

Financial Statements of

**PROMOTIONAL PRODUCT
PROFESSIONALS OF CANADA INC.**

And Independent Auditors' Report thereon

Year ended October 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Members of Promotional Product Professionals of Canada Inc.

Opinion

We have audited the financial statements of Promotional Product Professionals of Canada Inc. (the "Entity"), which comprise the statement of financial position as at October 31, 2019, the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at October 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

January 21, 2020

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Statement of Financial Position

October 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---------------------------------|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 531,719 | \$ 177,752 |
| Accounts receivable (note 3) | 35,787 | 163,716 |
| Prepaid expenses | 421,181 | 294,327 |
| Short term investments (note 4) | 5,000 | 249,876 |
| | <u>993,687</u> | <u>885,671</u> |
| Capital assets (note 5) | – | 9,012 |
| | <u>\$ 993,687</u> | <u>\$ 894,683</u> |

Liabilities and Net Assets

| | | |
|---|-------------------|-------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 6) | \$ 117,283 | \$ 223,415 |
| Deferred revenue (note 7) | 545,736 | 378,012 |
| | <u>663,019</u> | <u>601,427</u> |
| Net assets: | | |
| Invested in capital assets | – | 9,012 |
| Unrestricted | (196,270) | (242,694) |
| Internally restricted (note 8) | 526,938 | 526,938 |
| | <u>330,668</u> | <u>293,256</u> |
| Commitments (note 9) | | |
| | <u>\$ 993,687</u> | <u>\$ 894,683</u> |

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Statement of Operations

Year ended October 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--|------------------|---------------------|
| Revenue: | | |
| Membership | \$ 1,000,223 | \$ 875,452 |
| National Convention | 584,461 | 607,015 |
| TOPS | 435,541 | 304,350 |
| Partnership revenue | 104,259 | 11,660 |
| Education | 77,998 | 47,685 |
| Other | 68,979 | 30,663 |
| Image News | 24,857 | 44,839 |
| Interest | 4,593 | 3,416 |
| Idea Book | 1,550 | 65,479 |
| Membership directory | – | 10,483 |
| Change in unrealized fair value of investments | – | 1,969 |
| Technology | – | 1,360 |
| | <u>2,302,461</u> | <u>2,004,371</u> |
| Direct expenses: | | |
| Technology | 635,853 | 185,898 |
| National Convention | 349,655 | 403,683 |
| TOPS | 274,790 | 205,028 |
| Education | 104,660 | 63,588 |
| Membership | 58,317 | 56,638 |
| Membership directory | 9,294 | 14,286 |
| Image News | 8,363 | 11,690 |
| Professional development | 6,160 | – |
| Idea Book | 2,318 | 30,087 |
| Rewards program | – | 33,561 |
| | <u>1,449,410</u> | <u>1,004,459</u> |
| Excess of revenue over direct expenses | 853,051 | 999,912 |
| Operating expenses (Appendix A) | 64,626 | 525,376 |
| Administrative expenses (Appendix B) | 751,013 | 1,067,516 |
| Excess (deficiency) of revenue over expenses | <u>\$ 37,412</u> | <u>\$ (592,980)</u> |

See accompanying notes to financial statements.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Statement of Changes in Net Assets

Year ended October 31, 2019, with comparative information for 2018

| | Invested in capital assets | Unrestricted | Internally restricted (note 8) | 2019 Total | 2018 Total |
|---|-------------------------------|--------------|--------------------------------------|---------------|---------------|
| Balance, beginning of year | \$ 9,012 | \$ (242,694) | \$ 526,938 | \$ 293,256 | \$ 886,236 |
| Excess (deficiency) of revenue over expenses | (9,012) | 46,424 | – | 37,412 | (592,980) |
| Balance, end of year | \$ – | \$ (196,270) | \$ 526,938 | \$ 330,668 | \$ 293,256 |

