

Financial Statements of

**PROMOTIONAL PRODUCT
PROFESSIONALS OF CANADA INC.**

Year ended October 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Members of Promotional Product Professionals of Canada Inc.

We have audited the accompanying financial statements of Promotional Product Professionals of Canada Inc., which comprise the statement of financial position as at October 31, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the organization's preparation and fair presentation of the financial statements 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 organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Promotional Product Professionals of Canada Inc. as at October 31, 2018, 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.

Comparative Information

The financial statements of Promotional Product Professionals of Canada Inc. as at and for the year ended October 31, 2017 are unaudited. Accordingly, we do not express an opinion on them.

These financial statements, however, were reviewed by other accountants and their report thereon, dated January 15, 2018 stated that nothing came to their attention that caused them to believe the financial statements were not presented fairly, in all material respects, in accordance with Canadian accounting standards for not-for-profit organizations. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on these financial statements taken as a whole.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that serves as a separator or underline.

Chartered Professional Accountants

December 14, 2018

Winnipeg, Canada

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Statement of Financial Position

October 31, 2018, with comparative information for 2017

	2018	2017
		(Unaudited)
Assets		
Current assets:		
Cash	\$ 177,752	\$ 539,449
Accounts receivable (note 3)	163,716	323,689
Prepaid expenses	294,327	79,429
Current portion of investments (note 4)	249,876	33,895
	<u>885,671</u>	<u>976,462</u>
Investments (note 4)	–	480,831
Capital assets (note 5)	9,012	11,993
Intangible asset (note 6)	–	183,333
	<u>\$ 894,683</u>	<u>\$ 1,652,619</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 223,415	\$ 129,935
Deferred revenue (note 8)	378,012	636,448
	<u>601,427</u>	<u>766,383</u>
Net assets:		
Invested in capital assets and intangible asset	9,012	195,326
Unrestricted	(242,694)	163,972
Internally restricted (note 9)	526,938	526,938
	<u>293,256</u>	<u>886,236</u>
Commitments (note 10)		
	<u>\$ 894,683</u>	<u>\$ 1,652,619</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, 2018, with comparative information for 2017

	2018	2017
		(Unaudited)
Revenue:		
Membership	\$ 875,452	\$ 949,289
National convention	607,015	618,013
TOPS	304,350	326,318
Idea Book	65,479	70,010
Information technology	1,360	4,205
Education	47,685	29,663
Membership directory	10,483	10,335
Image News	44,839	27,699
Interest	3,416	6,272
Change in unrealized fair value of investments	1,969	238
SAGE	11,660	-
Other	30,663	40,688
	<u>2,004,371</u>	<u>2,082,730</u>
Direct expenses:		
Membership	56,638	72,563
National convention	403,683	424,782
TOPS	205,028	225,059
Idea Book	30,087	31,193
Information technology - product sourcing	11,000	46,296
Information technology - transition costs	62,525	73,865
Information technology - information and training	29,543	56,199
Education	63,588	53,651
Membership directory	14,286	13,537
Image News	11,690	11,680
SAGE	82,830	-
Rewards program	33,561	13,036
	<u>1,004,459</u>	<u>1,021,861</u>
Excess of revenue over direct expenses	999,912	1,060,869
Operating expenses (Appendix A)	525,376	578,928
Administrative expenses (Appendix B)	1,067,516	552,544
Deficiency of revenue over expenses	<u>\$ (592,980)</u>	<u>\$ (70,603)</u>

See accompanying notes to financial statements.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Statement of Changes in Net Assets

Year ended October 31, 2018, with comparative information for 2017

	Invested in capital assets and intangible asset	Unrestricted	Internally restricted (note 9)	2018 Total	2017 Total
					(Unaudited)
Balance, beginning of year	\$ 195,326	\$ 163,972	\$ 526,938	\$ 886,236	\$ 956,839
Deficiency of revenue over expenses	(186,314)	(406,666)	–	(592,980)	(70,603)
Balance, end of year	\$ 9,012	\$ (242,694)	\$ 526,938	\$ 293,256	\$ 886,236

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Statement of Cash Flows

Year ended October 31, 2018, with comparative information for 2017

	2018	2017
		(Unaudited)
Operating activities:		
Deficiency of revenue over expenses	\$ (592,980)	\$ (70,603)
Non-cash items:		
Interest revenue reinvested	(2,215)	(6,272)
Change in unrealized fair value of investments	(1,969)	(238)
Amortization of capital assets	2,981	4,041
Amortization of intangible asset	183,333	16,667
Unrealized foreign exchange gain	(4,144)	(1,746)
	(414,994)	(58,151)
Change in non-cash operating working capital:		
Accounts receivable	50,205	146,464
Prepaid expenses	(214,898)	25,399
Accounts payable and accrued liabilities	93,480	27,257
Deferred revenue	(148,668)	(367,441)
	(634,875)	(226,472)
Investing activities:		
Acquisition of investments	–	(202,714)
Proceeds on disposal of investments	269,034	176,287
Acquisition of intangible asset	–	(200,000)
	269,034	(226,427)
Foreign exchange gain on cash denominated in a foreign currency	4,144	1,746
Decrease in cash	(361,697)	(451,153)
Cash, beginning of year	539,449	990,602
Cash, end of year	\$ 177,752	\$ 539,449

See accompanying notes to financial statements.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements

Year ended October 31, 2018

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 *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 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.

