Concordia Student Union

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

Key Points in the CSU Audit for the 2017-2018 Fiscal Year

October 24, 2018

Presented to CSU Council for the 2018-2019 Year by John Hutton, CSU Finance Coordinator.

Introduction

This document is to assist with understanding the key points and terms in the Audited Financial Statements for the CSU's 2017-18 Fiscal year. It is produced in the interest of making them more accessible to anybody that's curious, in particular for members of the CSU (students) and other stakeholders. This is an updated version of a similar guide produced in 2017 to accompany the CSU's audited financial statements, and I thank my predecessor, Soulaymane El Alaoui for their work in making the CSU's finances more transparent and accessible. I hope that future CSU executives will continue this practice.

Below is a bullet-point explanation of the CSU's Audit for the 2017-2018 Fiscal Year. This document is an attempt to simplify and explain certain key points from the audit, as well as explain certain terms. The CSU was audited by Deloitte, one of the "Big Four" accounting firms (one of the 4 largest professional services firms that offer a diverse range of services, including audit services). Deloitte was chosen through an RFP process. The firm has previous Student Union audit experience, experience with fund accounting (the CSU's accounting method), knowledge on the CSU's revenue model, and relevant experience with organizations of similar size and complexity as the CSU.

This document is in 4 parts:

1. General notes to keep in mind before going through the audit
2. A breakdown of each section of the audit including relevant definitions and takeaways
3. The CSU's verification that our numbers are indeed in accordance with the auditors
4. Brief commentary & recommendations from the CSU Finance Coordinator

Part 1: General Notes

- Why the CSU gets an audit
    - An audit is an independent review of financials of an organization in order to report the financial standing of the organization and to attest that the organization is presenting their financials in a fair way. Audits are used by organizations to reassure their

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

stakeholders that their financials are free from material misstatements and have been used as a safeguard measure for a long time (not only when dealing with financials, but also in regards to performance, quality, IT, and more).
  - The CSU's stakeholders are all of the members of the CSU, Concordia University, Banks and Institutions, Government, and Suppliers.
  - It is important for the CSU to get an independent review of its financials (Audit) so that it stays transparent and accountable to its stakeholders when it comes to the management of its multimillion dollar budget.
  - The auditor (in this case, Deloitte) gets appointed by CSU Council every 3 years following an RFP process. This will be the case for next year's auditors.
- Non-consolidated statements
  - This means that the CSU's audit was independent of its subsidiaries ("CSU Daycare and Nursery")
  - In note 4 of the financial statements (page 11), the Daycare's numbers are included.
  - In past audits, the CSU also had Cusacorp as a subsidiary to report for, but this is no longer necessary.
- Qualified Opinion versus Unqualified Opinion
  - Though it may seem counterintuitive, an Unqualified Opinion is more favorable for an organization than a Qualified Opinion. To define both:
    - Unqualified Opinion
      - Also known as a Clean Opinion, this states that the organizations financial statements are presumed to be free from material misstatements (i.e. "everything looks legitimate, no cause for concern")
    - Qualified Opinion
      - Auditors who give a Qualified Opinion are essentially saying that the information provided to them was limited in its scope (i.e. they did not have enough information to be able to give a Clean Opinion).
- Basis for a Qualified Opinion
  - The CSU has received its first Unqualified Opinion, indicating that the finances of the union are accurately accounted for and reported.
  - In previous years, the auditors opinions for the CSU finances have been Qualified Opinions due to the the inclusion of the now-defunct Cusacorp, a former CSU subsidiary that is now Reggies Solidarity Cooperative. This was the only reason that the 2016-17 audited financial statements did not receive an Unqualified Opinion.
  - **The importance of approval includes a declaration of Federal and Provincial Taxes maximum of 6 months after the year end closure.**
- Not-for-profit status

