

*Combined Financial Statements of
États financiers combinés de*

**CANADIAN FEDERATION OF STUDENTS/
FÉDÉRATION CANADIENNE DES ÉTUDIANTES ET
ÉTUDIANTS AND
CANADIAN FEDERATION OF STUDENTS -
SERVICES/
FÉDÉRATION CANADIENNE DES
ÉTUDIANTES ET ÉTUDIANTS - SERVICES**

*June 30, 2004
30 juin 2004*

Auditors' Report

To the Members of
Canadian Federation of Students
and Canadian Federation of Students - Services

We have audited the combined balance sheet of Canadian Federation of Students/ Fédération canadienne des étudiantes et étudiants and Canadian Federation of Students - Services/ Fédération canadienne des étudiantes et étudiants - services (collectively referred to as "the Federation") as at June 30, 2004 and the combined statements of revenue and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Federation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Federation as at June 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants

November 23, 2004

Rapport des vérificateurs

Aux Membres de
Fédération canadienne des étudiantes et étudiants
et Fédération canadienne des étudiantes et étudiants - services

Nous avons vérifié le bilan combiné de Fédération canadienne des étudiantes et étudiants/Canadian Federation of Students et Fédération canadienne des étudiantes et étudiants - services/Canadian Federation of Students - Services (désignées de façon collective sous le nom de "la Fédération") au 30 juin 2004 et les états combinés des revenus et des dépenses, de l'évolution de l'actif net et des flux de trésorerie de l'exercice terminé à cette date. La responsabilité de ces états financiers incombe à la direction de la Fédération. Notre responsabilité consiste à exprimer une opinion sur ces états financiers en nous fondant sur notre vérification.

Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues du Canada. Ces normes exigent que la vérification soit planifiée et exécutée de manière à fournir l'assurance raisonnable que les états financiers sont exempts d'inexactitudes importantes. La vérification comprend le contrôle par sondages des éléments probants à l'appui des montants et des autres éléments d'information fournis dans les états financiers. Elle comprend également l'évaluation des principes comptables suivis et des estimations importantes faites par la direction, ainsi qu'une appréciation de la présentation d'ensemble des états financiers.

À notre avis, ces états financiers combinés donnent, à tous les égards importants, une image fidèle de la situation financière de la Fédération au 30 juin 2004 ainsi que des résultats de son exploitation et de ses flux de trésorerie pour l'exercice terminé à cette date selon les principes comptables généralement reconnus du Canada. Conformément aux exigences de la Loi sur les corporations canadiennes, nous déclarons qu'à notre avis ces principes ont été appliqués de la même manière qu'au cours de l'exercice précédent.

Comptables agréés

Le 23 novembre 2004

**CANADIAN FEDERATION OF STUDENTS
AND CANADIAN FEDERATION OF
STUDENTS - SERVICES**
Combined Financial Statements
June 30, 2004

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**
États financiers combinés
Le 30 juin 2004

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**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**
Combined Balance Sheet
as at June 30, 2004

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**
Bilan combiné
au 30 juin 2004

	2004	2003	
CURRENT ASSETS			ACTIF À COURT TERME
Cash	\$ 878,706	\$ 203,444	Encaisse
Short-term investments (note 4)	1,759,071	1,231,860	Placements à court terme (note 4)
Accounts receivable			Débiteurs
Trade and due from member campuses	1,027,166	959,653	Clients et campus membres
Due from Canadian Universities Travel			Canadian Universities Travel
Service Limited (note 3)	386,996	618,494	Service Limited (note 3)
Prepaid expenses	36,753	34,551	Frais payés d'avance
	4,088,692	3,048,002	
INVESTMENT IN CANADIAN UNIVERSITIES TRAVEL			PLACEMENT DANS CANADIAN UNIVERSITIES TRAVEL
SERVICE LIMITED (note 5)	10,596,593	10,987,396	SERVICE LIMITED (note 5)
CAPITAL ASSETS (note 6)	157,759	170,300	IMMOBILISATIONS CORPORELLES (note 6)
	\$ 14,843,044	\$ 14,205,698	
CURRENT LIABILITIES			PASSIF À COURT TERME
Accounts payable and accrued liabilities	\$ 855,565	\$ 612,573	Créditeurs et charges à payer
Program deposits (note 7)	172,695	178,583	Dépôts pour programmes (note 7)
	1,028,260	791,156	
CONTINGENCY (note 1)			ÉVENTUALITÉ (note 1)
NET ASSETS			ACTIF NET
Invested in Canadian Universities			Investi dans Canadian Universities
Travel Service Limited	10,596,593	10,987,396	Travel Service Limited
Invested in capital assets	157,759	170,300	Investi en immobilisations corporelles
Designated funds (note 10)	1,726,082	1,369,582	Fonds restreints (note 10)
Non-designated funds	1,334,350	887,264	Fonds non restreints
	13,814,784	13,414,542	
	\$ 14,843,044	\$ 14,205,698	

ON BEHALF OF THE NATIONAL EXECUTIVE

AU NOM DE L'EXÉCUTIF NATIONAL

Chairperson	_____	Président
Deputy Chairperson	_____	Vice-président
Treasurer	_____	Trésorier

**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**
Combined Statement of Revenue and Expenses
year ended June 30, 2004

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**
État combiné des revenus et des dépenses
de l'exercice terminé le 30 juin 2004

