Q2-2015 Narrative

The following document provides information on each line item of the Executive Summary as at November 30, 2015. The goal of the document is to provide the readers more information as to why the numbers look the way they do and how the USC is doing when compared against the budget approved by Council in March 2015. This document and the exec summary are meant to be read together and one document should not be taken as a standalone without the other.

Q2-2015 Exec Summary

1. **Student Fees** – As at November 30, 2015, the USC is approximately $1.8M behind prior year in terms of receipts received from Western. This is due to the fact that the USC has not yet received the first installment from the affiliates. The affiliates operate on a different time line with Western and are not required to submit their fees to Western until the end of November. The USC expects to receive this money by the end of December. Once this money has been received, the USC should be on par with prior year in terms of receipts received.
2. **Transfers Out** – As at the end of Q2 the USC shows transfers out being $740K higher than this time last year. This is due mainly to four main factors: the first is that the health, dental and bus pass amounts are higher than prior year due to higher premiums being paid out on a monthly basis. In total bus pass, health and dental have increased $280K over prior year. The second factor is the new transfer out for the marching band – this has added $11K to the transfers out that was not there last year. The third piece impacting the total transfers out is the new transfer out for the o pass fee. This amounted to a $429K increase in transfers out. The final piece is that more faculty council grants have been given out as well – this number is up $11K from prior year. Overall, there were no surprises with transfers out – they are tracking as to be expected at this point in the year.
3. **Miscellaneous General Revenue** – this category consists of interest revenue earned on funds held other than our investment monies with TD Waterhouse plus CHRW admin fee payable to USC and any other miscellaneous revenue sources that the USC receives. At the end of Q1 in prior year, the USC had reversed an accounting entry which resulted in this category showing a much higher than expected balance which carried forward to Q2. For this year, the USC has received the clubs admin fee payable to the USC which has elevated the monthly amount. Total revenue for the month was $20,860 bringing the overall amount for the year to $40,984. This amount is more in line with budget expectations.

4. Corporate

a. **General Expenses** – This consists of insurance, audit charges, actuary charges, legal charges, interest charges, mustang express admin, etc. As at the end of November interest charges on loans outstanding are approximately $10K per month (loan from Mustang Lounge). Mustang express admin increased dramatically during November as a result of paying for the exam shuttles and regular service of Mustang Express. Total spent on ME was $42K for the month and is in line with expectations. This category of expenses also includes $37K of leased equipment for the organization as well. Lease expenses have remained consistent compared to prior year. Insurance expenses are lower than prior year given an earlier booking of the claw back of insurance premiums charged to faculty councils. As at the end of Q2, the insurance renewal payment has not yet been booked as the policies do not renew until December. The organization has incurred approximately $20k in legal fees as at the end of Q2 as well. This category is in line with budget expectations and with prior year. Overall bank service charges for the organization are down $11K over prior year as well. This category is ahead of budget expectations by $50K.

b. **Building Expense** – this is occupancy charges and security for the building. Since the start of school, we have paid $8.6K in security costs for the building. We have paid an additional $210K in corporate occupancy to Western. This includes all space deemed corporate including offices, ½ mustang lounge space, ½ east lounge space, ½ spoke lounge space and atrium lounge. We have also true costed the PVP occupancy out to the individual portfolios so those figures are no longer in corporate. This is tracking in line with prior year and with budget expectations.

c. **Office Expense** – This category includes corporate travel and corporate conferences and meetings. Conferences is tracking $3k ahead of budget expectations and is $11K ahead of prior year. This indicates that the USC is investing in more people to attend more conferences than in the past. We want our staff and students to be well educated and re-educated on industry trends that help improve how we operate the organization but also want to participate in sessions that engage other student organizations so that we can learn from them and be able to collaborate with them in the future. The conferences and meetings line still has a large budgeted amount remaining with $30K to be used by the end of the fiscal year. Overall office supplies expenses are tracking in line with expectations with the exception of contracted services. This line is over budget due to the accounting of the LinkedIn contract that we signed this year. This contract offers a new and improved way to recruit, advertise and receive feedback on the job positions that get posted by the USC every year. This category is in line with budget expectations overall.

d. **Salaries and Benefits** – this category is a large number however it incorporates much more than just salary and benefits. It includes expenses for staff appreciation, staff wellness benefit, staff wellness program as well as the costs associated with the intern program and professional development. Overall salaries are tracking in line with budget expectations. We have invoiced the Gazette for half of the fees for services amount that was approved in last year's budget. The total charged to the Gazette is $47,500 at the end of Q2. Professional development has been well utilized but still has $11K remaining to be used by the end of the year. Overall, this category is tracking in line with budget expectations as at the end of Q2.

   e. **Capital** – This is the cost incurred and paid for renovations, improvements, general maintenance around the building. It also includes furniture, computer hardware and software as well. It shows within these statements as the operating statements are cash based. These expenses are not considered within the operational budget as the USC has a separate budget for Capital that is funded by a specific student fee and is allocated based on a 10 year capital plan. To date the USC has spent $183K in capital which is significantly lower than in prior years (PY = $235K at Q2). The majority of the capital spend was the $140K paid to the dentist as part of the renovation agreement with UCC Dental.

