Financial statements of

Promotional Product Professionals of Canada Inc.

October 31, 2014

Promotional Product Professionals of Canada Inc.
Statement of revenue and expenses
Year ended October 31, 2014
(Unaudited – see Review engagement report)

	Notes	2014Budget	2014 Actual	2013 Actual
		$	$	$
Revenue				
Membership		**1,070,574**	**1,047,029**	1,125,055
National convention		**987,685**	**956,335**	975,723
TOPS		**693,110**	**580,567**	658,813
Idea book		**151,579**	**141,909**	122,515
Education		**60,460**	**34,854**	63,825
Information technology		**133,440**	**29,326**	22,479
Image news		**25,900**	**28,864**	20,560
Membership directory		**29,189**	**26,464**	34,991
Interest income on disposal of investments		**—**	**12,333**	38,286
Change in unrealized fair value of investments		**—**	**1,539**	(8,958)
Exchange gain		**11,500**	**15,503**	268
Other income	9	**—**	**—**	22,268
		3,163,437	**2,874,723**	3,075,825
Expenses				
Membership		**93,800**	**79,444**	95,530
National convention		**645,525**	**623,767**	608,331
TOPS		**475,581**	**483,671**	469,268
Idea book		**68,048**	**65,942**	88,981
Education		**111,705**	**80,586**	90,871
Information technology – product sourcing		**216,000**	**152,975**	291,652
Information technology – transition costs		**93,000**	**97,725**	106,530
Information technology – information and training		**24,800**	**22,135**	35,142
Image news		**27,600**	**18,842**	28,766
Images		**900**	**890**	15,579
Membership directory		**36,820**	**39,559**	39,058
Other expenses	9	**—**	**9,839**	—
		1,793,779	**1,675,375**	1,869,708
		1,369,658	**1,199,348**	1,206,117
Other expenses (Schedule)				
Operating expenses		**779,227**	**715,861**	879,604
Administrative expenses		**539,237**	**528,899**	611,692
		1,318,514	**1,244,760**	1,491,296
Deficiency of revenue over expenses		**51,144**	**(45,412)**	(285,179)

The accompanying notes are an integral part of these financial statements.

Promotional Product Professionals of Canada Inc.

Statement of changes in surplus

Year ended October 31, 2014

(Unaudited – see Review engagement report)

	Invested in capital assets 2014	Internally restricted 2014	Unrestricted 2014	Total 2014	Total 2013
	$	$	$	$	$
Balance, beginning of year	**44,312**	**526,938**	**431,478**	**1,002,728**	1,287,907
Deficiency of revenue over expenses	**(23,527)***	**—**	**(21,885)**	**(45,412)**	(285,179)
Purchase of capital assets	**8,277**	**—**	**(8,277)**	**—**	—
Balance, end of year	**29,062**	**526,938**	**401,316**	**957,316**	1,002,728

* Amortization of capital assets

The accompanying notes are an integral part of these financial statements.

Promotional Product Professionals of Canada Inc.

Statement of changes in internally restricted surplus

Year ended October 31, 2014

(Unaudited – see Review engagement report)

	Legal fund	Property fund	Information technology fund	Bursary/ scholarship fund	Education fund	Survey fund	Value benefit fund	Marketing fund	2014 Total	2013 Total
	$	$	$	$	$	$	$	$	$	$
Balance, beginning of year	16,369	200,000	24,107	23,000	50,000	10,000	53,462	150,000	526,938	526,938
Transfers	—	—	—	—	—	—	—	—	—	—
Balance, end of year	16,369	200,000	24,107	23,000	50,000	10,000	53,462	150,000	526,938	526,938

The accompanying notes are an integral part of these financial statements.

Promotional Product Professionals of Canada Inc.

Balance sheet

As at October 31, 2014

(Unaudited – see Review engagement report)

	Notes	2014	2013
		$	$
Assets			
Current assets			
Cash		**741,498**	630,779
Cash – Chapters		**4,608**	5,868
Accounts receivable	3	**553,898**	619,913
Prepaid expenses		**269,120**	314,474
Investments	4	**826,889**	1,021,196
		2,396,013	2,592,230
Capital assets	5	**29,062**	44,312
		2,425,075	2,636,542
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6	**106,926**	245,784
Deferred revenue	7	**1,360,833**	1,388,030
		1,467,759	1,633,814
Commitments	8		
Surplus			
Invested in capital assets		**29,062**	44,312
Internally restricted		**526,938**	526,938
Unrestricted		**401,316**	431,478
		957,316	1,002,728
		2,425,075	2,636,542

The accompanying notes are an integral part of these financial statements.