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

(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 a qualifying hedging relationships, which are measured at fair value; and
- financial instruments that the Organization designated on initial recognition as measured at fair value.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2018

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.

Transactions 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, 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, 2018

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) Intangible asset:

The 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.

(g) 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.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2018

3. Accounts receivable:

	2018	2017
		(Unaudited)
Members	\$ 187,502	\$ 383,841
Allowance for doubtful accounts	(23,786)	(60,152)
	<u>\$ 163,716</u>	<u>\$ 323,689</u>

4. Investments:

	2018	2017
		(Unaudited)
Guaranteed investment certificate, interest rate of 0.65%, maturing in May 2019	\$ 148,861	\$ 148,861
Bonds, nominal value of \$102,045 (2017 - \$371,821), Interest rate of 7.85% (2017 - 6.55% to 7.85%), maturing in April 2019	101,015	365,865
	<u>249,876</u>	<u>514,726</u>
Current portion of investments	249,876	33,895
	<u>\$ —</u>	<u>\$ 480,831</u>

5. Capital assets:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
				(Unaudited)
Office furniture	\$ 135,676	\$ 130,756	\$ 4,920	\$ 6,146
Computer equipment	247,809	243,717	4,092	5,847
	<u>\$ 383,485</u>	<u>\$ 374,473</u>	<u>\$ 9,012</u>	<u>\$ 11,993</u>

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2018

6. Intangible asset:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
				(Unaudited)
Software	\$ 200,000	\$ 200,000	\$ –	\$ 183,333

7. Accounts payable and accrued liabilities:

	2018	2017
		(Unaudited)
Accounts payable	\$ 149,423	\$ 65,034
Accrued charges	56,548	36,929
Government remittances	17,444	27,972
	\$ 223,415	\$ 129,935

8. Deferred revenue:

	2018	2017
		(Unaudited)
Membership	\$ 377,486	\$ 315,624
Shows	–	304,526
Rewards program	–	15,772
Other	526	526
	\$ 378,012	\$ 636,448

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2018

9. Internally restricted net assets:

	2018	2017
		(Unaudited)
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
	<u>\$ 526,938</u>	<u>\$ 526,938</u>

10. 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 fees payable during the next year amount to approximately \$475,000.

11. Related party transactions:

During the year, the Organization paid management fees of \$256,800 (2017 - nil) 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, 2018 is \$53,589 (2017 - nil) owing to Strauss Communications Incorporated.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Notes to Financial Statements (continued)

Year ended October 31, 2018

12. 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 2017.

(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 exposures from 2017.

(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:

	2018 US dollars	2017 US dollars (Unaudited)
Cash	\$ 48,073	\$ 56,942

(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 exposures from 2017.

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Appendix A - Operating Expenses

Year ended October 31, 2018, with comparative information for 2017

	2018	2017
		(Unaudited)
Salaries and fringe benefits	\$ 429,050	\$ 480,532
Management fees (note 11)	24,000	—
Governance	39,098	54,349
Chapters (local events and activities)	24,348	28,893
Public relations	8,880	15,154
	<u>\$ 525,376</u>	<u>\$ 578,928</u>

PROMOTIONAL PRODUCT PROFESSIONALS OF CANADA INC.

Appendix B - Administrative Expenses

Year ended October 31, 2018, with comparative information for 2017

	2018	2017
		(Unaudited)
Salaries and fringe benefits	\$ 263,253	\$ 219,157
Management fees (note 11)	232,800	-
Rent, taxes and insurance	129,945	98,556
Bad debts	25,337	60,320
Office expenses and computer programming	37,165	50,019
Bank and credit card charges	54,654	49,361
Communications	22,001	24,862
Rental equipment	28,429	22,743
Accounting and legal fees	93,188	18,817
Amortization of intangible asset	183,333	16,667
Amortization of capital assets	2,981	4,041
Dues and subscriptions	360	2,288
Postage	1,017	768
Foreign exchange gain	(6,947)	(15,055)
	<u>\$ 1,067,516</u>	<u>\$ 552,544</u>