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Statement of Cash Flows

Year ended October 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|------------|--------------|
| Operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ 37,412 | \$ (592,980) |
| Non-cash items: | | |
| Interest revenue reinvested | 4,593 | (2,215) |
| Change in unrealized fair value of investments | – | (1,969) |
| Amortization of capital assets | 9,012 | 2,981 |
| Amortization of intangible asset | – | 183,333 |
| Unrealized foreign exchange gain | – | (4,144) |
| | 51,017 | (414,994) |
| Change in non-cash operating working capital: | | |
| Accounts receivable | 127,929 | 50,205 |
| Prepaid expenses | (126,854) | (214,898) |
| Accounts payable and accrued liabilities | (106,132) | 93,480 |
| Deferred revenue | 167,724 | (148,668) |
| | 113,684 | (634,875) |
| Investing activities: | | |
| Proceeds on disposal of investments | 240,283 | 269,034 |
| Foreign exchange gain on cash denominated in a foreign currency | – | 4,144 |
| Increase (decrease) in cash and cash equivalents | 353,967 | (361,697) |
| Cash and cash equivalents, beginning of year | 177,752 | 539,449 |
| Cash and cash equivalents, end of year | \$ 531,719 | \$ 177,752 |

See accompanying notes to financial statements.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements

Year ended October 31, 2019

1. General:

Promotional Product Professionals of Canada Inc. (the "Organization") was incorporated under Part II of the *Canada Corporations Act* on July 27, 1956, and continued under the *Canada Not-for-Profit Corporations Act*, and, consequently, is exempt from income taxes.

The mission of the Organization is to bring together members of the promotional products industry in order to guide, inform, educate, and foster growth and development of the individual members and the entire industry within an ethical and professional environment.

The Organization may print or publish magazines, newspapers or periodicals on matters of interest to its members.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Revenue recognition:

The Organization recognizes fee revenue when earned. Revenue from products is recognized in the period that products are delivered. Revenue received that is related to a future period is deferred and recognized in the subsequent period.

Interest and other revenue are recognized when received or receivable.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition, except in the case of transactions that are not conducted under normal market conditions. All financial instruments are subsequently measured at amortized cost, except for the following financial instruments:

- investments in non-quoted equity instruments, which are measured at cost less any reduction for impairment;
- investments in equity instruments quoted in an active market and derivative financial instruments not designated in qualifying hedging relationships, which are measured at fair value; and
- financial instruments that the Organization designated on initial recognition as measured at fair value. The Organization has not elected to carry any such financial instruments at fair value.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2019

2. Significant accounting policies (continued):

The fair value of investments in equity instruments quoted in an active market is established on the basis of bid prices. The fair value of investments that the Organization designated to be measured at fair value is established on the basis of reports obtained from the broker who is acting for the Organization. The fair value of financial derivative instruments is established on the basis of a confirmation of fair value obtained from the financial institution with which the contract was traded. Changes in fair value are recognized in the statement of operations.

Transaction costs related to financial instruments that are measured at fair value are accounted for as expenses when they are incurred. The transaction costs related to all other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method of depreciation. Any discount or premium associated with an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method of depreciation and recognized in the statement of operations.

For financial assets measured at cost or amortized cost, the Organization recognizes a write-down through the statement of operations, if any, when it observes a significant adverse change in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent of the improvement, not exceeding the initial carrying value.

(c) Cash and cash equivalents:

Cash and cash equivalents include bank balances that fluctuate frequently from being positive to overdrawn, cash deposited into high interest savings accounts, and investments with a maturity period of three months or less from the date of acquisition that are not pledged as security.

(d) Investments:

Investments consist of guaranteed investment certificates and investments in bonds and are carried at fair value. The change in the difference between market value and cost of investments at the beginning and end of each year is reflected in the change in unrealized fair value of investments in the statement of operations.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2019

2. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are accounted for at cost. Amortization is calculated on their respective estimated useful lives using the declining balance method at the following annual rates:

| | Rates |
|--------------------|-------|
| Office furniture | 20% |
| Computer equipment | 30% |

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are based on management's best knowledge of current events and actions that the Organization may undertake in the future. Actual results could differ from those estimates.

3. Accounts receivable:

| | 2019 | 2018 |
|---------------------------------|-----------|------------|
| Members | \$ 35,787 | \$ 187,502 |
| Allowance for doubtful accounts | - | (23,786) |
| | \$ 35,787 | \$ 163,716 |

4. Short term investments:

| | 2019 | 2018 |
|--|----------|------------|
| Guaranteed investment certificate, interest rate of 1.65% (2018 - 0.65%), maturing in May 2020 (2018 - May 2019) | \$ 5,000 | \$ 148,861 |
| Bonds, nominal value of nil (2018 - \$102,045), interest rate of nil (2018 - 7.85%) maturing in April 2019 | - | 101,015 |
| | \$ 5,000 | \$ 249,876 |

