

Breakfast Club of Canada
Financial Statements
June 30, 2019

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**Raymond Chabot
Grant Thornton**

Independent Auditor's Report

To the Directors of
Breakfast Club of Canada

**Raymond Chabot
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Qualified opinion

We have audited the financial statements of Breakfast Club of Canada (hereafter "the Organization"), which comprise the statement of financial position as at June 30, 2019, and the statements of operations and net assets, and cash flows for the year then ended, and notes to financial statements, including a summary of significant policies.

In our opinion, except for the possible effects of the matter described in the "Basis for qualified opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at June 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for qualified opinion

In common with many not-for-profit organizations, the Organization derives revenue from contributions from individuals from donations, the annual fund-raising campaign and breakfast parents' contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these contributions was limited to the amounts recorded in the records of the Organization. Therefore, we were not able to determine whether any adjustments might be necessary to donations, annual fund-raising campaign and breakfast parents' contribution revenues, excess of revenues over expenses and cash flows from operating activities for the years ended June 30, 2019 and 2018, current assets as at June 30, 2019 and 2018 and net assets as at July 1, 2018 and 2017 and June 30, 2019 and 2018. Our opinion on the financial statements for the year ended June 30, 2018 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Organization 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 qualified 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's 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 auditor's 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 these 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 Organization's internal control;
- 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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Organization 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Raymond Chabot Grant Thornton LLP¹

Montréal
September 25, 2019

¹ CPA auditor, CA public accountancy permit no. A119564

Breakfast Club of Canada Operations and Net Assets

Year ended June 30, 2019

	2019	2018
	\$	\$
Revenues		
Contributions		
Donations and annual fund-raising campaign (Note 4)	12,647,512	12,920,230
Donations – goods and services (Notes 3 and 4)	3,563,813	3,067,812
Government grants (Note 4)	1,845,188	809,262
Breakfast parents' contributions	438,925	438,697
Interest income	158,927	67,790
Amortization of deferred contributions related to tangible capital assets	28,157	28,823
Other revenues	6,540	10,846
	<u>18,689,062</u>	<u>17,343,460</u>
Expenses		
Grants	4,394,307	3,962,076
Salaries	4,876,574	4,480,695
Small equipment	86,745	74,318
Food purchase and supply costs	1,893,516	1,356,209
Repairs and maintenance	52,183	34,690
Advertising, promotion and communications	496,767	1,180,212
Supplies and office expenses	92,877	78,113
Telecommunications	158,126	136,152
Rental expenses	323,876	299,881
Insurance	17,156	16,922
Heating and utilities	10,815	25,978
Professional fees	140,074	112,105
Subcontracting	477,505	202,692
Interest and bank charges	45,129	29,059
Travel expenses and representation fees	302,950	369,550
Amortization of tangible capital assets	178,514	146,900
Amortization of intangible assets	25,149	24,552
Information technology expenses	84,336	85,540
Training and recruitment	80,644	22,628
Loss (gain) on disposal of tangible capital assets	14,003	(1,303)
Loss on write-off of tangible capital assets		9,294
Loss on write-off of intangible assets		88,548
School monitoring	851,533	865,460
Food donations and equipment – schools	3,273,300	2,830,569
Other expenses	9,955	71,511
	<u>17,886,034</u>	<u>16,502,351</u>
Excess of revenues over expenses	803,028	841,109
Net assets, beginning of year	<u>5,932,415</u>	<u>5,091,306</u>
Net assets, end of year	<u><u>6,735,443</u></u>	<u><u>5,932,415</u></u>

The accompanying notes are an integral part of the financial statements and Notes 3 and 4 provide other information on operations.

Breakfast Club of Canada

Cash Flows

Year ended June 30, 2019

	<u>2019</u>	<u>2018</u>
	\$	\$
OPERATING ACTIVITIES		
Excess of revenues over expenses	803,028	841,109
Non-cash items		
Amortization of tangible capital assets	178,514	146,900
Amortization of intangible assets	25,149	24,552
Amortization of deferred contributions related to tangible capital assets	(28,157)	(28,823)
Loss (gain) on disposal of tangible capital assets	14,003	(1,303)
Loss on write-off of tangible capital assets		9,294
Loss on write-off of intangible assets		88,548
Net change in working capital items (Note 5)	<u>8,626,016</u>	<u>1,170,239</u>
Cash flows from operating activities	<u>9,618,553</u>	<u>2,250,516</u>
INVESTING ACTIVITIES		
Acquisition of tangible capital assets	(178,345)	(94,134)
Disposal of tangible capital assets		3,550
Acquisition of intangible assets	<u>(120,024)</u>	<u>(103,524)</u>
Cash flows from investing activities	<u>(298,369)</u>	<u>(194,108)</u>
Net increase in cash and cash equivalents	9,320,184	2,056,408
Cash and cash equivalents, beginning of year	<u>7,499,633</u>	<u>5,443,225</u>
Cash and cash equivalents, end of year	<u>16,819,817</u>	<u>7,499,633</u>
CASH AND CASH EQUIVALENTS		
Cash	8,373,303	1,497,633
Term deposits	<u>8,446,514</u>	<u>6,002,000</u>
	<u>16,819,817</u>	<u>7,499,633</u>

