

**PROMOTIONAL PRODUCT
PROFESSIONALS OF CANADA INC.**

FINANCIAL REPORT

OCTOBER 31, 2017

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

	Pages
REVIEW ENGAGEMENT REPORT	1
FINANCIAL STATEMENTS	
Statement of Income	2
Statement of Changes in Net Assets	3
Balance Sheet	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 - 12
ADDITIONAL INFORMATION	
Appendix A - Operating expenses	13
Appendix B - Administrative expenses	13

REVIEW ENGAGEMENT REPORT

To the Members of PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

We have reviewed the balance sheet of **PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.** as at October 31, 2017 and the statements of income, changes in net assets and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the Organization.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for not-for-profit organizations.

Hardy, Normand & Associés S.E.N.C.R.L.¹

Montreal
January 15, 2018

¹ CPA auditor, CGA, public accountancy permit No. A134872

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

STATEMENT OF INCOME

FOR THE YEAR ENDED OCTOBER 31, 2017

(unaudited)

	2017	2016
		(Audited)
REVENUES		
Membership	\$ 949,289	\$ 984,782
National convention	618,013	744,934
TOPS	326,318	350,782
Idea book	70,010	98,260
Information technology	4,205	61,460
Education	29,663	24,170
Membership directory	10,335	19,690
Image news	27,699	26,120
Interest	6,272	7,711
Change in unrealized fair value of investments	238	1,252
Other	40,688	34,374
	2,082,730	2,353,535
DIRECT EXPENSES		
Membership	72,563	59,538
National convention	424,782	604,153
TOPS	225,059	273,786
Idea book	31,193	42,489
Information technology - product sourcing	46,296	156,395
Information technology - transition costs	73,865	17,613
Information technology - information and training	56,199	13,409
Education	53,651	57,435
Membership directory	13,537	15,152
Image news	11,680	6,153
Rewards program	13,036	-
	1,021,861	1,246,123
EXCESS OF REVENUES OVER DIRECT EXPENSES	1,060,869	1,107,412
OPERATING EXPENSES (Appendix A)	578,928	652,637
ADMINISTRATIVE EXPENSES (Appendix B)	552,544	470,343
DEFICIENCY OF REVENUES OVER EXPENSES	\$ (70,603)	\$ (15,568)

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED OCTOBER 31, 2017

(unaudited)

	Invested in capital assets and intangible asset	Unrestricted	Internally restricted (Note 9)	2017 Total	2016 Total (Audited)
BALANCE, BEGINNING OF YEAR	\$ 16,034	\$ 413,867	\$ 526,938	\$ 956,839	\$ 972,407
Deficiency of revenues over expenses	(20,708)	(49,895)	-	(70,603)	(15,568)
Investment in intangible asset	200,000	(200,000)	-	-	-
BALANCE, END OF YEAR	\$ 195,326	\$ 163,972	\$ 526,938	\$ 886,236	\$ 956,839

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

BALANCE SHEET

AS AT OCTOBER 31, 2017
(unaudited)

	2017	2016
		(Audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 539,449	\$ 990,602
Accounts receivable (Note 3)	323,689	470,153
Prepaid expenses	79,429	104,828
Current portion of investments (Note 4)	33,895	321,313
	976,462	1,886,896
INVESTMENTS (Note 4)	480,831	160,476
CAPITAL ASSETS (Note 5)	11,993	16,034
INTANGIBLE ASSET (Note 6)	183,333	-
	\$ 1,652,619	\$ 2,063,406

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities (Note 7)	\$ 129,935	\$ 102,678
Deferred revenue (Note 8)	636,448	1,003,889
	766,383	1,106,567

NET ASSETS

INVESTED IN CAPITAL ASSETS AND INTANGIBLE ASSET	195,326	16,034
UNRESTRICTED	163,972	413,867
INTERNALLY RESTRICTED (Note 9)	526,938	526,938
	886,236	956,839
	\$ 1,652,619	\$ 2,063,406