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2019

5. Capital assets:

| | | | 2019 | | 2018 | |
|--------------------|------|--------------------------|----------------|----------------|------|-------|
| | Cost | Accumulated amortization | Net book value | Net book value | | |
| Office furniture | \$ | – | \$ | – | \$ | 4,920 |
| Computer equipment | | – | | – | | 4,092 |
| | \$ | – | \$ | – | \$ | 9,012 |

6. Accounts payable and accrued liabilities:

| | 2019 | | 2018 | |
|------------------------|------|---------|------|---------|
| Accounts payable | \$ | 104,094 | \$ | 149,423 |
| Accrued charges | | 11,703 | | 56,548 |
| Government remittances | | 1,486 | | 17,444 |
| | \$ | 117,283 | \$ | 223,415 |

7. Deferred revenue:

| | 2019 | | 2018 | |
|------------|------|---------|------|---------|
| Membership | \$ | 545,736 | \$ | 377,486 |
| Other | | – | | 526 |
| | \$ | 545,736 | \$ | 378,012 |

8. Internally restricted net assets:

| | 2019 | | 2018 | |
|-----------------------------|------|---------|------|---------|
| Legal fund | \$ | 16,369 | \$ | 16,369 |
| Property fund | | 200,000 | | 200,000 |
| Information technology fund | | 24,107 | | 24,107 |
| Bursary/scholarship fund | | 23,000 | | 23,000 |
| Education fund | | 50,000 | | 50,000 |
| Survey fund | | 10,000 | | 10,000 |
| Value benefit fund | | 53,462 | | 53,462 |
| Marketing fund | | 150,000 | | 150,000 |
| | \$ | 526,938 | \$ | 526,938 |

Amounts designated for specific purposes by the Board of Directors are as follows:

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2019

9. Commitments:

The Organization pays management fees to Strauss Communications Incorporated under a long-term management contract. The contract can be cancelled by either party with 180 days' notice of termination provided that such notice may not be given earlier than November 1, 2020. The aggregate management fee payments to be made during the next year amount to approximately \$550,000.

10. Related party transactions:

During the year, the Organization paid management fees of \$499,933 (2018 - \$256,800) to Strauss Communications Incorporated, a company related to the Organization because of the management contract that exists between the two parties. These fees are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities at October 31, 2019 is nil (2018 - \$53,589) owing to Strauss Communications Incorporated.

11. Financial risks:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Organization is exposed to credit risk with respect to the accounts receivable. The Organization assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. There has been no change to the risk exposure from 2018.

(b) Liquidity risk:

Liquidity risk is the risk that the Organization will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization manages its liquidity risk by monitoring its operating requirements. The Organization prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposure from 2018.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2019

11. Financial risks (continued):

(c) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Organization receives payments in US currency. Consequently, some assets are exposed to foreign exchange fluctuations. The assets in US dollars converted to Canadian dollars are as follows:

| | 2019 US dollars | 2018 US dollars |
|---------------------------|--------------------|--------------------|
| Cash and cash equivalents | \$ 4,757 | \$ 48,073 |

(d) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization is exposed to interest rate risk on its fixed interest rate financial instruments. There has been no change to the risk exposure from 2018.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Appendix A - Operating Expenses

Year ended October 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|------------------|-------------------|
| Salaries and fringe benefits | \$ — | \$ 429,050 |
| Management fees (note 10) | — | 24,000 |
| Governance | 44,388 | 39,098 |
| Public relations | 10,740 | 8,880 |
| Chapters (local events and activities, net) | 9,498 | 24,348 |
| | <u>\$ 64,626</u> | <u>\$ 525,376</u> |

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Appendix B - Administrative Expenses

Year ended October 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--|-------------------|---------------------|
| Management fees (note 10) | \$ 499,933 | \$ 232,800 |
| Rent, taxes and insurance | 114,017 | 129,945 |
| Accounting and legal fees | 42,712 | 93,188 |
| Bank and credit card charges | 33,823 | 54,654 |
| Office expenses and computer programming | 30,157 | 37,165 |
| Amortization of capital assets | 9,012 | 2,981 |
| Postage | 6,861 | 1,017 |
| Communications | 5,542 | 22,001 |
| Bad debts | 3,716 | 25,337 |
| Foreign exchange loss (gain) | 3,656 | (6,947) |
| Dues and subscriptions | 1,584 | 360 |
| Salaries and fringe benefits | — | 263,253 |
| Rental equipment | — | 28,429 |
| Amortization of intangible asset | — | 183,333 |
| | <u>\$ 751,013</u> | <u>\$ 1,067,516</u> |