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

  - The CSU is a registered Not-for-profit corporation, meaning that it is tax-exempt on certain fronts. However, unreasonable profits could create an issue. This is not our case currently, despite the overall increase in the CSU's net assets.
- Restricted Fund Accounting
  - The CSU uses the restricted fund accounting method. This essentially means that the CSU does not spend money designated for one purpose for a different purpose (e.g. revenues and expenses relating to SSAELC will go to and from the SSAELC fund, without impacting revenues and expenses relating to general operations).
- SSAELC and long term investments
  - SSAELC stands for Student Space, Accessible Education, and Legal Contingency. The SSAELC fund is restricted to revenues and expenses of that nature, as per the CSU's restricted fund accounting method.
  - The student center fund was merged with the SSAELC fund in November 2016 via a Council decision, and the combined fund retained the name SSAELC.
  - Close to 80% of the CSU's long term investments have now been placed in Sustainable/Socially Responsible Investment portfolios (SRI's).
- Notation
  - Financial statements are usually presented separately by year end (with the exception of the balance sheet which compares both years). For financial statements that show the year 2018, it is important to keep in mind that this means these are the financial statements for the 2017-2018 Fiscal Year (the 2017-2018 Fiscal Year starts June 1, 2017 and ends May 31, 2018).
  - Most accounting documents (including the CSU's audit document) present negative numbers in brackets. For example, when looking at the non-consolidated statement of changes in net assets for the 2017-2018 Fiscal Year, we see that there is a (deficiency) of revenue over expenses in investments in capital assets of ($312,762). This is the net amount.
    - Note: Numbers in brackets apply to net amounts. When looking at expenses, for example, since these are not the bottom line, they appear positive (no brackets), but the bottom line (net amount) will be in brackets if the total expenses are greater than the total revenues for a category.

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

Part 2: Audit Breakdown

The audit document is split into 6 parts:

1) Independent auditor's report (p. 1 in physical report, p. 3 in pdf file)
    a. This section is a message from Deloitte explaining the responsibilities of the Management (CSU) as well as the responsibilities of the Auditor (Deloitte) and reasoning for the type of audit performed (unqualified opinion versus qualified opinion).
2) Non-consolidated statement of operations (p. 2-3 in physical report, p. 4-5 in pdf file)
    a. A statement of operations shows the organization's revenues and expenses (also known as a Profit/Loss statement).
    b. Page 2 shows the statement for the 2017-2018 year (overall profit)
    c. Page 3 shows the statement for the 2016-2017 year (overall profit)
    d. Note: Excess of revenues over expenses
        i. This refers to the bottom line (Revenue minus Expenses = Profit or Loss). For the 2017-2018 Fiscal Year, the CSU has a profit of $3167, compared to a profit of over $1 million in FY 2016-17.
            1. Please note that this profit is from the SSAELC fund.
3) Non-consolidated statement of changes in net assets (p. 4-5 in physical report, p. 6-7 in pdf file)
    a. This statement shows the dollar value of assets acquired (or lost) from the beginning of the fiscal year to the end of that same fiscal year
    b. Page 4 shows the statement for the 2017-2018 Fiscal Year
    c. Page 5 shows the statement for the 2016-2017 Fiscal Year
    d. Note: The total assets increase (or decrease) by the total profit (or loss) identified for the same fiscal year in the statement of operations.
4) Non-consolidated balance sheet (p. 6 in physical report, p. 8 in pdf file)
    a. A balance sheet shows the balance of assets, liabilities, and capital of an organization. It is an essential accounting tool to ensure that all statements are correct.
    b. To ensure that all statements are correct, we can see that the Assets are equal to the sum of the Liabilities and the Net assets.
    c. The 2017-2018 fiscal year is on the left.
    d. **Note: The Board (Council) must approve of this statement (as well as the entire audit) in order for the CSU to publish it and make it publicly available so that its stakeholders (the 35,000+ members, Concordia University, Banks and Institutions, Government, and Suppliers) can attest to the transparency of the organization.**
5) Non-consolidated statement of cash flows (p. 7 in physical report, p. 9 in pdf file)
    a. A cash flow statement breaks down the operating, investing, and financing activities of an organization, and is important in identifying cash coming in and out of that organization.

Concordia Student Union

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

b. Note: Since the CSU does not have any investors, and since it has no activities impacting its long-term liabilities, there is no reporting of financing activities in its cash flow statement for both the 2016-2017 and the 2017-2018 Fiscal Years.
c. Note: in the Operating Activities section, there is a line stating "Loss on disposal of Investment in the subsidiary."
    i. This line is to account for the halting of operations of the now defunct Cusacorp.

6) Notes to the non-consolidated financial statements (p. 8-13 in physical report, p. 10-15 in pdf file)
    a. Throughout the different financial statements, you will find notes next to the amounts presented. These notes provide more detail for various points, including more definitions of practices/processes, and breakdowns for specific amounts.
    b. As mentioned throughout the audit document, these notes are an integral part in the financial statements provided.