	2004	2003	
Revenue			Revenus
Membership fees	\$ 2,659,523	\$ 1,981,689	Cotisations
Referral fee from CUTS (note 3)	983,647	964,099	Redevance de CUTS (note 3)
Health insurance program (note 9)	89,034	11,049	Programme d'assurance-maladie (note 9)
Investment income	18,311	18,310	Revenu de placements
The Student Traveller, net (note 8)	20,195	1,809	Revenu net des "Student traveller" (note 8)
Student Work Abroad Program (SWAP)			Revenu net du programme de vacances-
income, net	24,983	106,311	travail (PVT)
Other income	33,580	24,069	Autres revenus
ISIC, net (note 3)	(15,861)	8,810	ISIC, net (note 3)
	3,813,412	3,116,146	
Expenses			Dépenses
Administration and office	195,344	118,170	Administration et bureau
Amortization of			Amortissement des
capital assets	42,359	44,425	immobilisations corporelles
Bad debts	173,695	67,248	Mauvaises créances
Bank charges and interest	10,067	222	Intérêts et frais bancaires
Campaigns	114,227	61,600	Campagnes
Caucus and			Comité électoral et répartition aux
component allocation (note 3)	583,809	473,944	composantes provinciales (note 3)
Coalition work	8,772	2,713	Travail de coalition
Communications	105,971	178,928	Communications
Constituency allocations	12,481	(5,128)	Allocations aux électeurs-trices - générales
Membership, development and outreach	34,114	28,029	Adhésions, développement et rayonnement
International affairs	18,386	18,206	Affaires internationales
Legal and audit	254,209	180,439	Honoraires d'avocats et de vérification
Membership drives - referenda	5,843	78,986	Recrutement - référendums
National executive meetings	36,887	47,142	Réunions nationales des cadres supérieurs
National executive salaries	147,368	128,894	Traitements des membres de l'exécutif national
National general meetings	111,316	119,596	Assemblées nationales générales
Office rent	149,096	145,896	Loyer de bureau
Other	10,932	42,480	Autres
Research	91,482	144,944	Recherche
Students' Union Directory	21,389	19,028	Annuaire du Syndicat des étudiants
Translation	19,620	1,710	Traduction
	2,147,367	1,897,472	
Excess of revenue over			Excédent des revenus sur les dépenses
expenses before loss of CUTS	1,666,045	1,218,674	avant la perte de CUTS
LOSS OF CUTS (note 5)	(1,265,803)	(2,036,825)	PERTE DE CUTS (note 5)
EXCESS (DEFICIENCY) OF			EXCÉDENT (INSUFFISANCE) DES
REVENUE OVER EXPENSES	\$ 400,242	\$ (818,151)	REVENUS SUR LES DÉPENSES

PROJET / DRAFT
aux fins de discussion / for discussion

**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**

Combined Statement of Changes in Net Assets
year ended June 30, 2004

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**
État combiné de l'évolution de l'actif net
de l'exercice terminé le 30 juin 2004

	Invested in Canadian Universities Travel Service Limited	Invested in capital assets	Designated funds	Non-designated funds		Total	
						2004	2003
BALANCE, BEGINNING OF YEAR	\$ 10,987,396	\$ 170,300	\$ 1,369,582	\$ 887,264	\$ 13,414,542	\$ 14,232,693	SOLDE AU DÉBUT
Excess (deficiency) of revenue over expenses	-	-	-	400,242	400,242	(818,151)	Excédent (insuffisance) des revenus sur les dépenses
Amortization of capital assets	-	(48,457)	-	48,457	-	-	Amortissement des immobilisations corporelles
Acquisition of capital assets	-	35,916	-	(35,916)	-	-	Acquisition d'immobilisations corporelles
Loss in CUTS	(1,265,803)	-	-	1,265,803	-	-	Perte dans CUTS
Purchase of preferred shares in CUTS	875,000	-	-	(875,000)	-	-	Placement dans Canadian Universities Travel Service Limited
Net transfers to designated funds (note 10)	-	-	356,500	(356,500)	-	-	Transferts nets aux fonds restreints (note 10)
BALANCE, END OF YEAR	\$ 10,596,593	\$ 157,759	\$ 1,726,082	\$ 1,334,350	\$ 13,814,784	\$ 13,414,542	SOLDE À LA FIN

**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**

**Combined Statement of Cash Flows
year ended June 30, 2004**

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**

**État combiné des flux de trésorerie
de l'exercice terminé le 30 juin 2004**

	2004	2003	
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			RENTRÉES (SORTIES) NETTES D'ENCAISSE LIÉES AUX ACTIVITÉS SUIVANTES :
OPERATING			EXPLOITATION
Excess (deficiency) of revenue over expenses	\$ 400,242	\$ (818,151)	Excédent (insuffisance) des revenus sur les dépenses
Items not affecting cash			Éléments n'ayant pas d'incidence sur l'encaisse
Loss of CUTS (note 5)	1,265,803	2,036,825	Perte de CUTS (note 5)
Amortization of capital assets	48,457	48,588	Amortissement des immobilisations corporelles
	1,714,502	1,267,262	
Changes in non-cash operating working capital items	167,389	(466,817)	Variation des éléments hors caisse du fonds de roulement d'exploitation
	1,881,891	800,445	
INVESTING			INVESTISSEMENT
Increase in investments in CUTS (note 5)	(875,000)	(875,000)	Augmentation du placement dans CUTS (note 5)
Additions to capital assets	(35,916)	(83,033)	Acquisitions d'immobilisations corporelles
	(910,916)	(958,033)	
FINANCING			FINANCEMENT
Due from CUTS	231,498	(457,498)	Augmentation du montant à recevoir de CUTS
NET CASH INFLOW (OUTFLOW)	1,202,473	(615,086)	AUGMENTATION (DIMINUTION) DE L'ENCAISSE
CASH POSITION, BEGINNING OF YEAR	1,435,304	2,050,390	ENCAISSE AU DÉBUT
CASH POSITION, END OF YEAR	\$ 2,637,777	\$ 1,435,304	ENCAISSE À LA FIN
Cash position, end of year consists of:			La situation de l'encaisse à la fin se compose de :
Cash	\$ 878,706	\$ 203,444	Encaisse
Short-term investments	1,759,071	1,231,860	Placements à court terme
	\$ 2,637,777	\$ 1,435,304	

**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**

**Notes to the Combined Financial Statements
year ended June 30, 2004**

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**

**Notes complémentaires
de l'exercice terminé le 30 juin 2004**

1. NATURE OF OPERATIONS AND CONTINGENCY

Nature of operations

Canadian Federation of Students ("CFS") and Canadian Federation of Students - Services ("CFS-S") were both incorporated under the Canada Corporations Act. These two entities are collectively referred to as "the Federation". They are tax-exempt, non-profit service organizations representing approximately 400,000 Canadian post-secondary students and providing organization assistance, representation and research resources to member institutions. Emphasis is placed on improvements to student programs, youth employment and students' concerns regarding the funding levels of Canadian universities and colleges.

The Federation's primary source of revenue is from membership fees collected by member universities and colleges. Membership in the Federation is decided at each university and college campus through a membership referendum.

During the year ended June 30, 1996, the Federation passed a resolution creating a Bylaw whereby CFS would be amalgamated with CFS-S. The Bylaw states that CFS is to surrender its charter and determine a date upon which it shall be dissolved, and that on this date all debts, liabilities and obligations of CFS will be discharged and the property and assets of CFS will be transferred to the CFS-S. Furthermore, on this date CFS-S will change its name to the Canadian Federation of Students.