5. **PVP** – All PVP spending to date is tracking in line with set budgets. No areas of concern noted.
6. **Media** – At the end of Q2 the Gazette Ad department continues to be in a strong position. Total sales for the quarter are ahead of budget expectations and ahead of prior year. Currently they sit $33K ahead of budget and $17K ahead of prior year. The salaries on the production side are higher than prior year but in line with budget expectations due to there now being two compositors – one for digital and one for print. The editorial side is also tracking ahead of budget expectations ($24K ahead of budget) and only $22K higher in expenses than prior year due to the digital transformation that the Gazette is currently going through.
7. **Rentals** – currently the USC is $30k behind prior year and $15K behind budget expectations from a net rent point of view. In terms of rental revenue however, the USC is ahead of prior year by $13K despite having taken on the footprint of Western Connections. This is a strong source of revenue for the USC. We have worked to ensure that all available space is currently under contract or soon will be. We have recently entered into a partnership with Western (SDC) to create a Wellness Centre within the UCC. This is located in the space formerly occupied by Travel Cuts, Biz Inc and Western Connections. One of the reasons that rental are tracking behind expectations is the change in lease start date for the dentist – we budgeted for the dentist to start paying rent effective June 1st but as per the signed lease agreement, rent began July 1st instead. This had a $10K negative impact to the bottom line which will carry through the year. The remaining $5K difference results from having to carry the soon to be open wellness centre for longer than expected coupled by the fact that the

footprint was expanded to include Western Connections. Some of this difference will be made up once the wellness centre opens and starts paying rent to the USC.

8. **Events and Building Services** – This area now consists of Western Connections, Mustang Central and Productions and is an extremely busy area. This category is currently tracking $54K ahead of budget expectations. The other revenue areas of this budget is up $70K mainly due to space rentals. Both full time and part time salaries are up for this area over budget expectations. Full time is up $12K over budget and part time is up $16K over budget expectations. Space rental appears to be the strong point for this area.
9. **Western Film –** Western Film is tracking $13K behind budget as at the end of Q2. Both ticket revenue and confection sale revenues are below budget expectations at this point in time. Overall budgeted sales are $30K behind budget expectations and only $16K ahead of prior year despite the fact that Western Film was closed for summer in prior year. Cost of goods sold is rising as well – it is 3.2% higher than budget at the end of Q2.
10. **Wave –** Total Wave Restaurant sales are currently tracking 14K behind previous year and 45K behind budget. The current budget was aggressive and predicted sales growth that is only starting to be realized. Oct and Nov have seen growth over previous year, but the late start to the year had us lose a week of full day sales which resulted in September being down 27K. This will start to be made up with more business days in December and a leap year that will easily get us back on par with previous year but we will not fully realize the sales growth projections that were budgeted. Cost of goods are trending 1.5% higher than budget. This is mostly due to the draft category but we are also trending higher than budget in Liquor and bottled beer. We are currently adding more training for our managers on execution of our liquor and draft control systems to ensure that we are using it as a training tool to for our bar staff to ensure they are as accurate as possible on large volume events. On a positive note we have been able to beat budget in food cost of goods in spite of rising product costs. We have seen a 9K increase in FOH labour due to enhanced training, minimum wage increase and bringing our PT salaries in line with the USC pay grid. We have been able to tighten up BOH labour overall as we are slightly under previous year with all of the previously mentioned increases. Catering Sales are down 32K over previous year. We are expecting a strong finish to the year and have invested in a booth at the wedding trade show and a marketing plan to help attract larger summer conferences for next fiscal. Overall the Wave is 74K behind budget and 45K behind last year. The Wave team is actively working on growing restaurant and catering sales, controlling PT and management labour, and are in the process of looking at our pricing structure for weekend events that have a higher cost to run.
11. **Spoke –** Currently the Spoke continues to see growth in daily sales but the overall sales for Q2 are slightly down due to the loss of a week in September due to Labour Day falling a week later than previous year. This lost week accounts for $40K-$50K in revenue. We have seen a spike in food cost of goods in Q2 due to increased cost of

proteins and commodities over the past few months. Some of these products are starting to level out but industry forecasts are that these products will continue to rise into the New Year. After analysis of our menu costing and sales mix we have released a new kitchen menu into Q3 that removed some of the poor food cost items from the menu and replaced them with more food cost friendly items. This won't fix the issue but will stabilize our COGS to get us closer to budget targets for Q3 and Q4. More analysis and price increase recommendations will be made over the next few months to follow suit with what is happening in the industry. PT labour is also tracking high (34K) higher than previous year. This is due to an increased minimum wage, enhanced PT staff training and bringing part-time salaries in line with the USC pay grid. We have taken steps to improve our PT labour numbers for Q3 and Q4 by reducing the amount of PT management shifts mid-day and we have also formed an F&B efficiencies group to find saving in our prep area and look for value added products that come in prepared. We have seen stable or increased sales in all other areas except bottled beer sales. We have just shifted these sales from Bottled to Draught sales but have started a new marketing campaign promoting this program. Our cost of goods in all other areas other than food is better than budget and prior year. Non-reusable packing costs are our only other area of concern $11K behind budget and $18K behind previous year. This was a planned for increase in the budget as we decided to change our packaging to a more environmentally friendly option. We have currently spent more than our initial projections and have gone back to our suppliers and negotiated better contracts. Overall the Spoke is performing $51K behind budget and $62K behind previous year. The above changes to menu and labour models and more business days in December will allow us to achieve budget projections in Q3.

