

Financial Statements of

FUTURPRENEUR CANADA

And Independent Auditors' Report thereon

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Futurpreneur Canada

Opinion

We have audited the financial statements of Futurpreneur Canada (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of 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 March 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.



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- 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 represents 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

August 13, 2019

FUTURPRENEUR CANADA


Statement of Financial Position

March 31, 2019, with comparative information for 2018


	2019	2018
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 10,564,914	\$ 9,809,638
Contributions and accounts receivable (notes 3 and 12)	735,318	420,795
Current portion of loans receivable (note 4)	9,266,230	9,352,684
Accrued interest receivable	94,309	90,650
Prepaid expenses	101,266	147,606
	<u>20,762,037</u>	<u>19,821,373</u>
Loans receivable (note 4)	15,023,963	16,677,257
Capital assets (note 5)	247,350	382,720
	<u>\$ 36,033,350</u>	<u>\$ 36,881,350</u>
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness (note 6)	\$ 4,287,580	\$ 6,021,578
Accounts payable and accrued liabilities (notes 7 and 12)	1,110,886	849,009
	<u>5,398,466</u>	<u>6,870,587</u>
Deferred contributions (note 8)	1,287,280	995,698
	<u>6,685,746</u>	<u>7,866,285</u>
Net assets:		
Invested in capital assets	247,350	382,720
Unrestricted	17,600,254	17,132,345
Internally restricted (note 9)	11,500,000	11,500,000
	<u>29,347,604</u>	<u>29,015,065</u>
Subsequent event (note 6)		
Commitments (note 11)		
	<u>\$ 36,033,350</u>	<u>\$ 36,881,350</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

FUTURPRENEUR CANADA

Statement of Operations

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

	2019	2018
Revenue:		
Contributions and sponsorships (note 8)	\$ 9,656,225	\$ 8,691,528
Loan interest	2,235,349	1,908,120
Loan fees	687,955	708,317
Investment	153,565	76,509
Other (notes 12 and 14)	627,417	625,415
	<u>13,360,511</u>	<u>12,009,889</u>
Expenses (note 10):		
Entrepreneurial programs	8,826,625	8,703,814
Outreach initiatives	1,341,962	1,429,473
Fundraising development	866,399	724,728
Administration	1,992,986	1,934,764
	<u>13,027,972</u>	<u>12,792,779</u>
Excess (deficiency) of revenue over expenses	\$ 332,539	\$ (782,890)

See accompanying notes to financial statements.

FUTURPRENEUR CANADA

Statement of Changes in Net Assets

Year ended March 31, 2019

				2019	2018
	Invested in capital assets	Unrestricted	Internally restricted	Total	Total
Net assets, beginning of year	\$ 382,720	\$ 17,132,345	\$ 11,500,000	\$ 29,015,065	\$ 29,797,955
Excess (deficiency) of revenue over expenses	(333,793)	666,332	-	332,539	(782,890)
Purchase of capital assets	198,423	(198,423)	-	-	-
Net assets, end of year	\$ 247,350	\$ 17,600,254	\$ 11,500,000	\$ 29,347,604	\$ 29,015,065

See accompanying notes to financial statements.

FUTURPRENEUR CANADA

Statement of Cash Flows

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

	2019	2018
Cash provided by (used in):		
Operating activities:		
Cash received from contributions and sponsorships	\$ 10,260,701	\$ 9,236,153
Investment income received for operation purposes	153,565	76,509
Cash received from principal payments	10,643,600	9,992,132
Interest and fees income received on loans	2,919,645	2,599,140
Loan advances	(10,628,500)	(13,737,500)
Cash paid for salary and benefits	(7,628,851)	(7,579,856)
Cash paid for operating expenses	(3,032,463)	(2,955,206)
	2,687,697	(2,368,628)
Financing activities:		
Increase (decrease) in bank indebtedness	(1,733,998)	1,791,578
Investing activities:		
Purchase of capital assets	(198,423)	(131,107)
Increase (decrease) in cash and cash equivalents	755,276	(708,157)
Cash and cash equivalents, beginning of year	9,809,638	10,517,795
Cash and cash equivalents, end of year	\$ 10,564,914	\$ 9,809,638

See accompanying notes to financial statements.