As at November 23, 2004, the amalgamation has not occurred and, as a result, CFS and CFS-S continue to operate as separate entities. The accompanying statements reflect the Federation's combined operations of the CFS and the CFS-S.

Contingency

In an action originated in 1997, the undergraduate student associations of four Canadian universities have filed a substantial claim seeking the reversal of the 1991 transfer of assets and liabilities from the Association of Student Councils (AOSC) to the Canadian Federation of Students-Services (CFS-S). Examinations for discovery are ongoing. The Federation's Counsel remains of the view that the Federation's defence has considerable merit and the Federation continues to vigorously defend this action.

1. NATURE DES ACTIVITÉS ET ÉVENTUALITÉ

Nature des activités

La Fédération canadienne des étudiantes et étudiants ("FCEE") et la Fédération canadienne des étudiantes et étudiants - services ("FCEE-S") sont constituées en vertu de la Loi sur les corporations canadiennes. Ces deux entités sont mentionnées de façon collective sous le nom de "la Fédération". Ces organismes à but non lucratif, exonérés d'impôt, représentent environ 400 000 étudiants canadiens postsecondaires et fournissent de l'assistance en organisation, ressources de représentation et de recherche aux institutions membres. On accorde priorité aux améliorations aux programmes d'étudiants, à l'emploi des jeunes et aux préoccupations des étudiants en ce qui concerne les niveaux de financement des universités et collèges canadiens.

La principale source de revenu de la Fédération provient de cotisations perçues par les universités et collèges qui sont membres de la Fédération. Chaque campus universitaire et collégial se prononce sur l'adhésion à la Fédération au moyen d'un référendum.

Au cours de l'exercice terminé le 30 juin 1996, la Fédération a adopté une résolution créant un règlement selon lequel FCEE/ fusionnerait avec FCEE-S. Ce règlement prévoit que la FCEE doit abandonner sa charte et fixer la date à laquelle elle sera dissoute, et qu'à cette date, toutes les dettes, passif et obligations de la FCEE seront réglées et que tous les biens et actifs de la FCEE seront transférés à la FCEE-S. En outre, à cette date, la FCEE-S changera son nom pour devenir la Fédération canadienne des étudiantes et étudiants.

En date du 23 novembre 2004, la fusion n'a pas encore eu lieu et, par conséquent, la FCEE et la FCEE-S continuent de fonctionner comme des entités distinctes. Ces états financiers présentent de façon combinée les activités totales de la Fédération incluant celles de la FCEE et de la FCEE-S.

Éventualité

Au cours d'un procès qui a débuté en 1997, les associations d'étudiants de premier cycle de quatre universités canadiennes ont présenté une requête de fond ayant pour but d'obtenir l'annulation du transfert de l'actif et du passif du Conseil de l'association des étudiants (CAE) à la Fédération canadienne des étudiantes et étudiants - services (FCEE-S) qui a eu lieu en 1991. Les interrogatoires préalables sont en cours. Les avocats de la Fédération continuent de penser que la défense est bien fondée et la Fédération continue de défendre avec vigueur ce procès.

**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**
Notes to the Combined Financial Statements
year ended June 30, 2004

**1. NATURE OF OPERATIONS AND CONTINGENCY
(continued)**

Contingency (continued)

The extent of the liability, if any, to the Federation should it be unsuccessful in its defence of this matter, cannot be determined at this time due to the exigencies of litigation. Such liabilities, if any, could have a material adverse effect on the financial position of the Federation.

2. SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Revenue recognition

(i) Membership fees

Membership fees are based on the number of students in the members' student union. These revenues are earned and recorded on a basis consistent with the members' semesters, which are generally fall, winter and summer.

(ii) Referral fees

As described in note 3, the referral fee revenue charged to CUTS is recorded based on 1% of CUTS' gross student travel sales. The sales are recorded when the travel service is provided.

(iii) SWAP income

SWAP revenue and expenses are recorded when the related travel services have been provided. Unearned SWAP receipts are recorded as program deposits on the balance sheet.

(iv) Other revenue

Other revenues are recognized when received or receivable when the amount to be received can be reasonably estimated and collection is reasonably assured.

Investments

Investments are recorded at the lower of cost and market value of the total portfolio.

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**
Notes complémentaires
de l'exercice terminé le 30 juin 2004

**1. NATURE DES ACTIVITÉS ET ÉVENTUALITÉ
(suite)**

Éventualité (suite)

Si sa défense de cette cause s'avérait infructueuse il n'est pas présentement possible de déterminer l'étendue de l'obligation que la Fédération devrait assumer, le cas échéant, en raison des exigences du litige. Une telle obligation pourrait avoir un effet négatif important sur la situation financière de la Fédération.

2. PRINCIPALES CONVENTIONS COMPTABLES

Les états financiers combinés ont été dressés selon les principes comptables généralement reconnus du Canada et tiennent compte des principales conventions comptables suivantes :

Constatation des revenus

(i) Cotisations

Les cotisations sont établies suivant le nombre d'étudiants faisant partie du syndicat des étudiants des institutions membres. Les revenus sont gagnés et enregistrés de façon continue, sur une base semestrielle, soit en général l'automne, l'hiver et l'été.

(ii) Redevances

Tel que décrit à la note 3, le revenu de redevance payable par CUTS est enregistré sur la base de 1 % du chiffre d'affaires brut de ventes aux étudiants. Les ventes sont comptabilisées quand le service lié au voyage est rendu.

(iii) Revenu du PVT

Les revenus et dépenses du PVT sont enregistrés quand les services liés au voyage sont rendus. Les rentrées de fonds non gagnées de PVT sont comptabilisées comme des dépôts pour programmes au bilan.

(iv) Autres revenus

Les autres revenus sont comptabilisés quand ils sont reçus ou recevables, c'est-à-dire lorsque le montant à recevoir peut être raisonnablement estimé et que le recouvrement est raisonnablement assuré.

Placements

Les placements sont comptabilisés au moindre du coût et de la valeur du marché du portefeuille intégral.

**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**
Notes to the Combined Financial Statements
year ended June 30, 2004

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
ET ÉTUDIANTS ET FÉDÉRATION CANADIENNE
DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**
Notes complémentaires
de l'exercice terminé le 30 juin 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets are recorded at cost. Amortization is provided over the estimated useful life of the assets as follows:

Building	5% declining-balance
Furniture and equipment	25% declining-balance and 3-year straight-line

Income taxes

The Federation is exempt from income taxes under Section 149 of the Income Tax Act.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments

The carrying amounts for accounts receivable and accounts payable and accrued liabilities and program deposits approximate fair market value due to the relatively short-term to maturity of these instruments.