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

Breakfast Club of Canada

Financial Position

June 30, 2019

	<u>2019</u>	<u>2018</u>
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	16,819,817	7,499,633
Contributions and other receivables (Note 6)	365,004	193,151
Inventory	295,114	144,747
Prepaid expenses	<u>117,988</u>	<u>119,836</u>
	17,597,923	7,957,367
Long-term		
Tangible capital assets (Note 7)	822,386	836,558
Intangible assets (Note 8)	<u>160,997</u>	<u>66,122</u>
	<u>18,581,306</u>	<u>8,860,047</u>
LIABILITIES		
Current		
Trade payables and other operating liabilities (Note 10)	597,555	487,177
Other deferred contributions (Note 11)	11,123,236	2,285,101
Deferred revenues	<u>11,925</u>	<u>14,050</u>
	11,732,716	2,786,328
Long-term		
Deferred contributions related to tangible capital assets (Note 12)	<u>113,147</u>	<u>141,304</u>
	11,845,863	2,927,632
NET ASSETS		
Unrestricted		
	<u>6,735,443</u>	<u>5,932,415</u>
	<u>18,581,306</u>	<u>8,860,047</u>

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

On behalf of the Board,

Director

Director

Breakfast Club of Canada

Notes to Financial Statements

June 30, 2019

1 - GOVERNING STATUTES AND PURPOSE OF THE ORGANIZATION

The Organization is a charitable organization incorporated under the Canada Not-for-profit Corporations Act, whose mission is to mobilize Canadians to allow all children an access to an equal chance of success, namely by supporting community school nutrition programs. It is a registered charity under the Income Tax Act.

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Organization's financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's knowledge of current events and actions that the Organization may undertake in the future. Actual results may differ from these estimates.

Financial assets and liabilities

Initial measurement

Upon initial measurement, the Organization's financial assets and liabilities are measured at fair value, which, in the case of financial assets or financial liabilities that will be measured subsequently at amortized cost, is increased or decreased by the amount of the related financing fees and transaction costs. Transaction costs relating to financial assets and liabilities that will be measured subsequently at fair value are recognized in operations in the year they are incurred.

Subsequent measurement

At each reporting date, the Organization measures its financial assets and liabilities at amortized cost (including any impairment in the case of financial assets).

With respect to financial assets measured at amortized cost, the Organization assesses whether there are any indications of impairment. When there is an indication of impairment, and if the Organization determines that, during the year, there was a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it will then recognize a reduction as an impairment loss in operations. The reversal of a previously recognized impairment loss on a financial asset measured at amortized cost is recognized in operations in the year the reversal occurs.

Breakfast Club of Canada
Notes to Financial Statements
June 30, 2019

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Contributions

The Organization follows the deferral method of accounting for contributions. Under this method, contributions restricted for future period expenses are deferred and are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenues when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donation promises and bequests are recognized as revenues when received.

Moreover, the Organization recognizes contributed supplies and services when the fair value of these contributions can reasonably be estimated and if it would have had to otherwise acquire these supplies and services for its normal operations. Donations in kind are accounted for at the fair market value corresponding to the potential sales price of the item at the time of the donation.

Breakfast parents' contributions

Breakfast parents' contributions are recognized as revenues when the service has been provided and the amount is received.

Cash and cash equivalents

The Organization's policy is to present in cash and cash equivalents bank balances, including bank overdrafts whose balances fluctuate frequently from being positive to overdrawn, and investments with a maximum maturity of three months from the acquisition date or redeemable at any time without penalty.

Inventory

Food product and non-food inventory is recognized at the lower of cost and replacement value. For inventory received as donation, cost is determined using the fair value of the good received at the time of donation.

Tangible capital assets and intangible assets subject to amortization

Tangible capital assets and intangible assets subject to amortization are recorded at cost. When the Organization receives contributions of tangible capital assets and intangible assets subject to amortization, their cost is equal to their fair value at the contribution date.