Concordia Student Union

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

Part 3: CSU Reconciliation

This part of the document is to show that the CSU's budgeted vs actual numbers make sense with the audit when it comes to our operations.

CSU FINAL AUDIT RECONCILIATION with ORIGINAL OPERATING BUDGET				Oct-18
2017-2018				
	AUDIT	CSU Internal		CSU
	Final 2017-2018	Actual 2017-2018	Variance	BUDGET 2017-2018
Profit(loss) CSU	$ (445,332.00)			
Amortization	$ 312,761.00			
Health and Dental	$ (216,007.00)			
CSU Consolidated	**$ (348,578.00)**			
Operating		$ (205,266.00)	$ (292,829.00)	$ 87,563.00
HOJO		$ (15,279.00)	$ (19,203.00)	$ 3,924.00
Advocacy		$ (52,596.00)	$ 904.00	$ (53,500.00)
LIC		$ 2,694.00	$ (4,221.00)	$ 6,915.00
CLUBS		$ (78,131.00)	$ (79,448.00)	$ 1,317.00
Operating Profit/Loss	**$ (348,578.00)**	$ (348,578.00)	$ (394,797.00)	$ 46,219.00
		Includes claw back fees Concordia U $72,562 retroactive to 2015. Mistake from Concordia.		

Notes:

1. Columns
    a. Audit Final 2017-2018: shows numbers found in the audit statement for the 2017-2018 Fiscal Year that do not appear on the operating budget, but are necessary to reconcile the operating numbers.

Concordia Student Union

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

   b. CSU actual 2017-2018: These are the actual expenses incurred over the 2017-2018 Fiscal Year.
   c. CSU Budget 2017-2018: These are the budgeted amounts for the 2017-2018 Fiscal Year, approved by CSU Council in June 2017.
   d. Variance: This is the difference between the actual amounts and the budgeted amounts. It is calculated by taking the actual amount and subtracting the budgeted amount from it.

2. Operating Profit
   a. Audit: The operating profit is calculated by taking the CSU Profit/Loss (General Fund, ($445,332)), adding back the amortization of $312,761 which does not appear in the operating budget, and subtracting the surplus from the health and dental plan of $216,007 (this is shown as the "health and dental reserve fund" (see Note 7 in the audit report).
      i. Amortization is the accountable difference attributed to wear and tear on an asset. For example, if you bought a car 3 years ago at $5,000 and sold it today at $3,000 then the difference of $2,000 is the amortization/depreciation of the car. This amount of money needs to be accounted for.
         1. Note that amortization is not reported in the CSU operating budget, although the expenses are publicly reported via the audited financial statements. All asset purchases over $1000 must also receive the approval of the CSU Finance committee.
      ii. Health and Dental Reserve Fund: This fund, held by the CSU, is reserved for the health and dental plan and has 2 functions:
         1. To protect in case of unforeseen expenses and insurance overruns;
         2. To prepare a reserve for a fund accounting system should we move to a self-insured plan.

      If the reserve is not used, it can potentially reduce future rates and/or improve coverage. It is also possible to use parts of the reserve for projects, however this needs to be evaluated at the beginning of the year.

   b. CSU actual 2017-2018 vs CSU budget 2017-2018: It is important to keep in mind that an operating budget is merely a projection of how much an organization plans on spending and receiving for its total operations (in the CSU's case, total operations are the sum of admin operations, service operations (HOJO, LIC, Advocacy), and clubs operations). Per category, a positive bottom line indicates a surplus, and a negative bottom line (in brackets) indicates a deficit.
   c. Most importantly, the fact that the Operating profit calculated from the CSU's audit is the same as the Operating profit calculated from the CSU's actual numbers further

Concordia Student Union

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

attests to the accuracy of our reporting methods and quality of our accounting practices.

d. There is a variance of $394,797 between what was budgeted by CSU council in 2017 and the actuals for Fiscal Year 2017-18. The chart below is where these variances come from. By far, the largest source of the variance was from retroactive clawbacks in student fee revenue from Concordia. The university made an error in calculating and remitting student fees to the CSU in 2015 and did not notice their mistake until this year. Based on these mistaken figures from Concordia, the CSU's predicted student revenues for budgeting purposes were incorrect- so less money than anticipated arrived, then there was an additional clawback following that. Additional items that increased operations expenses were a retroactive increase to executive salaries approved by council, and cost overruns during elections. These three items account for $296,110 of the $292,829 variance in the operations budget. The HOJO did not receive the $20,000 grant from the Dean of Students office that it usually receives, and finally due to significantly more active clubs, expenses were above budget in that department.