The fair value of the amounts due from CUTS have not been determined.

3. RELATED PARTY TRANSACTIONS

- a) The Federation has charged CUTS a referral fee of \$983,647 (2003 - \$964,099) for the student travel business that CUTS derives as a result of its relationship with the Federation. The fee is computed as 1% of the gross student sales reported by CUTS. In addition, the Federation has charged CUTS \$57,560 (2003 - \$64,933) for advertising services it has provided (Note 8). The rate charged by the Federation for these services is approximately 50% of the rate charged to arm's length parties.
- b) The Federation serves as the Canadian agent for the International Student Identification Card ("ISIC"). Net earnings (loss) of the program were (\$15,861) (2003 - \$8,810), which is recorded as revenue in the combined statement of revenue and expenses. The net earnings referred to above are net of \$247,580 (2003 - \$298,365) paid to CUTS as a commission for issuing the cards.

2. PRINCIPALES CONVENTIONS COMPTABLES (suite)

Immobilisations corporelles

Les immobilisations corporelles sont comptabilisées au coût. L'amortissement est calculé sur la durée de vie utile de l'actif selon les modalités suivantes :

dégressif 5 %	Immeuble
dégressif 25 % et linéaire sur 3 ans	Mobilier et équipement

Impôts sur le revenu

La Fédération est exonérée d'impôts en vertu de l'article 149 de la Loi canadienne de l'impôt sur le revenu.

Estimation de mesure

La préparation des états financiers, selon les principes comptables généralement reconnus du Canada, fait appel au jugement et aux meilleures estimations de la direction en ce qui concerne les éléments d'actif et de passif, la divulgation des éventualités dans les états financiers et le montant à présenter pour les revenus et les charges au cours de l'exercice. La mesure définitive de tous ces éléments peut différer de ces estimations.

Instruments financiers

La valeur nominale pour les débiteurs et les créditeurs et charges à payer et les dépôts pour programmes se rapproche de la valeur du marché en raison de la courte échéance de ces instruments.

La valeur du marché des montants dus par CUTS n'a pas été établie.

3. OPÉRATIONS ENTRE APPARENTÉS

- a) La Fédération a imputé à CUTS une redevance de 983 647 \$ (2003 - 964 099 \$) pour le négoce du tourisme d'étudiants dont profite CUTS grâce à ses relations avec la Fédération. Cette redevance équivaut à 1 % du chiffre d'affaires brut de ventes aux étudiants déclaré par CUTS. Par ailleurs, la Fédération a facturé à CUTS 57 560 \$ (2003 - 64 933 \$) pour services de publicité rendus (note 8). Le taux facturé par la Fédération pour ces services représente environ 50 % du taux facturé à des parties indépendantes.
- b) La Fédération sert de mandataire canadien pour les cartes d'identité d'étudiants internationaux ("ISIC"). Le bénéfice net (perte) du programme s'élève à (15 861 \$) (2003 - 8 810 \$), et est comptabilisé à titre de revenu à l'état combiné des revenus et des dépenses. Ce bénéfice net est établi après déduction de 247 580 \$ (2003 - 298 365 \$) payés à CUTS comme commission pour l'émission des cartes.

**CANADIAN FEDERATION OF STUDENTS AND
CANADIAN FEDERATION OF
STUDENTS - SERVICES**
Notes to the Combined Financial Statements
year ended June 30, 2004

**FÉDÉRATION CANADIENNE DES ÉTUDIANTES
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DES ÉTUDIANTES ET ÉTUDIANTS - SERVICES**
Notes complémentaires
de l'exercice terminé le 30 juin 2004

3. RELATED PARTY TRANSACTIONS (continued)

- c) The Federation has included in other income the use of property and equipment for the Canadian Wilderness Trips program of CUTS of \$9,000 (2003 - \$9,000).
- d) The Ontario, British Columbia, Newfoundland and Labrador, Saskatchewan and Quebec provincial components provide services to the Federation for which they are paid a component allocation based on student enrolment in the respective provinces. The component allocation charge is not paid to the provincial components or expensed until the respective membership fee is received. During the year, the Federation paid \$230,810 (2003 - \$142,116) to the Ontario component, \$121,328 (2003 - \$108,116) to the British Columbia component, \$30,663 (2003 - \$24,379) to the Newfoundland and Labrador component, \$1,365 (2003 - \$7,776) to the Saskatchewan component, \$38,642 (2003 - \$39,131) to the Manitoba component, \$50,084 (2003 - \$65,058) to the Nova Scotia component, \$27,276 (2003 - \$29,752) to the Quebec component, \$817 (2003 - \$NIL) to the Alberta component, and \$181 (2003 - \$9,452) to the Prince Edward Island component. These amounts are included in the caucus and component allocation expense in the combined statements of revenue and expenses.

4. SHORT-TERM INVESTMENTS

Short-term investments are as follows:

	2004	2003
Cash	\$ 11,791	\$ 8,588
Guaranteed Investment Certificate	-	224,726
Bonds		
Government of Canada	237,042	323,053
Provincial	96,117	166,776
Corporate	124,872	-
Mutual Funds	1,256,517	508,717
Preferred shares	32,732	-
	<u>\$ 1,759,071</u>	<u>\$ 1,231,860</u>

Determination of market value

Market value of investments is approximately equivalent to cost plus accrued interest.

3. OPÉRATIONS ENTRE APPARENTÉS (suite)

- c) La Fédération a inclus un montant de 9 000 \$ (2003 - 9 000 \$) dans les autres revenus représentant l'utilisation des immobilisations corporelles pour le programme de voyages canadiens en milieu sauvage de CUTS.
- d) Les composantes provinciales d'Ontario, Colombie-Britannique, Terre-Neuve et Labrador, Saskatchewan et Québec fournissent des services à la Fédération pour lesquels elles ont droit à une répartition provinciale établie en fonction du nombre d'inscriptions d'étudiants pour chaque province correspondante. Jusqu'à ce que les cotisations respectives soient reçues, la répartition provinciale n'est ni versée aux composantes provinciales ni dépensée. Au cours de l'exercice, la Fédération a payé 230 810 \$ (2003 - 142 116 \$) à la composante de l'Ontario, 121 328 \$ (2003 - 108 116 \$) à la composante de la Colombie-Britannique, 30 663 \$ (2003 - 24 379 \$) à la composante de Terre-Neuve et du Labrador, 1 365 \$ (2003 - 7 776 \$) à la composante du Saskatchewan, 38 642 \$ (2003 - 39 131 \$) à la composante du Manitoba, 50 084 \$ (2003 - 65 058 \$) à la composante de la Nouvelle-Écosse, 27 276 \$ (2003 - 29 752 \$) à la composante du Québec, 817 \$ (2003 - nul \$) à la composante de l'Alberta, et 181 \$ (2003 - 9 452 \$) à la composante de l'Île-du-Prince-Édouard. Ces montants sont inclus dans les dépenses de comité électoral et répartition aux composantes provinciales à l'état combiné des revenus et des dépenses.

