

Financial Statements of

FUTURPRENEUR CANADA

Year ended March 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Futurpreneur Canada

We have audited the accompanying financial statements of Futurpreneur Canada, which comprise the statement of financial position as at March 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 entity'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 entity'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.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Futurpreneur Canada as at March 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

July 18, 2018
Vaughan, Canada

FUTURPRENEUR CANADA

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 9,809,638	\$ 10,517,795
Contributions and accounts receivable (notes 3 and 12)	420,795	51,089
Current portion of loans receivable (note 4)	9,352,684	8,501,988
Accrued interest receivable	90,650	73,353
Prepaid expenses	147,606	139,609
	<u>19,821,373</u>	<u>19,283,834</u>
Loans receivable (note 4)	16,677,257	15,752,166
Capital assets (note 5)	382,720	531,372
	<u>\$ 36,881,350</u>	<u>\$ 35,567,372</u>

Liabilities and Net Assets

Current liabilities:		
Bank indebtedness (note 6)	\$ 6,021,578	\$ 4,230,000
Accounts payable and accrued liabilities (notes 7 and 12)	849,009	818,290
	<u>6,870,587</u>	<u>5,048,290</u>
Deferred rent	—	14,345
Deferred contributions (note 8)	995,698	706,782
	<u>7,866,285</u>	<u>5,769,417</u>
Net assets:		
Invested in capital assets	382,720	531,372
Unrestricted	17,132,345	17,766,583
Internally restricted (note 9)	11,500,000	11,500,000
	<u>29,015,065</u>	<u>29,797,955</u>
Commitments (note 11)		
	<u>\$ 36,881,350</u>	<u>\$ 35,567,372</u>

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

FUTURPRENEUR CANADA

Statement of Operations

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

	2018	2017
Revenue:		
Contributions and sponsorships (note 8)	\$ 8,691,528	\$ 8,830,799
Loan interest	1,908,120	1,536,417
Loan fees	708,317	596,405
Investment	76,509	101,856
Other (notes 12 and 14)	625,415	229,687
	<u>12,009,889</u>	<u>11,295,164</u>
Expenses (note 10):		
Entrepreneurial programs	8,703,814	8,767,910
Outreach initiatives	1,429,473	1,720,238
Fundraising development	724,728	928,089
Administration	1,934,764	1,876,062
	<u>12,792,779</u>	<u>13,292,299</u>
Deficiency of revenue over expenses	\$ (782,890)	\$ (1,997,135)

See accompanying notes to financial statements.

FUTURPRENEUR CANADA

Statement of Changes in Net Assets

Year ended March 31, 2018

				2018	2017
	Invested in capital assets	Unrestricted	Internally restricted	Total	Total
Net assets, beginning of year	\$ 531,372	\$ 17,766,583	\$ 11,500,000	\$ 29,797,955	\$ 31,795,090
Deficiency of revenue over expenses	(279,759)	(503,131)	–	(782,890)	(1,997,135)
Purchase of capital assets	131,107	(131,107)	–	–	–
Net assets, end of year	\$ 382,720	\$ 17,132,345	\$ 11,500,000	\$ 29,015,065	\$ 29,797,955

See accompanying notes to financial statements.

FUTURPRENEUR CANADA

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operating activities:		
Cash received from contributions and sponsorships	\$ 9,236,153	\$ 9,321,139
Investment income received for operation purposes	76,509	101,856
Cash received from principal payments	9,992,132	9,297,912
Interest and fees income received on loans	2,599,140	2,124,305
Loan advances	(13,737,500)	(12,261,750)
Cash paid for salary and benefits	(7,579,856)	(8,022,427)
Cash paid for operating expenses	(2,955,206)	(3,040,203)
	(2,368,628)	(2,479,168)
Financing activities:		
Increase in bank indebtedness	1,791,578	1,230,000
Investing activities:		
Purchase of capital assets	(131,107)	(329,482)
Non-cash Entrepreneur Gateway Canada net loan balance transfer	-	(36,373)
	(131,107)	(365,855)
Decrease in cash and cash equivalents	(708,157)	(1,615,023)
Cash and cash equivalents, beginning of year	10,517,795	12,132,818
Cash and cash equivalents, end of year	\$ 9,809,638	\$ 10,517,795

See accompanying notes to financial statements.