FUTURPRENEUR CANADA

Notes to Financial Statements

Year ended March 31, 2019

Futurpreneur Canada (the "Organization") is a non-profit organization, funded through public-private partnerships, designed to provide mentoring, business support and financing to young Canadian entrepreneurs who are creating new businesses. The Organization was registered as a not-for-profit organization under the Income Tax Act (Canada) effective August 10, 1995. After an initial period of research and planning, operations began on April 6, 1996.

The Organization is a registered not-for-profit organization exempt from tax. Accordingly, a provision for income taxes is not recorded in these financial statements.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada's Handbook. The significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents comprise cash on account and investments in fixed income instruments with maturities of less than 90 days from the date of purchase.

Cash and cash equivalents are carried at fair value. Changes in fair value are recognized in the statement of operations in the current year. Any transaction costs are expensed as incurred.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Organization has elected to carry non-equity investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Organization determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Organization expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(c) Short-term investments:

Short-term investments comprise treasury bills and debt securities issued by Canadian federal and provincial governments and Canadian banks.

Short-term investments are carried at fair market value as determined at the year end, based on market values for the investments. Changes in fair value are recognized in the statement of operations in the current year.

Short-term investments are accounted for on a settlement date basis.

(d) Revenue recognition:

The Organization follows the deferral method of accounting for restricted contributions that include contributions from corporations and government grants. Government grants and corporate sponsorships are recognized as income on a straight-line basis over the term of the contracts provided that spending restrictions are met during the term of the contract.

Investment income, which includes interest income received and realized and unrealized gains and losses in respect of cash equivalents and short-term investments, is recognized in the statement of operations as earned.

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(e) Loans receivable:

Loans receivable are stated at amortized cost using the effective interest method, net of the allowance for loan losses.

Interest is recorded on the accrual basis for all loans, except on loans classified as impaired. A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of timely collection of the full amount of principal and interest. Impaired loans are written off. Interest received on a loan subsequent to its classification as impaired is not recorded as income. Subsequent collection of amounts on loans previously written off are netted and applied against the loan loss provision.

Any transaction costs are expensed as incurred.

(f) Allowance for loan losses:

Management of the Organization establishes and maintains an allowance for loan losses, which it considers the best possible estimate of probable loan losses in light of current conditions. The allowance for loan losses is deducted from loans receivable to arrive at a net carrying value.

(g) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the following periods:

Computers and software	3 years
Office furniture	3 years
Leasehold improvements	Lesser of the term of lease and useful life of the asset

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(h) Deferred contributions:

Deferred contributions are recognized as contributions revenue in the statement of operations on a straight-line basis over the term of the contract provided that contract terms are met during the term of the contract.

(i) Contributions-in-kind:

Amounts are reflected in the financial statements for contributed operating materials and services only when an objective basis is available to measure the value of such services and when the contributed materials or services would have otherwise been purchased.

(j) Use of estimates:

The preparation of financial statements 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 reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Cash and cash equivalents:

Included in cash and cash equivalents are investments in fixed income instruments with maturities of less than 90 days on the date of purchase, consisting of money market funds and interest-bearing accounts.

	2019	2018
Cash	\$ 7,134,961	\$ 7,391,929
Fixed income instruments	3,429,953	2,417,709
	<u>\$ 10,564,914</u>	<u>\$ 9,809,638</u>

Cash and cash equivalents are recorded at fair value, based on quoted market values.

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Contributions and accounts receivable:

Included in contributions and accounts receivable are net government rebates of \$17,379 (2018 - \$17,716), which include amounts receivable from goods and services tax/harmonized sales tax ("GST/HST") public service bodies, as well as other contributions receivable in the amount of \$641,589 (2018 - \$198,593) and a receivable from Futurpreneur Foundation ("FF") in the amount of \$76,350 (2018 - \$204,486).

Contributions and accounts receivable are presented, net of allowance for doubtful accounts in the amount of nil (2018 - nil).

4. Loans receivable:

Loans receivable consist of unsecured floating rate (ranging from prime to prime plus 3%) loans to young entrepreneurs for the start-up of new businesses. The maximum amount of an initial loan cannot exceed \$15,000. Loan terms range from three to five years, with no principal payments due within the first year.