Approved by the Board

_______________________________, David Lewenberg, Chair of the Board

_______________________________, Don Fahie, Chair Elect, Secretary and Treasurer

Promotional Product Professionals of Canada Inc.
Statement of cash flows
Year ended October 31, 2014
(Unaudited – see Review engagement report)

	2014	2013
	$	$
Operating activities		
Deficiency of revenue over expenses	**(45,412)**	(285,179)
Adjustments for		
Interest income on disposal of investments	**(12,333)**	(25,372)
Change in unrealized fair value of investments	**(1,539)**	8,958
Amortization of capital assets	**23,527**	27,203
	(35,757)	(274,390)
Changes in non-cash working capital items		
Accounts receivable	**66,015**	279,737
Prepaid expenses	**45,354**	(55,807)
Accounts payable and accrued liabilities	**(138,858)**	12,720
Deferred revenue	**(27,197)**	(147,901)
	(90,443)	(185,641)
Investing activities		
Purchase of investments	**(500,001)**	(1,004,905)
Proceed on disposal of investments	**708,180**	1,213,300
Purchase of capital assets	**(8,277)**	(4,455)
	199,902	203,940
Increase in cash	**109,459**	18,299
Cash, beginning of year	**636,647**	618,348
Cash, end of year	**746,106**	636,647
Cash comprises the following:		
Cash	**741,498**	630,779
Cash – Chapters	**4,608**	5,868
	746,106	636,647

The accompanying notes are an integral part of these financial statements.

1. Statutes and nature of activities

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

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

2. Accounting policies

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

Revenue recognition

The Corporation follows the deferral method of accounting for revenue. Revenue is recognized in the period that products or services are delivered. Cash receipts that pertain to products or services to be delivered in the subsequent year are recorded as deferred revenue.

The Corporation has a rewards program that allows members to earn points based on their participation in the events organized by the Corporation. Members can redeem points, in accordance with the Program rewards schedule, for qualifying merchandise or services.

When points are earned by Program members, the Corporation defers revenue equal to the fair value of the awards. When awards are redeemed by members, the redemption value of the awards is charged against the deferred revenue balance and recognized as revenue.

The estimated fair value per point is determined based on the management's best estimate of points to be used and historical award choices. The trends in redemption rates (points redeemed as a percentage of points issued) are reviewed on an ongoing basis and the estimated fair value per point is adjusted based upon expected future activity.

Surplus restrictions

Internally restricted surplus consists of amounts designated for specific purposes. These funds can only be used upon approval by the Board of Directors.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Corporation becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for investments, which are measured at fair value at the balance sheet date. The fair value of investments is based on closing prices. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in change in unrealized fair value of investment.

2. Accounting policies (continued)

Financial instruments (continued)

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the 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. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of revenue and expenses as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Corporation recognizes in the statement of revenue and expenses an impairment loss, if any, when it determines that a significant adverse change has occurred during the period 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 shall be reversed in statement of revenue and expenses in the period the reversal occurs.

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average monthly rates. Translation gains or losses are included in the statement of revenue and expenses.

Capital assets and amortization

Capital assets are carried at cost less accumulated amortization calculated over their estimated useful lives. Amortization of office furniture and computer equipment is calculated on a declining balance basis at rates of 20% and 30% per annum, respectively. Amortization of software is calculated following the straight-line method over a period of three or seven years.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting of revenue and expenses in the reporting periods. Actual results may differ from these estimates. Significant estimates include the provision for the points program deferred revenue.