4. PLACEMENTS À COURT TERME

Les placements à court terme sont les suivants :

	2004	2003
Encaisse	\$ 11,791	\$ 8,588
Certificat de placement garanti	-	224,726
Obligations		
Gouvernement du Canada	237,042	323,053
Provincial	96,117	166,776
De sociétés	124,872	-
Fonds mutuels	1,256,517	508,717
Actions privilégiées	32,732	-
	<u>\$ 1,759,071</u>	<u>\$ 1,231,860</u>

Détermination de la valeur du marché

La valeur du marché des placements est comparable à leur coût plus les intérêts courus.

**CANADIAN FEDERATION OF STUDENTS AND
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Notes complémentaires
de l'exercice terminé le 30 juin 2004

4. SHORT-TERM INVESTMENTS (continued)

Investment risk

Investment in financial instruments renders CFS/CFS-S subject to investment risks. These include the risks arising from changes in interest rates. They also include the risks arising from the failure of a party to a financial instrument to discharge an obligation when it is due. The maximum investment risk to CFS/CFS-S is equal to the cost of the investments.

**5. INVESTMENT IN CANADIAN UNIVERSITIES
TRAVEL SERVICE LIMITED**

These combined financial statements exclude the consolidated financial statements of Canadian Universities Travel Service Limited ("CUTS"), the wholly-owned subsidiary of CFS-S. CUTS was incorporated on February 6, 1974 and is licensed by the International Air Transport Association as a travel agency and operates branches across Canada. Operations are also governed by the various financial travel industry acts. Separate audited consolidated financial statements are prepared for CUTS and are available upon request. Accordingly, the investment in CUTS is accounted for using the equity method, as follows:

	2004	2003	
Investment in shares, at cost,			Placement en actions, au coût,
beginning of year	\$ 7,313,803	\$ 6,438,803	au début
Purchase of preferred shares	875,000	875,000	Acquisition d'actions privilégiées
	<u>8,188,803</u>	<u>7,313,803</u>	
Retained earnings of CUTS,			Bénéfices non répartis de CUTS
beginning of year	3,673,593	5,710,418	au début
Loss of CUTS	(1,265,803)	(2,036,825)	Perte de CUTS
	<u>2,407,790</u>	<u>3,673,593</u>	
Carrying value, end of year	<u>\$ 10,596,593</u>	<u>\$ 10,987,396</u>	Valeur comptable à la fin

Financial summaries of this consolidated entity as at June 30, 2004 and 2003 and for the years then ended are as follows (certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation):

4. PLACEMENTS À COURT TERME (suite)

Risque lié aux placements

Le placement dans des instruments financiers place la FCEE/FCEE-S face à des risques liés aux placements. Ceux-ci incluent les risques provenant des variations dans les taux d'intérêts ainsi que des risques provenant du danger éventuel qu'une partie engagée par rapport à un instrument financier ne puisse faire face à ses obligations. Le risque maximum auquel s'expose la FCEE/FCEE-S est égal au coût des placements.

**5. PLACEMENT DANS "CANADIAN UNIVERSITIES
TRAVEL SERVICE LIMITED"**

Les états financiers combinés n'incluent pas les états financiers consolidés de Canadian Universities Travel Service Limited ("CUTS"), la filiale à part entière de "FCEE-S". CUTS, constitué le 6 février 1974, détient une licence d'agence de tourisme émise par l'Association du transport aérien international et exploite des agences à travers le Canada. Les activités sont aussi régies par les diverses lois sur les agences de voyage. Des états financiers consolidés distincts ont été préparés pour CUTS et sont disponibles sur demande. Par conséquent, le placement dans CUTS est comptabilisé à la valeur de consolidation de la manière suivante :

L'information financière consolidée de cette entité aux 30 juin 2004 et 2003 et pour les exercices terminés à ces dates se résume comme suit (certains des chiffres comparatifs ont été reclassés afin que leur présentation soit conforme à celle adoptée au cours de l'exercice) :

**CANADIAN FEDERATION OF STUDENTS AND
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**5. INVESTMENT IN CANADIAN UNIVERSITIES
TRAVEL SERVICE LIMITED (continued)**

Financial position

	2004	2003	
Total assets	\$ 29,350,527	\$ 37,431,329	Total de l'actif
Total liabilities	\$ 18,552,771	\$ 26,462,332	Total du passif
Shareholders' equity	10,596,593	10,987,396	Capitaux propres
Cumulative translation gain (loss)	201,163	(18,399)	Gain cumulatif de change (perte)
	<u>\$ 29,350,527</u>	<u>\$ 37,431,329</u>	

Results of operations

	2004	2003	
Total revenues	\$ 190,419,020	\$ 179,540,968	Total du revenu
Total expenses	191,684,823	181,577,793	Total des dépenses
Loss	\$ (1,265,803)	\$ (2,036,825)	Perte

Cash flows

	2004	2003	
Cash used in operations	\$ (4,480,902)	\$ (5,554,039)	Encaisse utilisée en exploitation
Cash from financing activities	75,000	875,000	Encaisse provenant du financement
Cash used in investing activities	(865,299)	(2,890,676)	Encaisse utilisée en investissement
Cash from (used in) discontinued operations	467,410	(813,472)	Encaisse provenant de l' (utilisée en) abandons d'activités
Decrease in cash	<u>\$ (4,803,791)</u>	<u>\$ (8,383,187)</u>	Diminution de l'encaisse

**5. PLACEMENT DANS "CANADIAN UNIVERSITIES
TRAVEL SERVICE LIMITED" (suite)**

Situation financière

Résultats d'exploitation

Flux de trésorerie

6. CAPITAL ASSETS

6. IMMOBILISATIONS CORPORELLES

	2004			2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
	Coût	Amortissement cumulé	Valeur nette	Valeur nette	
Land	\$ 16,898	\$ -	\$ 16,898	\$ 16,898	Terrain
Building	88,390	50,448	37,942	39,939	Immeuble
Furniture and equipment	515,854	412,935	102,919	113,463	Mobilier et équipement
	<u>\$ 621,142</u>	<u>\$ 463,383</u>	<u>\$ 157,759</u>	<u>\$ 170,300</u>	

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7. PROGRAM DEPOSITS

Program deposits include Student Work Abroad Program ("SWAP") deposits.