The following table summarizes the Organization's loan portfolio by payment due dates:

2019	Within 1 year	1 - 2 years	3 - 5 years	Total
Loans	\$ 9,266,230	\$ 8,639,531	\$ 12,456,981	\$ 30,362,742
Allowance for loan losses				(6,072,549)
Loans, net of allowance				24,290,193
Less amounts due within 1 year				9,266,230
Loans - long-term				\$ 15,023,963

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

4. Loans receivable (continued):

2018	Within 1 year	1 - 2 years	3 - 5 years	Total
Loans	\$ 9,352,684	\$ 9,172,667	\$ 14,012,076	\$ 32,537,427
Allowance for loan losses				(6,507,486)
Loans, net of allowance				26,029,941
Less amounts due within 1 year				9,352,684
Loans - long-term				\$ 16,677,257

The fair value of the loans approximates the carrying value of loans, net of allowance and is calculated based on estimated future cash flow amounts.

The general allowance for loan losses is summarized as follows:

	2019	2018
Balance, beginning of year	\$ 6,507,486	\$ 6,063,539
Write offs, net of recoveries applied to allowance	(2,066,939)	(1,453,661)
Loan loss expense	1,632,002	1,897,608
Balance, end of year	\$ 6,072,549	\$ 6,507,486

5. Capital assets:

	2019		2018	
	Cost	Accumulated amortization	Net book value	Net book value
Computers and software	\$ 1,401,588	\$ 1,168,344	\$ 233,244	\$ 372,454
Office furniture	156,564	142,458	14,106	6,500
Leasehold improvements	309,681	309,681	—	3,766
	\$ 1,867,833	\$ 1,620,483	\$ 247,350	\$ 382,720

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Notes to Financial Statements (continued)

Year ended March 31, 2019

6. Line of credit:

On September 29, 2017, the Organization signed a Letter of Offer (the "agreement") with BDC for a \$20,000,000 demand revolving credit facility. The Organization signed an amended Letter of Offer on October 2, 2018 amending certain terms and conditions of the credit facility. The credit facility bears interest at BDC's floating base rate minus a variance of 2.74% per annum plus a stand by fee of 0.07% per annum of the unused portion of the credit facility. The credit facility is repayable on demand and is secured by a general security agreement constituting a first priority ranking and exclusive charge on all property of the Organization, including rights of the Organization in the loans receivable.

As at March 31, 2019, the Organization drew \$4,287,580 (2018 - \$6,021,578) on the credit facility. These funds are used for loan capital young entrepreneurs. Under the terms of the credit facility the Organization is required to maintain certain covenants. The Organization was in compliance with these covenants as at March 31, 2019 and 2018.

Subsequent to year end, the Organization was not in compliance with one of the financial covenants for the first three months of fiscal 2020, for which the Lender provided a waiver. As a result of the breach, the Lender reduced the credit facility to \$8 million and provided a forbearance period to December 2019, relating to the covenant breach.

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of \$10,043 (2018 - \$10,247) for payroll-related taxes and GST/HST.

8. Deferred contributions:

The Organization has received several grants from the federal and provincial governments and corporate sponsorships. The amount of contributions not yet recognized as revenue is as follows:

	2019	2018
Balance, beginning of year	\$ 995,698	\$ 706,782
Grants and sponsorships received	9,822,598	8,824,526
Amounts recognized as contributions	(9,531,016)	(8,535,610)
Balance, end of year	\$ 1,287,280	\$ 995,698

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

9. Internally restricted net assets:

During 2015, the Board of Directors approved a transfer of \$11,500,000 from unrestricted to internally restricted net assets. The internally restricted net assets are set aside for future operations and resources for new start-up financing.

10. Expenses by function:

2019	Entrepreneurial programs	Outreach initiatives	Fundraising development	Administration	Total
Employment costs	\$ 5,087,432	\$ 776,002	\$ 605,692	\$ 1,115,759	\$ 7,584,885
Marketing costs	522,154	357,985	24,070	(23,550)	880,659
Programs costs	675,694	107,041	175,180	236,573	1,194,488
Office occupancy and operating costs	676,061	68,964	41,799	615,321	1,402,145
Amortization	233,282	31,970	19,658	48,883	333,793
Loan loss expense	1,632,002	-	-	-	1,632,002
	\$ 8,826,625	\$ 1,341,962	\$ 866,399	\$ 1,992,986	\$ 13,027,972