Breakfast Club of Canada

Notes to Financial Statements

June 30, 2019

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amortization

Tangible capital assets and intangible assets subject to amortization are amortized over their respective estimated useful lives using the following methods and annual rates:

	<u>Methods</u>	<u>Rates</u>
Furniture	Straight-line	10%
Computer equipment	Straight-line	33.33%
Computer software	Straight-line	33.33%
Web site	Straight-line	33.33%
Leasehold improvements	Straight-line	10%
Equipment – schools	Straight-line	10%
Equipment – warehouse	Diminishing balance	20%
Equipment – telecommunications	Diminishing balance	30%

Write-down

When the Organization recognizes that a tangible capital asset or an intangible asset subject to amortization no longer has any long-term service potential, the excess of the net carrying amount of the tangible capital asset or the intangible asset subject to amortization over its residual value is recognized as an expense in the statement of operations.

Employee future benefits

Pension plan

The Organization has a defined contribution pension plan for its employees. The related pension expense is recognized in the statement of operations during the year services are provided by employees. The effective date of the plan is January 1, 2010 for Quebec employees and July 1, 2013 for employees from outside Quebec.

Employees become eligible for the plan when they meet one of the following conditions:

- 1) They have reached 35% of the maximum pensionable earnings under the Quebec Pension Plan during the previous year;
- 2) They have worked 700 hours during the previous year.

Employee contributions vary between 1% and 3% of their gross salary according to the date of seniority. The employer's contribution is equal to employee's contribution.

Total cash payments

Total cash payments for employee future benefits for 2019, consisting of cash contributed by the Organization to its defined contribution pension plan, amounted to \$91,821 (\$86,341 in 2018).

Breakfast Club of Canada

Notes to Financial Statements

June 30, 2019

3 - INFORMATION INCLUDED IN OPERATIONS

Donations – goods and services

The Organization receives a substantial amount of contributed goods and services for its special events and activities. The following items and amounts of the statement of operations are composed partly of contributed materials and services valued at fair market value:

	<u>2019</u>	<u>2018</u>
	\$	\$
Food donations	3,336,188	2,892,444
Other goods	126,824	59,711
Services	100,801	96,829
Other		18,828
	<u>3,563,813</u>	<u>3,067,812</u>

4 - CONTRIBUTIONS

	<u>2019</u>	<u>2018</u>
	\$	\$
Donations and annual fund-raising campaign		
Individuals	5,316,232	4,852,415
Businesses	5,266,783	6,803,676
Foundations	<u>2,064,497</u>	<u>1,264,139</u>
	<u>12,647,512</u>	<u>12,920,230</u>
Donations – goods and services		
Businesses	3,272,343	2,956,861
Foundations	<u>291,470</u>	<u>110,951</u>
	<u>3,563,813</u>	<u>3,067,812</u>
Government grants		
Quebec provincial government	950,691	
Ville de Montréal	273,510	297,308
Health Canada	293,340	250,000
Nunavik RBHSS	<u>327,647</u>	<u>261,954</u>
	<u>1,845,188</u>	<u>809,262</u>

Breakfast Club of Canada
Notes to Financial Statements
June 30, 2019

5 - INFORMATION INCLUDED IN CASH FLOWS

The net change in working capital items is detailed as follows:

	<u>2019</u>	<u>2018</u>
	\$	\$
Contributions and other receivables	(171,853)	124,780
Inventory	(150,367)	14,370
Prepaid expenses	1,848	25,989
Trade payables and other operating liabilities	110,378	46,056
Other deferred contributions	8,838,135	944,994
Deferred revenues	(2,125)	14,050
	<u>8,626,016</u>	<u>1,170,239</u>

6 - CONTRIBUTIONS AND OTHER RECEIVABLES

	<u>2019</u>	<u>2018</u>
	\$	\$
Quebec provincial government grant receivable	151,519	
Other contributions receivable	72,856	76,195
Sales taxes receivable	138,222	109,505
Other	2,407	7,451
	<u>365,004</u>	<u>193,151</u>

7 - TANGIBLE CAPITAL ASSETS

	<u>2019</u>		<u>2018</u>	
	Cost	Accumulated amortization	Net carrying amount	Net carrying amount
	\$	\$	\$	\$
Furniture	118,881	65,955	52,926	70,409
Computer equipment	346,877	166,550	180,327	56,227
Leasehold improvements	551,465	267,811	283,654	338,295
Equipment – schools	514,131	287,313	226,818	281,945
Equipment – warehouse	46,752	36,380	10,372	16,052
Equipment – telecommunications	71,569	61,180	10,389	15,730
Artwork	57,900		57,900	57,900
	<u>1,707,575</u>	<u>885,189</u>	<u>822,386</u>	<u>836,558</u>

8 - INTANGIBLE ASSETS

	<u>2019</u>		<u>2018</u>	
	Cost	Accumulated amortization	Net carrying amount	Net carrying amount
	\$	\$	\$	\$
Amortizable intangible assets				
Computer software	363,401	248,371	115,030	53,309
Web site	106,195	60,228	45,967	12,813
	<u>469,596</u>	<u>308,599</u>	<u>160,997</u>	<u>66,122</u>

Breakfast Club of Canada

Notes to Financial Statements

June 30, 2019

9 - LINE OF CREDIT

The Organization has an authorized line of credit of \$80,000 on credit cards. As at June 30, 2019, \$22,798 was used (\$34,921 as at June 30, 2018).