COMMITMENTS (Note 10)

ON BEHALF OF THE BOARD

_____, Director

_____, Director

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2017
(unaudited)

	2017	2016
		(Audited)
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	\$ (70,603)	\$ (15,568)
Non-cash items:		
Interest revenue reinvested	(6,272)	(7,711)
Change in unrealized fair value of investments	(238)	(1,252)
Amortization of capital assets	4,041	5,016
Amortization of intangible asset	16,667	-
Unrealized foreign exchange gain	(1,746)	(1,219)
	(58,151)	(20,734)
Net change in non-cash items related to operating activities (Note 12)	(168,321)	61,710
	(226,472)	40,976
INVESTING ACTIVITIES		
Acquisition of investments	(202,714)	(331,252)
Proceed on disposal of investments	176,287	518,725
Acquisition of capital assets	-	(1,130)
Acquisition of intangible asset	(200,000)	-
	(226,427)	186,343
FOREIGN EXCHANGE GAIN ON CASH DENOMINATED IN A FOREIGN CURRENCY	1,746	1,219
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(451,153)	228,538
CASH, BEGINNING OF YEAR	990,602	762,064
CASH, END OF YEAR	\$ 539,449	\$ 990,602

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2017

(unaudited)

1. Statutes and nature of activities

The Organization 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 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 were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO) and include the following significant accounting policies:

Accounting estimates

The preparation of these financial statements in conformity with (ASNFPO) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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.

Revenue recognition

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

When points are earned by program members, the Organization defers revenue equal to the fair value of the awards. 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. When awards are redeemed by members, the redemption value of the awards is charged against the deferred revenue balance and recognized as revenue. During the year, the Organization recognized an amount of \$5,434 (\$42,580 in 2016). The type of revenue depends on the exchange made by the members.

Interest and other revenue are also accounted for using the accrual method.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2017

(unaudited)

2. Significant accounting policies (continued)

Foreign currency translation

The Organization uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities are translated at the rate in effect at year-end. Other assets and liabilities are translated at their historic rates. Items appearing in the statement of income are translated at average monthly rates. Exchange gains and losses are included in the statement of income.

Financial instruments

The Organization initially measures its financial assets and its financial liabilities at fair value, 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 a qualifying hedging relationship, which are measured at fair value;
- financial instruments that the Organization designated on initial recognition as measured at fair value.

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 profit or loss.

Transaction costs related to financial instruments that are measured at fair value are accounted 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 net income as interest income or expense.

For financial assets measured at cost or amortized cost, the Organization recognizes a write-down through the income statement, 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 in net income in the period the reversal occurs.

Cash and cash equivalents

The Organization's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts, resulting of the excess of outstanding cheque on bank balances that fluctuate frequently from being positive to overdrawn, and investments with a maturity period of three months or less from the date of acquisition and that are not pledged as security.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2017

(unaudited)

2. Significant accounting policies (continued)

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 rates:

	<u>Rates</u>
Office furniture	20%
Computer equipment	30%

Intangible asset

Intangible asset is accounted for at cost. Amortization is calculated on its estimated useful life using the straight-line method over a period of 5 years.

3. Accounts receivable

	<u>2017</u>	<u>2016</u>
Members	\$ 383,841	\$ 481,359
Allowance for doubtful accounts	(60,152)	(11,206)
	<u>\$ 323,689</u>	<u>\$ 470,153</u>

4. Investments

At fair value

	<u>2017</u>	<u>2016</u>
Guaranteed investment certificate, rate of 0.65%, maturing in May 2019	\$ 148,861	\$ -
Bonds, nominal value of \$371,821 (\$340,187 in 2016), rates of 6.55% to 7.85% (2.99% to 7.30% in 2016), maturing between October 2018 and February 2032	365,865	335,136
Guaranteed investment certificate, rate of 0.75%, matured during the year	-	146,653
	<u>514,726</u>	<u>481,789</u>
Current portion of investments	33,895	321,313
	<u>\$ 480,831</u>	<u>\$ 160,476</u>