FUTURPRENEUR CANADA

Notes to Financial Statements

Year ended March 31, 2018

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, 2018

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, 2018

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

(h) Deferred rent:

Deferred rent, consisting of step-up lease and free rent, is amortized on a straight-line basis over the term of the lease.

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(i) 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.

(j) 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.

(k) 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.

	2018	2017
Cash	\$ 2,417,709	\$ 2,618,101
Fixed income instruments	7,391,929	7,899,694
	<u>\$ 9,809,638</u>	<u>\$ 10,517,795</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, 2018

3. Contributions and accounts receivable:

Included in contributions and accounts receivable are net government rebates of \$17,716 (2017 - \$28,031), 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 \$198,593 (2017 - \$13,300) and a receivable from Futurpreneur Foundation (formerly Foundation for Entrepreneurial Canada) in the amount of \$204,486 (2017 - \$9,758).

Contributions and accounts receivable are presented, net of allowance for doubtful accounts in the amount of nil (2017 - 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:

2018	Within 1 year	1 - 2 years	3 - 5 years	Total
Loans	\$ 9,352,684	\$ 16,311,183	\$ 6,873,560	\$ 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

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Notes to Financial Statements (continued)

Year ended March 31, 2018

4. Loans receivable (continued):

2017	Within 1 year	1 - 2 years	3 - 5 years	Total
Loans	\$ 8,501,988	\$ 8,820,414	\$ 12,995,291	\$ 30,317,693
Allowance for loan losses				(6,063,539)
Loans, net of allowance				24,254,154
Less amounts due within 1 year				8,501,988
Loans - long-term				\$ 15,752,166

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:

	2018	2017
Balance, beginning of year	\$ 6,063,539	\$ 5,799,476
Entrepreneur Gateway Canada, balance beginning of year	—	9,092
Write offs, net of recoveries applied to allowance	(1,453,661)	(1,640,663)
Loan loss expense	1,897,608	1,895,634
Balance, end of year	\$ 6,507,486	\$ 6,063,539

5. Capital assets:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Computers and software	\$ 1,357,933	\$ 985,479	\$ 372,454	\$ 455,459
Office furniture	142,405	135,905	6,500	18,400
Leasehold improvements	309,681	305,915	3,766	57,513
	\$ 1,810,019	\$ 1,427,299	\$ 382,720	\$ 531,372

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Notes to Financial Statements (continued)

Year ended March 31, 2018

6. Line of credit:

During 2016, the Organization signed an agreement for a credit facility with Royal Bank of Canada ("RBC") for a revolving line of credit for \$20,000,000, secured by a letter of guarantee by Business Development Bank of Canada ("BDC") (provided by the "Guarantor"). The line of credit bore interest at either a rate of prime less 0.35% per annum or banker's acceptance rates plus a stand by fee of 0.5% per annum in addition to a stand by fee of 0.07% of the unused portion of the credit facility. The guarantee bore a fee of 0.5% on the amount drawn on the line of credit.

As at March 31, 2017, the Organization drew \$4,230,000 on the line of credit. At March 31, 2017, all required conditions and covenants were satisfied except for one. Under the terms of the letter of guarantee, the Organization is required to maintain certain financial and non-financial covenants. The Organization was not in compliance with one of the financial covenants for the year ended March 31, 2017. The Guarantor provided a waiver for the covenant breach.

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 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 part of this agreement, BDC paid the outstanding balance of the credit facility with RBC on the agreement to settlement date. No further obligations are outstanding with RBC as of March 31, 2018.