12. **Creative Services –** Currently tracking $24K ahead of budget expectations and $126K ahead of prior year. This is due in part to a new business model which recognizes much lower salaries for full time staff than in previous years. Black and white print sales are down from prior year and budget by $5K but colour printing is up $7K from budget while remaining in line with prior year.
13. **Purple Store –** Currently tracking ahead of prior year and budget expectations. $12K ahead of budget expectations and $19K ahead of prior year at the end of Q2. Expenses have also been kept in line with expectations.
14. **Promos –** Currently $26K ahead of budget. Graphic design sales are tracking ahead of budget expectations by $8K. Specialty sales are ahead of budget expectations by $17K due to unexpected orientation week sales.

Overall

USC is performing approximately $455K ahead of budget expectations as set and approved by Council in March 2014. The USC is approximately $1.9M behind prior year as at the end of Q2 based on the fact that we are $1.8M behind in student fee revenue collection to date. As a result, the USC is in a steady position as at the end of

Q2. However, that steady state has many areas where improvement is required in order to achieve or outperform the budget as set in March 2014. The position of the USC could be strong if some of the negative trends being noted in this report were rectified or slowed down. Cash flows continue to be monitored extremely closely in an effort to ensure that we preserve cash to get us through the summer months of 2016 when we do not receive payments from Western.

Updated Assumption Adjustments as at Q2

1. USC amalgamated Western Connections and Mustang Central into one location on the atrium level of the UCC. We are expecting that this will result in approximately $30,000 in savings as they now have one location rather than two to staff. We are seeing savings in this area as they are currently $54K ahead of expectations. However, it is important to note that the increase over expectations is coming from the sale of commercial space rentals. At this point it does not appear as though labour savings are occurring. As a result, this assumption is not going to be assumed as a sure thing for the purposes of calculated potential position for year end.

2. Based on where our level of commercial activity ended for fiscal 2014-2015, we expect an additional $70,000 in commercial activity dollars for the year. This will not be excessive commercial activity but rather will be the same level of activity as we had in our previous year. While we have seen increased space rental revenue, the total net impact has been noted above in the $54K. If sales continue in the manner that we are currently seeing, we may achieve the additional $70K.

3. The Spoke had an operational change post budget, which lead to the termination of one full time position. This resulted in approximately $50,000 in savings. This is not something that we are seeing coming to fruition as per the commentary on the Spoke above.

4. Finance has a maternity leave to consider for the upcoming year and as a result, the plan in place to cover the management maternity leave will cost the organization an additional $5,000.

5. The HR/VR department has had a couple of changes to consider. There is a non-union maternity leave to consider as well as a termination of a manager. The plan to cover both the maternity leave and the termination results in approximately $14,000 in savings for the USC.

6. USC budgeted for 29,000 students in the multi-year budget and based on prior year ending numbers, we can expect 29,116 FTE students to be paying fees. This results in approximately $76,613 more student fee dollars into the USC budget.

7. Staff admin costs associated with capital were budgeted to be out of capital budget. In light of the fact that original capital plan didn't accommodate covering the admin costs, the staffing costs are being covered operationally ($80K). Once the new capital plan is complete, those costs will be considered out of the capital budget.

8. Updated estimates for departments – all departments to be as per the budget with the exception of: the Spoke, the Wave and Western Film. Spoke will come in at a surplus of $150K rather than $175K as per the budget, the Wave will come in at a deficit of $30K rather than breaking even and Western Film will come in at a deficit of $45K rather than a deficit of $23K.

Overall, at the end of Q2, it is still very difficult to assess where the USC will end up at the end of the year. There are many departments with deficits that weren't expected which makes it difficult to extrapolate out over time. However, using the new assumption above which provides estimates for the departments and using the updated assumptions from Q1, the USC could end up with total assumption adjustments that equate to very close to a break even position for the 2015/2016 fiscal year in terms of actual performance. This is down from the estimate of $82,356 at the end of Q1. This illustrates how dramatically the position of the USC can change from one quarter to the next. It is still important to note that any found money, is not considered tangible money that can or should be spent in the upcoming months. This is because given the results of Q2 and the uncertainty of the figures in terms of where they will land by the end of the year, coupled by the fact that Q3 will now be the main indicator for the USC in terms of spending trends and revenue patterns means that the USC won't be able to say for certain whether the change in assumptions will actually lead to new money being found for spending until the end of Q3.

Overall, given that the USC was budgeted to have a $142K surplus at the end of the year, if the assumptions in this report turn out to be correct and all other assumptions in the budget are correct, that position will be maintained.