8. ADVERTISING INCOME

The Federation publishes The Student Traveller magazine and distributes it free of charge. The net income related to this activity as reported in the statement of revenue and expenses consists of:

	2004	2003	
CUTS advertising revenue (note 3)	\$ 138,302	\$ 143,868	Revenus publicitaires de CUTS (note 3)
Less: Direct production costs	118,107	142,059	Moins les coûts directs de production
Advertising income (loss), net	<u>\$ 20,195</u>	<u>\$ 1,809</u>	Revenu net (perte) des activités publicitaires

9. HEALTH INSURANCE PROGRAM

The Federation administers a health insurance program for students which was initiated in 1988. During 2004, the Federation earned \$89,034 of revenue in excess of cost (2003 - \$11,049 of revenue in excess of costs) related to the program. The Federation also incurs general and administrative expenses in connection with the health insurance program which are included in the Federation's statement of revenue and expenses.

10. DESIGNATED FUNDS

Bilingualism Fund

In 1990, the Federation established a fund to provide bilingual services after the expiration of a government grant in 1991.

Capital Fund

In 2000, the Federation established a fund to provide for the potential purchase of office space.

Constitutional Challenge Fund

In 1987, the Federation established a fund to be used for constitutional challenge.

7. DÉPÔTS POUR PROGRAMMES

Les dépôts pour programmes comprennent les dépôts du Programme de vacances-travail ("PVT").

8. ACTIVITÉS PUBLICITAIRES

La Fédération publie le magazine "The Student Traveller" et le distribue gratuitement. Le revenu net lié à cette activité, tel que présenté à l'état des revenus et des dépenses, se compose de :

9. PROGRAMME D'ASSURANCE-MALADIE

La Fédération gère un programme d'assurance-maladie pour étudiants qui a été introduit en 1988. Au cours de l'exercice, la Fédération a encouru des revenus supérieurs aux coûts d'un montant de 89 034 \$ (2003 - des revenus supérieurs aux coûts d'un montant de 11 049 \$) liés au programme. La Fédération a aussi engagé des coûts d'administration en ce qui concerne le programme d'assurance-maladie; ces coûts sont inclus dans l'état des revenus et des dépenses de la Fédération.

10. FONDS RESTREINTS

Fonds du bilinguisme

En 1990, la Fédération a établi un fonds pour assurer des services bilingues suite à l'échéance en 1991 de la subvention gouvernementale.

Fonds d'investissement en capital

En 2000, la Fédération a établi un fonds pour permettre l'acquisition éventuelle de locaux pour bureaux.

Fonds pour défis sur la constitution

En 1987, la Fédération a établi un fonds destiné aux défis sur la constitution.

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10. DESIGNATED FUNDS (continued)

Kevin Coleman Student Rights Defence Fund

In 1988, the Federation established a fund to aid member student unions involved in student rights litigation.

Legal Defence Fund

In 2000, the Federation established a fund to stabilize legal spending from year to year related to various actions.

Travel Pool Settlement Fund

In 2000, the Federation established a fund to pay out amounts to the member associations relating to the general meeting travel pool system employed prior to 1997.

General Meeting Disabled Access Fund

In 2002, the Federation established a fund to provide support to students with disabilities the requirements needed to participate in general meetings.

10. FONDS RESTREINTS (suite)

Fonds Kevin Coleman sur la défense des droits des étudiants

En 1988, la Fédération a établi un fonds pour venir en aide aux syndicats d'étudiants membres de la Fédération impliqués dans des litiges concernant les droits des étudiants.

Fonds de défense juridique

En 2000, la Fédération a établi un fonds pour régulariser les dépenses liées aux actions en justice d'une année sur l'autre.

Fonds de remboursement du système de déplacement en commun

En 2000, la Fédération a établi un fonds pour rembourser aux associations membres les montants se rapportant au système de déplacement en commun pour l'assemblée générale utilisé avant 1997.

Fonds pour l'accès des invalides à l'assemblée générale

En 2002, la Fédération a établi un fonds pour fournir du support aux étudiants invalides, exigences requises pour participer à l'assemblée générale.

	<u>Opening balance</u>	<u>Transfer from Non-Designated Funds</u>	<u>Disbursements</u>	<u>Ending Balance</u>	
<u>Designated Funds</u>	<u>Solde au début</u>	<u>Transfert provenant de fonds non restreints</u>	<u>Décaissements</u>	<u>Solde à la fin</u>	<u>Fonds restreints</u>
Bilingualism Fund	\$ 19,670	\$ -	\$ -	\$ 19,670	Fonds du bilinguisme
Capital Fund	750,000	150,000	-	900,000	Fonds d'investissement en capital
Constitutional Challenge Fund	15,000	-	-	15,000	Fonds pour défis sur la constitution
Kevin Coleman Student Rights Defence Fund	14,912	1,500	-	16,412	Fonds Kelvin Coleman sur la défense des droits des étudiants
Legal Defence Fund	500,000	175,000	-	675,000	Fonds de défense juridique
Travel Pool Settlement Fund	30,000	25,000	-	55,000	Fonds de remboursement du système de déplacement en commun
General Meeting Disabled Access Fund	40,000	5,000	-	45,000	Fonds pour l'accès des invalides à l'assemblée générale
	<u>\$ 1,369,582</u>	<u>\$ 356,500</u>	<u>\$ -</u>	<u>\$ 1,726,082</u>	

CANADIAN FEDERATION OF STUDENTS AND
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11. LEASE COMMITMENTS

The Federation leases facilities under a lease agreement.
Future minimum lease payments under the agreement are
as follows:

2005	\$	149,097
2006		<u>149,097</u>
	\$	<u>298,194</u>

11. ENGAGEMENTS

La Fédération loue ses locaux en vertu d'un contrat de
location-exploitation. Les versements minimums futurs
dans le cadre de ce contrat sont les suivants :

Consolidated Financial Statements of

**CANADIAN UNIVERSITIES
TRAVEL SERVICE LIMITED**

June 30, 2004

Auditors' Report

To the Shareholder of
Canadian Universities Travel Service Limited

We have audited the consolidated balance sheet of Canadian Universities Travel Service Limited as at June 30, 2004 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
September 24, 2004

CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED

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CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED

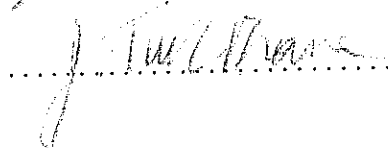
Consolidated Balance Sheet

June 30, 2004

	2004	2003
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 21,822,396	\$ 26,626,187
Amounts receivable		
Trade	2,369,748	1,907,078
Officers and employees	78,576	68,957
Interest	18,953	51,659
Prepaid expenses and deposits	1,157,203	1,480,538
Income taxes recoverable	-	882,343
	25,446,876	31,016,762
FUTURE INCOME TAX ASSET	101,605	-
CAPITAL ASSETS (Note 4)	3,480,320	5,208,118
DEPOSIT	96,339	80,816
ASSETS FROM DISCONTINUED OPERATIONS	52,600	951,179
OTHER ASSETS	172,787	174,454
	\$ 29,350,527	\$ 37,431,329
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 16,975,662	\$ 22,993,711
Due to Canadian Federation of Students -		
Services (Note 3)	384,749	616,248
Customer deposits	1,026,067	1,252,268
Deferred revenue	151,050	270,000
Income tax payable	12,355	-
Bank loan (Note 5)	-	800,000
	18,549,883	25,932,227
FUTURE INCOME TAX LIABILITY	-	100,000
LIABILITIES FROM DISCONTINUED OPERATIONS	2,888	430,105
	18,552,771	26,462,332
SHAREHOLDER'S EQUITY		
SHARE CAPITAL (Note 6)	8,188,803	7,313,803
RETAINED EARNINGS	2,407,790	3,673,593
CUMULATIVE TRANSLATION ADJUSTMENT	201,163	(18,399)
	10,797,756	10,968,997
	\$ 29,350,527	\$ 37,431,329

ON BEHALF OF THE BOARD

 Director

 Director

CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED
Consolidated Statement of Operations
Year ended June 30, 2004

	2004	2003
(GROSS BILLINGS)	\$190,419,020	179,540,968)
COMMISSIONS AND OTHER INCOME	\$ 30,646,068	\$ 30,689,151
INTEREST INCOME	446,910	691,528
	31,092,978	31,380,679
EXPENSES		
Office salaries and employee benefits	16,750,429	16,744,457
Rent	3,388,053	3,377,288
Advertising and promotion (Note 7)	2,297,944	2,270,165
Amortization	2,006,435	1,628,015
Office and administration	1,524,588	1,774,663
Communications	1,152,557	1,122,955
Credit card charges	1,084,222	1,032,526
Referral fee (Note 7)	983,647	964,367
Professional fees	618,815	507,949
Loss on disposal of capital assets	586,662	-
Accounting	494,662	984,886
Travel	464,625	581,443
Taxes and licenses	369,694	297,872
Bad debts	270,682	67,756
Conference and other fees	194,136	164,343
Equipment rental (Note 7)	191,990	365,672
Foreign exchange	187,713	178,060
Interest	7,426	71,292
	32,574,280	32,133,709
LOSS BEFORE (RECOVERY) LOSS ON DISCONTINUED OPERATIONS AND (RECOVERY OF) INCOME TAXES	(1,481,302)	(753,030)
(RECOVERY OF) INCOME TAXES		
Current	(9,942)	93,816
Future	(201,605)	-
	(211,547)	93,816
NET LOSS FROM CONTINUING OPERATIONS	(1,269,755)	(846,846)
(RECOVERY) LOSS ON DISCONTINUED OPERATIONS	(3,952)	1,189,979
NET LOSS	\$ (1,265,803)	\$ (2,036,825)

CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED
Consolidated Statement of Retained Earnings
Year ended June 30, 2004

	<u>2004</u>	<u>2003</u>
RETAINED EARNINGS, BEGINNING OF YEAR	\$ 3,673,593	\$ 5,710,418
NET LOSS	(1,265,803)	(2,036,825)
RETAINED EARNINGS, END OF YEAR	<u>\$ 2,407,790</u>	<u>\$ 3,673,593</u>

CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED
Consolidated Statement of Cash Flows
Year ended June 30, 2004

	2004	2003
NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss	\$ (1,265,803)	\$ (2,036,825)
Items not affecting cash		
Amortization	2,006,435	1,628,015
Loss on disposition of capital assets	586,662	-
Future income taxes	(201,605)	-
Cumulative translation gain (loss)	219,562	(113,979)
Loss on discontinued operations	3,952	1,189,979
	1,349,203	667,190
Net change in working capital items other than cash	(5,830,105)	(6,221,229)
	(4,480,902)	(5,554,039)
INVESTING		
Purchase of capital assets	(865,299)	(2,881,014)
Investment	-	(9,662)
	(865,299)	(2,890,676)
FINANCING		
Demand loan	(800,000)	-
Issuance of preferred shares	875,000	875,000
	75,000	875,000
NET CASH OUTFLOW	(5,271,201)	(7,569,715)
CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	467,410	(813,472)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,626,187	35,009,374
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 21,822,396	\$ 26,626,187
CASH PAYMENTS MADE FOR		
Interest paid	\$ 7,426	\$ 21,209
Income taxes paid	\$ 30,951	\$ 843,419

CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED

Notes to the Consolidated Financial Statements

June 30, 2004

1. NATURE OF OPERATIONS

Canadian Universities Travel Service Limited (the "Company") was incorporated on February 6, 1974 and is a wholly-owned subsidiary of the Canadian Federation of Students - Services ("CFS-S"). The Company is licensed by the International Air Transport Association as a travel agency and operates branches across Canada. Operations are also governed by the various financial travel industry acts.

Canadian Universities Travel Service (UK) Limited ("CUTS UK") was incorporated in November, 1983 as a wholly-owned subsidiary of the Company. It is licensed as a travel agency in the United Kingdom and is inactive. The Company's investment in this subsidiary has been fully written down.

Travel Adventures LLC (operating as The Adventure Travel Company and The Adventure Travel Network) ("Adventure"), a subsidiary, was incorporated in July, 1997 as a limited liability company registered in Delaware and operates in the United States of America.

Odyssey Travel ("Odyssey") was purchased on July 1, 1999. Odyssey is a licensed travel agency and operates in Kingston, Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the assets, liabilities, income and expenses of the Company, CUTS UK, Adventure and Odyssey. All significant intercompany transactions have been eliminated.