As at March 31, 2018, the Organization drew \$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, 2018.

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Notes to Financial Statements (continued)

Year ended March 31, 2018

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of \$10,247 (2017 - \$9,856) 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:

	2018	2017
Balance, beginning of year	\$ 706,782	\$ 1,046,673
Grants and sponsorships received	8,824,526	8,270,383
Amounts recognized as contributions	(8,535,610)	(8,610,274)
Balance, end of year	\$ 995,698	\$ 706,782

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:

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

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Notes to Financial Statements (continued)

Year ended March 31, 2018

10. Expenses by function (continued):

2017	Entrepreneurial programs	Outreach initiatives	Fundraising development	Administration	Total
Employment costs	\$ 5,179,579	\$ 897,464	\$ 745,267	\$ 1,207,600	\$ 8,029,910
Marketing costs	378,702	490,895	3,198	832	873,627
Programs costs	636,044	227,724	122,768	109,130	1,095,666
Office occupancy and operating costs	513,751	75,622	41,560	525,499	1,156,432
Amortization	164,200	28,533	15,296	33,001	241,030
Loan loss expense	1,895,634	-	-	-	1,895,634
	\$ 8,767,910	\$ 1,720,238	\$ 928,089	\$ 1,876,062	\$ 13,292,299

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.

11. Commitments:

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

2019	\$ 377,600
2020	241,700
2021	185,800
2022	185,800
2023	154,900
	\$ 1,145,800

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Notes to Financial Statements (continued)

Year ended March 31, 2018

12. Related party transactions:

(a) 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:

	2018	2017
Administration fees	\$ 12,000	\$ 17,500
Program costs	178,333	72,543

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

	2018	2017
Due to the Organization from FF	\$ 204,486	\$ 9,758

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

Statement of financial position:

	2018	2017
Assets	\$ 581,277	\$ 129,538
Liabilities	499,820	69,752
Net assets	\$ 81,457	\$ 59,786

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2018

12. Related party transactions (continued):

Statement of operations:

	2018	2017
Revenue	\$ 219,154	\$ 191,667
Expenses	197,483	188,532
Excess of revenue over expenses	\$ 21,671	\$ 3,135

Statement of cash flows:

	2018	2017
Operating activities	\$ 452,728	\$ (30,254)
Increase (decrease) in cash	452,728	(30,254)
Cash, beginning of year	128,549	158,803
Cash, end of year	\$ 581,277	\$ 128,549

(b) Transactions with Entrepreneur Gateway Canada ("EGC"):

EGC was federally incorporated on December 15, 2010 in the Province of Ontario as a not-for-profit organization without share capital. The Spin Master Innovation Fund is the sole program in EGC and it is sponsored by Spin Master to provide innovative young entrepreneurs with financing of \$50,000. \$35,000 of loan funds, were arranged by EGC and directly funded by BDC. EGC had an agreement with the Organization to administer the program and to provide \$15,000 of loan capital to each applicant.

On March 31, 2016, the Board of Directors of EGC resolved to dissolve and contribute the net assets of the entity to the Organization. As such, as at March 31, 2016 the Organization had recorded a receivable from EGC in the amount of \$147,118 and a corresponding contribution accounted for as other revenue, reflecting the net asset position of EGC as at March 31, 2016. During 2017, the Organization received the outstanding balance of \$147,118 which included a net loan balance of \$36,373.

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Notes to Financial Statements (continued)

Year ended March 31, 2018

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:

The Organization and BDC are parties to a co-lending agreement dated March 31, 2017 to provide additional financing to eligible Organization applicants, and BDC's total commitment is up to \$60 million. The co-lending agreement expires on 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.

Included in other revenue are fees received from BDC of \$432,498 (2017 - \$159,519).

FUTURPRENEUR CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2018

15. Comparative information:

Certain comparative information have been reclassified to conform with the financial statement presentation adopted in the current year.