CSU Consolidated	Variance	Variance explanation against budget	Includes $103,562 retroactive to 2015					
Operating	$ (292,829.00)	Student fees	$212,000.00	Executive Salaries	$56,504.00	Elections/referendums	$27,606.00	$296,110.00
HOJO	$ (19,203.00)	Dean of Students CCSL		$ 20,000.00				
Advocacy	$ 904.00	On Budget						
LIC	$ (4,221.00)	On Budget						
CLUBS	$ (79,448.00)	Significantly more active Clubs						

Comments & Recommendations:

This section is my opinion as CSU finance coordinator, rather than expressing the opinions of Deloitte.

The 2017-18 audited financial statements show that while the CSU's total net assets increased over the fiscal year, this is only because of the surplus in the SSAELC fund. The operations fund ran a loss of $348,578, where the previous year ran a surplus. As previously explained, the majority of this variance is owed to an error in student revenue on the part of Concordia rather than irresponsibility on the part of the CSU executives and/or council. However, regardless of the reasons for the situation, the reality is that the SSAELC fund is not used to finance the general operations of the Union and the CSU must determine how to stabilize its finances. The chart below shows the cumulative results of the CSU operations in recent years, as well as the actuals for each year since 2015-16 Fiscal Year. Capital projects and purchases are recorded separately but are factored into the overall numbers of the CSU's cash flow. In 2017 a new fee levy structure was approved, which reduced the levies for Advocacy and Clubs.

Concordia Student Union

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

Fund accounting					
CUMULATIVE RESULTS					
			New fee levy		
CSU	Fiscal **2015-2016**	Fiscal **2016-2017**	Fiscal **2017-2018**	**Budgeted 2018-2019**	**2015-2019 Cumulative**
Operating	$ 103,533	$ 103,262	$ (205,266)	$ 5,183	$ 6,712
Advocacy	$ (448)	$ 27,497	$ (52,596)	$ (29,924)	$ (55,471)
HOJO	$ 26,320	$ 18,740	$ (15,279)	$ (7,490)	$ 22,291
LIC	$ (1,713)	$ 17,617	$ 2,694	$ (1,493)	$ 17,105
Clubs	$ 27,710	$ (6,206)	$ (78,131)	$ (70,110)	$ (126,737)
TOTAL	**$ 155,402**	**$ 160,910**	**$ (348,578)**	**$ (103,834)**	**$ (136,100)**
Capital projects	$ (4,599)	$ (31,091)	$ (15,694)	$ (117,000)	**$ (168,384)**
TOTAL	$ 150,803	$ 129,819	$ (364,272)	$ (220,834)	$ (304,484)

Capital and non recurring projects		2018-2019
Printers	all Services	$ (35,000)
CRM	all Services	$ (35,000)
Web sites	CSU and HOJO Classified	$ (25,000)
Corporate/Council	By Laws	$ (12,000)
IT Equipment	IT	$ (10,000)
Total		$ (117,000)

As seen in the above chart, the CSU's cash flow situation is tightening, and if left unchanged the deficits are likely to accumulate further. This challenge is compounded by a necessary the increase in capital expenditures this year. This is in contrast with the SSAELC fund, which continues to accumulate large surpluses each year and already has $10,140,239 in assets.

Recommendation: The CSU propose a referendum question to its members to change in its levy structure, so that the fees for Operations, Clubs, and Advocacy are increased, while the SSAELC Fund fee levy is reduced in equal proportion such that the total student fees do not increase or decrease.

In doing so, the CSU would be able to eliminate its operating deficits and continue to provide services at the same or greater levels to students without having to increase fees. The amount required would still

1455 de Maisonneuve Blvd W, H-711
Montréal, QC H3G 1M8
514 848-7474 | www.csu.qc.ca

not prevent the SSAELC fund from running yearly surpluses. The specific dollar value of the change will have to be discussed by the Finance Committee.

Hopefully this document was helpful in understanding the CSU's Audited Financial Statements. For any questions, comments, or concerns, please send me an email at finance@csu.qc.ca

John Hutton

CSU Finance Coordinator 2018-2019