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2017

(unaudited)

5. Capital assets

			2017		2016	
	Cost	Accumulated amortization	Net book value	Net book value		
Office furniture	\$ 135,676	\$ 129,530	\$ 6,146	\$ 7,682		
Computer equipment	247,809	241,962	5,847	8,352		
	\$ 383,485	\$ 371,492	\$ 11,993	\$ 16,034		

6. Intangible asset

			2017		2016	
	Cost	Accumulated amortization	Net book value	Net book value		
Software	\$ 200,000	\$ 16,667	\$ 183,333	\$ -		

7. Accounts payable and accrued liabilities

	2017		2016	
Accounts payable	\$ 65,034	\$ 21,568		
Accrued charges	36,929	28,411		
Government remittances	27,972	52,699		
	\$ 129,935	\$ 102,678		

8. Deferred revenue

	2017		2016	
Membership	\$ 315,624	\$ 555,978		
Shows	304,526	426,179		
Rewards program	15,772	21,206		
Other	526	526		
	\$ 636,448	\$ 1,003,889		

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2017

(unaudited)

9. Internally restricted net assets

	2017	2016
Amounts designated for specific purposes by the Board of Directors are as follows:		
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

10. Commitments

The commitments of the Organization under lease agreements for its premises, a photocopier and a stamp machine, expiring from April 2019 to October 2022, aggregate to \$341,005. The instalments over the next five years are the following:

2018	\$ 65,909
2019	\$ 97,422
2020	\$ 85,546
2021	\$ 85,041
2022	\$ 7,087

In addition, the commitments of the Organization under agreements for security locations of future events aggregate to \$108,650 and are payable during the next year.

11. Financial instruments

Categories

Financial assets and liabilities measured at amortized cost are comprised of cash, accounts receivable and accounts payable and accrued liabilities.

The investments are measured at fair value.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2017

(unaudited)

11. Financial instruments (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization's main credit risks relate to its accounts receivable. The Organization provides credit to its clients in the normal course of its operations.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to this risk mainly in respect of its accounts payable and accrued liabilities.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk and other price risk. The Organization is exposed to these risks.

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 the following:

	2017 US dollars	2016 US dollars
Cash	56,942	56,514

Interest rate risk

Interest rate risk is the risk that the fair value or 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. Fixed-interest instruments subject the Organization to a fair value risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Organization is exposed to other price risk through its investments for which the value fluctuates with the quoted market price.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2017

(unaudited)

12. Cash flows

Net change in non-cash items related to operating activities

	2017	2016
Accounts receivable	\$ 146,464	\$ 118,260
Prepaid expenses	25,399	153,631
Accounts payable and accrued liabilities	27,257	(49,706)
Deferred revenue	(367,441)	(160,475)
	\$ (168,321)	\$ 61,710

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

ADDITIONAL INFORMATION

FOR THE YEAR ENDED OCTOBER 31, 2017

(unaudited)

	2017	2016
APPENDIX A - OPERATING EXPENSES		
Salaries and fringe benefits	\$ 480,532	\$ 573,528
Governance	54,349	44,668
Chapters (local events and activities)	28,893	20,790
Public relations	15,154	13,651
	\$ 578,928	\$ 652,637

APPENDIX B - ADMINISTRATIVE EXPENSES

Salaries and fringe benefits	\$ 219,157	\$ 210,726
Rent, taxes and insurance	98,556	104,227
Bad debts	60,320	4,652
Office expenses and computer programming	50,019	46,448
Bank and credit card charges	49,361	49,353
Communications	24,862	27,794
Rental equipment	22,743	17,058
Accounting and legal fees	18,817	17,325
Amortization of intangible asset	16,667	-
Amortization of capital assets	4,041	5,016
Dues and subscriptions	2,288	2,374
Postage	768	1,406
Foreign exchange gain	(15,055)	(16,036)
	\$ 552,544	\$ 470,343