3. Accounts receivable

	2014	2013
	$	$
Members	**556,902**	624,694
Allowance for doubtful accounts	**(3,004)**	(4,781)
	553,898	619,913

4. Investments

	2014		2013	
	Fair value	**Cost**	Fair value	Cost
	$	**$**	$	$
Cash held by manager	**—**	**—**	4	4
Guaranteed investment certificate, rate of 1.10% (1.10% in 2013), maturing in May 2015 (May 2015 in 2013)	**145,723**	**143,466**	143,466	143,466
Commercial paper, face value of $683,260 ($881,980 in 2013), rate of 1.66% to 1.93% (1.20% to 1.93% in 2013), maturing between April and September 2015 (February 2014 and September 2015 in 2013)	**681,166**	**665,597**	877,726	861,439
	826,889	**809,063**	1,021,196	1,004,909

5. Capital assets

	2014			2013
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Tangible				
Office furniture	**135,676**	**123,672**	**12,004**	13,258
Computer equipment	**245,241**	**232,247**	**12,994**	13,626
	380,917	**355,919**	**24,998**	26,884
Intangible				
Software	**531,155**	**527,091**	**4,064**	17,428
	912,072	**883,010**	**29,062**	44,312

6. Accounts payable and accrued liabilities

	2014	2013
	$	$
Suppliers	**14,723**	51,080
Government remittances	**61,819**	118,462
Accrued liabilities	**30,384**	76,242
	106,926	245,784

7. Deferred revenue

	2014	2013
	$	$
Memberships	**617,296**	638,572
Shows	**651,956**	660,565
Points program	**86,660**	84,422
Other	**4,921**	4,471
	1,360,833	1,388,030

8. Commitments

Operating leases

The Corporation rents its premises, a photocopier and a stamp machine under lease agreements, extending until November 2022, totalling $782,725. The minimum annual payments for the next five years under the terms of the operating leases are as follows:

	$
2015	115,307
2016	115,307
2017	100,667
2018	89,668
2019	89,999

Also the Corporation as an agreement for information technology services until January 2019, totaling $902,903. The minimum annual payment for the next five years are as follows:

	$
2015	216,000
2016	216,000
2017	216,000
2018	216,000
2019	38,903

Event commitments

The Corporation enters into agreements for securing locations of future events. Commitments related to these agreements total $273,507 and $285,372 for 2015 and 2016, respectively.

9. Other income / other expenses

In 2011, the Corporation started a points program in which participants can redeem earned points for specified items. Management estimates the value of the outstanding points and records it as a decrease in revenues or increase in other expenses in the year awarded. As a result, an amount of $31,979 was recorded in other expenses on October 31, 2014, and $50,566 against other income on October 31, 2013.

10. Financial instruments

Currency risk

The Corporation is exposed to foreign exchange risk resulting from it foreign currency cash.

The balance sheet includes the following amounts expressed in Canadian dollars to which are denominated in U.S. dollars:

	2014	2013
	$	$
Cash	**64,644**	89,782

Credit risk

The Corporation provides credit to its members in the normal course of its operations. It maintains provisions for doubtful accounts.

The Corporation also has credit risk due to the fact that the Corporation owns guaranteed investment certificate and commercial paper. Therefore, there is a credit risk that the guaranteed investment certificate and commercial paper issuers will be unable to pay their obligations towards the Corporation and this will have an impact on the assets of the Corporation.

Interest rate risk

Guaranteed investment certificate and commercial paper bear interest at fixed rates. Consequently, a change in market interest rate would have an impact on the fair value of these investments.

11. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Promotional Product Professionals of Canada Inc.

Other expenses – Schedule

Year ended October 31, 2014

(Unaudited – see Review engagement report)

	2014	2013
	$	$
Operating expenses		
Salaries and benefits	**556,165**	591,061
Governance	**60,664**	68,489
Public relations	**59,353**	171,504
Chapters (local events and activities)	**39,679**	48,550
	715,861	879,604
Administrative expenses		
Salaries and benefits	**208,637**	208,087
Rent, taxes and insurance	**87,607**	104,092
Accounting and legal fees	**45,931**	49,744
Office supplies and computer programming	**36,563**	40,017
Communications	**24,374**	24,096
Rental equipment	**24,006**	32,984
Postage	**4,566**	3,925
Contract termination cost	**—**	8,400
Amortization	**23,527**	27,203
Other	**73,688**	113,144
	528,899	611,692