2018	Entrepreneurial programs	Outreach initiatives	Fundraising development	Administration	Total
Employment costs	\$ 5,098,186	\$ 842,375	\$ 530,810	\$ 1,188,152	\$ 7,659,523
Marketing costs	211,210	331,857	4,860	-	547,927
Programs costs	745,530	159,729	144,612	167,061	1,216,932
Office occupancy and operating costs	554,968	66,136	30,975	538,951	1,191,030
Amortization	196,312	29,376	13,471	40,600	279,759
Loan loss expense	1,897,608	-	-	-	1,897,608
	\$ 8,703,814	\$ 1,429,473	\$ 724,728	\$ 1,934,764	\$ 12,792,779

The Organization classifies its activities into four principal functions: entrepreneurial programs, outreach initiatives, fundraising development and administration. The cost of each function includes direct costs associated with those functions: employment costs, other direct expenses and allocations. Employment costs are allocated if necessary when a role supports more than one function.

The Organization incurs a number of shared indirect costs, common operating and other expenses relating to more than one function that are allocated by the Organization. These costs include the cost of management and administrative personnel, occupancy costs, other operating expenses and amortization not directly or only attributable to a specific function. These expenses are allocated by applying a percentage based on the percentage of all other direct costs attributed to the function.

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

11. Commitments:

The Organization has operating lease commitments for its equipment and premises as follows:

2020	\$	439,900
2021		369,500
2022		328,900
2023		207,400
2024		24,900
	\$	1,370,600

12. Related party transactions:

Transactions with Futurpreneur Foundation ("FF"):

The Organization has an economic relationship with FF. FF was registered as a charity under the Income Tax Act (Canada) effective April 1, 2012. The Organization is providing administrative support and facilities to FF. The purpose of FF is to advance education that focuses on personal and business skill development and entrepreneurship, and to advance education through research on entrepreneurship and the publication of useful results of such research.

During the year, revenue and expenses recognized in the financial statements of the Organization are:

	2019	2018
Program costs	\$ 266,891	\$ 178,333
Administration fees	—	12,000

Related party balances, which are non-interest bearing, due on demand and can be settled on a net basis, are:

	2019	2018
Due to the Organization from FF	\$ 76,350	\$ 204,486

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2019

12. Related party transactions (continued):

FF has not been consolidated in the financial statements of the Organization. The financial summary is as follows:

Statement of financial position:

	2019	2018
Assets	\$ 352,512	\$ 581,277
Liabilities	121,459	499,820
Net assets	\$ 231,053	\$ 81,457

Statement of operations:

	2019	2018
Revenue	\$ 221,137	\$ 219,154
Expenses	276,541	197,483
Excess (deficiency) of revenue over expenses	\$ (55,404)	\$ 21,671

Statement of cash flows:

	2019	2018
Operating activities	\$ (228,765)	\$ 452,728
Increase (decrease) in cash	(228,765)	452,728
Cash, beginning of year	581,277	128,549
Cash, end of year	\$ 352,512	\$ 581,277

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Notes to Financial Statements (continued)

Year ended March 31, 2019

13. Financial risk management:

The Organization's activities expose it to credit risk and liquidity risk. The Organization's overall risk management program and business practice seek to minimize any potential adverse effect of those risks on the Organization's performance.

(a) Credit risk:

Credit risk arises from the possibility that borrowers may be unable to fulfill their obligations. The Organization mitigates this risk by limiting loan amounts to individual entrepreneurs and by hiring individuals with the required expertise to assess the merits of loan applications from entrepreneurs. The Organization provides a mandatory mentorship program, while undertaking individual due diligence and adjudications for all applications of its individual entrepreneurs, in order to mitigate any other potential financial risks after loans are disbursed.

(b) Liquidity risk:

Liquidity management relies on maintaining sufficient cash and the availability of funding. The Organization manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will have sufficient liquidity to meet its liabilities when due.

(c) Interest rate and market risks:

The Organization believes that it is not exposed to significant interest rate and market risks arising from its financial instruments.

14. Economic relationship:

During the year on September 26, 2018, the Organization entered into an amended and restated co-lending agreement with BDC to provide additional financing to eligible Organization applicants, and BDC's total commitment is up to \$60 million (2018 - \$60 million). The co-lending agreement expires on September 30, 2020 (2018 - September 30, 2018).

In addition, on September 29, 2017, the Organization signed a Letter of Offer with BDC for a \$20,000,000 demand revolving credit facility as disclosed in note 6. The Letter of Offer was amended on October 2, 2018.

Included in other revenue are fees received from BDC of \$391,238 (2018 - \$432,498).