10 - TRADE PAYABLES AND OTHER OPERATING LIABILITIES

	<u>2019</u>	<u>2018</u>
	\$	\$
Trade and other payables	275,211	190,634
Salaries and vacations payable	287,816	266,801
Benefits payable	<u>34,528</u>	<u>29,742</u>
	<u>597,555</u>	<u>487,177</u>

Government remittances total \$30,625 as at June 30, 2019 (\$26,631 as at June 30, 2018).

11 - OTHER DEFERRED CONTRIBUTIONS

	<u>2019</u>	<u>2018</u>
	\$	\$
Operating grants		
Balance, beginning of year	2,285,101	1,340,107
Amount recognized in operations	(1,281,018)	(1,474,458)
Amount received relating to the following year	<u>10,119,153</u>	<u>2,419,452</u>
Balance, end of year	<u>11,123,236</u>	<u>2,285,101</u>

Other deferred contributions represent unused resources which, as a result of external restrictions, are intended to cover operating expenses for the coming year.

12 - DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS

Deferred contributions related to tangible capital assets include the net carrying amount of contributed tangible capital assets.

The balance of deferred contributions related to tangible capital assets is detailed as follows:

	<u>2019</u>	<u>2018</u>
	\$	\$
Leasehold improvements	261,237	261,237
Accumulated amortization	<u>(150,473)</u>	<u>(122,777)</u>
Balance, end of year	<u>110,764</u>	<u>138,460</u>
Furniture	4,607	4,607
Accumulated amortization	<u>(2,224)</u>	<u>(1,763)</u>
Balance, end of year	<u>2,383</u>	<u>2,844</u>
	<u>113,147</u>	<u>141,304</u>

Breakfast Club of Canada

Notes to Financial Statements

June 30, 2019

13 - FINANCIAL RISKS

Credit risk

The Organization is exposed to credit risk regarding the financial assets recognized in the statement of financial position. The Organization has determined that the financial assets with more credit risk exposure are contributions and other receivables (excluding sales taxes and the government grant receivable) since failure of any of these parties to fulfil their obligations could result in significant financial losses for the Organization.

Market risk

The Organization's financial instruments expose it to market risk, in particular, to interest rate risk, resulting from its investing activities.

Interest rate risk

The Organization is exposed to interest rate risk with respect to financial assets bearing fixed interest rates.

The term deposits bear interest at fixed rates and the Organization is, therefore, exposed to fair value risk resulting from interest rate fluctuations.

Liquidity risk

The Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization is, therefore, exposed to liquidity risk with respect to all of the financial liabilities recognized in the statement of financial position.

14 - COMMITMENTS

The Organization has entered into long-term lease agreements which call for lease payments of \$791,648 for the rental of office space, equipment and technical support.

The leases for office space expire at various dates between June 30, 2020 and June 30, 2023. The leases for equipment and technical support expire on various dates between April 15, 2020 and October 30, 2024.

Minimum lease payments for the next five years are \$281,255 in 2020, \$193,420 in 2021, \$160,760 in 2022, \$146,391 in 2023 and \$7,857 in 2024.

Breakfast Club of Canada
Notes to Financial Statements
June 30, 2019

14 - COMMITMENTS (Continued)

The Organization is committed to disbursing contributions to schools across Canada for the opening and development of breakfast clubs during the next financial year. The financial donations (grants), along with service, furniture and food donations valued at fair market value under these agreements are detailed as follows:

	<u>\$</u>
Financial donations (grants)	3,524,065
Food and goods donations	2,691,456

Breakfast Club of Canada Schedules

Year ended June 30, 2019

(Unaudited)

	SCHEDULE A	
	<u>2019</u>	<u>2018</u>
	\$	\$
SALARIES		
Administration	245,256	206,189
Development	1,223,492	1,245,677
Communications	784,585	605,540
Programs	2,334,022	2,124,777
Warehouse	<u>289,219</u>	<u>298,512</u>
	<u>4,876,574</u>	<u>4,480,695</u>
	SCHEDULE B	
	<u>2019</u>	<u>2018</u>
	\$	\$
SUBCONTRACTING		
Consultation – communications	69,141	29,619
Consultation – data processing and technical support	143,231	51,338
Consultation – public affairs	149,368	52,236
Translation, editing and graphic design	26,471	17,884
Other	<u>89,294</u>	<u>51,615</u>
	<u>477,505</u>	<u>202,692</u>