Translation of subsidiaries' financial statements

CUTS UK and Adventure maintain their books of account in pounds sterling and U.S. dollars, respectively.

For the purposes of consolidation, Adventure is treated as a self-sustaining operation. Accordingly, assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at the rate prevailing at the transaction date.

For the purposes of consolidation, CUTS UK is treated as an integrated operation. Consequently, monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, non-monetary assets and liabilities are translated at historical exchange rates, and revenues and expenses are translated at the rate prevailing at the transaction date.

Foreign currency translation

Foreign currency assets and liabilities are translated at year-end exchange rates. Revenues and expenses are translated at average rates prevailing during the year.

Gains and losses resulting from translation are included in income.

CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED

Notes to the Consolidated Financial Statements

June 30, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short-term investments. Short-term investments include term deposits with a maturity of less than ninety days.

Capital assets

Capital assets are recorded at cost. Amortization is recorded at the following rates:

Building	-	5% declining-balance
Furniture and equipment	-	25% declining-balance
Computer software	-	straight- line over 24 months
Leasehold improvements	-	straight-line over the term of the related lease

Revenue recognition

The Company generally recognizes commission income on the sale of airline and other tickets and tour packages when tickets are issued to customers.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments

The estimated fair values of amounts receivable, deposits, accounts payable and accrued liabilities, and customer deposits approximate their carrying amounts in the consolidated financial statements due to the relatively short period to maturity of these instruments.

The estimated fair value of the amount due to CFS-S has not been determined, due to the relationship between the related parties.

Income taxes

The Company is a Canadian controlled private corporation and accordingly is subject to the effective income tax rates for such entities. CUTS UK, is subject to the effective income tax rates in the United Kingdom. Adventure is subject to the effective income tax rates in the United States. Odyssey is subject to the effective income tax rates in Canada.

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse.

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3. DUE TO CANADIAN FEDERATION OF STUDENTS - SERVICES ("CFS-S")

The balance due to CFS-S is unsecured, non-interest bearing and repayable on demand.

4. CAPITAL ASSETS

	2004		2003	
	Cost	Amortization	Net Book Value	Net Book Value
Land	\$ 250,000	\$ -	\$ 250,000	\$ 250,000
Building	405,923	202,016	203,907	202,383
Furniture and equipment	4,950,052	3,328,104	1,621,948	2,041,345
Computer software	1,492,852	1,002,850	490,002	1,369,068
Leasehold improvements	4,419,031	3,504,568	914,463	1,345,322
	\$ 11,517,858	\$ 8,037,538	\$ 3,480,320	\$ 5,208,118

For fiscal 2004, the Company revised its method of amortization for computer software from 50% declining balance to straight-line over 24 months in order to fully amortize this asset over its useful life. This change in accounting estimate has been recorded prospectively.

5. BANK LOAN

The Company has a \$3,000,000 overall credit facility with a Canadian chartered bank for operating line, letters of credits, guarantees and foreign exchange contracts. The facility bears interest at the prime bank rate plus 0.75% per annum and up to \$750,000 of the facility may be converted at any time into a long-term, fixed-rate instrument. The Company utilized \$nil of this facility at June 30, 2004 (2003 - \$800,000). Under this facility, the Company has pledged accounts receivable, has provided a \$1,000,000 collateral mortgage on its land and building and has provided a general security agreement over the remaining assets.

At June 30, 2004, the letters of guarantee outstanding under this facility amounted to \$1,494,363 (2003 - \$1,921,460).

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Notes to the Consolidated Financial Statements

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6. SHARE CAPITAL

Authorized

An unlimited number of 7% non-cumulative, convertible
and redeemable at \$1 per share, preferred shares
without par value

An unlimited number of common shares without par value

	2004	2003
Issued and outstanding		
8,159,000 preferred shares (2003 - 7,284,000)	\$ 8,159,000	\$ 7,284,000
29,803 common shares	29,803	29,803
	<u>\$ 8,188,803</u>	<u>\$ 7,313,803</u>

During the year, the Company issued 875,000 preferred shares (2003 - 875,000) to CFS-S for \$875,000 (2003 - \$875,000).

7. RELATED PARTY TRANSACTIONS

The Company has been charged a referral fee of \$983,647 (2003 - \$964,367) by CFS-S for the student travel business it derives from CFS-S. The fee is computed as 1% of gross billings to students. Additionally, CFS-S charged the Company \$57,560 (2003 - \$64,933) for advertising services provided, \$9,000 (2003 - \$9,000) for the use of property and equipment for the Canadian Wilderness Tours and retained \$247,580 (2003 - \$298,365) from International Student Identity Card sales.

8. CONTINGENCY AND COMMITMENTS

- (a) In an action originated in 1997, the undergraduate student associations of four Canadian universities have filed a substantial claim seeking the reversal of the 1991 transfer of assets and liabilities from the Association of Student Councils ("AOSC") to CFS-S. CFS-S's counsel remains of the view that CFS-S's defence has considerable merit and CFS-S continues to vigorously defend this action.

The extent of the liability, if any, to CFS-S should it be unsuccessful in its defence of this matter, cannot be determined at this time due to the exigencies of litigation. Such liabilities, if any, could have a material adverse effect on the financial position of CFS-S.

- (b) The Company leases certain equipment and premises. The lease terms vary by location and the Company is currently committed to the following minimum payments under such leases:

2005	\$ 2,310,149
2006	1,748,969
2007	1,146,794
2008	799,177
2009	492,705
	<u>\$ 6,497,794</u>

CANADIAN UNIVERSITIES TRAVEL SERVICE LIMITED

Notes to the Consolidated Financial Statements

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8. CONTINGENCY AND COMMITMENTS (continued)

- (c) The Company participates in a highly volatile industry that is subject to adverse change in either economic conditions, both foreign and domestic, or security issues. Adverse changes in economic and/or security conditions could negatively affect the volume of the Company's sales and results of operations.

A significant volume of the Company's sales is supplied by Air Canada. During 2004 and 2003, Air Canada experienced difficulties in overcoming significant cost and liquidity challenges. On April 1, 2003, Air Canada obtained an order from the Ontario Superior Court of Justice providing creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). Air Canada's plan of arrangement has been filed. The resolution of this situation and its effects on the Company, if any, cannot be determined at this time.

9. COMPARATIVE FIGURES

Certain prior year balances have been reclassified to conform with the current year's basis of presentation.

