	-	-	-	-	-
	<u>\$ 66,322</u>	<u>\$ 8,975</u>	<u>\$ 21,011</u>	<u>(\$ 230)</u>	<u>\$ 4,026</u>	<u>\$ 3,743</u>

Unaudited.