

**ELEPHANT THOUGHTS  
EDUCATIONAL OUTREACH  
OPERATING AS "ELEPHANT THOUGHTS"  
FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**COLLINS BARROW SGB LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Elephant Thoughts Educational Outreach:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Elephant Thoughts Educational Outreach, which comprise the balance sheet as at June 30, 2018, and the statement of operations and net assets and cash flow statement for the year ended, and 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.

**Auditor's 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 the auditor's 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, the auditor considers 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 qualified audit opinion.

**Basis for Qualified Opinion**

Elephant Thoughts Educational Outreach derives contribution revenue from charitable cash donations and fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization. Consequently, we were unable to determine whether any adjustments to revenues, excess of revenues over expenses, assets or net assets were necessary.

**COLLINS BARROW SGB LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**

**Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Elephant Thoughts Educational Outreach as at June 30, 2018, and the results of its operations and its cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

*Collins Barrow SGB LLP*

Licensed Public Accountants  
Collingwood, Ontario  
September 20, 2018

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**BALANCE SHEET  
AS AT JUNE 30**

	2018	2017
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Accounts receivable	115,126	205,424
Prepaid expenses	56,399	49,304
Inventories (Note 2)	208,307	194,309
	379,832	449,037
Tangible capital assets (Note 3)	1,994,596	1,656,081
Intangibles - software (net of accumulated amortization of \$40,376; 2017 - \$27,054)	86,962	32,931
	<b>2,461,390</b>	<b>2,138,049</b>
<b>Liabilities</b>		
<b>Current</b>		
Bank overdraft (Note 4)	40,744	228,113
Accounts payable and accruals	170,055	107,125
Government remittances payable	352	9,409
Line of credit - construction (Note 5)	293,320	241,286
Due to related parties (Note 6)	140,000	95,000
Deferred revenue (Note 7)	328,632	122,049
Current portion of obligations under capital lease (Note 9)	5,926	-
Current portion of long-term (Note 8)	606,041	60,335
	1,585,070	863,317
Obligations under capital leases (Note 9)	26,205	-
Long-term (Note 8)	64,203	612,973
	1,675,478	1,476,290
Deferred capital contributions (Note 10)	279,719	166,640
	1,955,197	1,642,930
<b>Net assets</b>		
Unrestricted	506,193	495,119
	<b>2,461,390</b>	<b>2,138,049</b>

Approved on behalf of the board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

See accompanying notes to the financial statements

**ELEPHANT THOUGHTS  
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**STATEMENT OF OPERATIONS AND NET ASSETS  
FOR THE YEAR ENDED JUNE 30**

	2018	2017
	\$	\$
<b>Revenues</b>		
Contributions and other	267,632	260,603
Program fees	1,166,254	907,585
Grants	702,771	362,631
Store sales	214,503	230,123
	<b>2,351,160</b>	<b>1,760,942</b>
<b>Expenses</b>		
Advertising and promotion	16,021	29,179
Bank charges	10,054	9,186
Consumables	276,195	80,482
Contract labour (Note 6)	270,970	177,042
Cost of sales - store	115,817	130,880
Donations	40,561	6,205
Grant expenses	46,316	20,673
Insurance	27,258	27,916
Interest	54,209	46,152
International (Note 6)	28,723	86,624
Office	53,859	43,334
Other	55,133	25,988
Professional fees	13,000	18,250
Repairs and maintenance	28,328	37,612
Telephone and utilities	34,127	52,034
Travel	187,967	120,523
Vehicle	39,402	39,769
Wages and benefits	921,577	698,387
	<b>2,219,517</b>	<b>1,650,236</b>
<b>Excess of revenues over expenses from operations</b>	<b>131,643</b>	<b>110,706</b>
Amortization of deferred capital contributions (Note 10)	36,121	23,602
Amortization of tangible capital assets and intangibles	(156,690)	(118,606)
Loss on disposal of tangible capital assets	-	(4,834)
	<b>(120,569)</b>	<b>(99,838)</b>
<b>Excess of revenues over expenses for the year</b>	<b>11,074</b>	<b>10,868</b>
Net assets, beginning of year	495,119	484,251
<b>Net assets, end of year</b>	<b>506,193</b>	<b>495,119</b>

See accompanying notes to the financial statements

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**CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30**

	2018	2017
<b>Cash flows from (for):</b>	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Excess of revenues over expenses for the year	11,074	10,868
Items not involving cash		
Amortization of tangible capital assets and intangibles	156,690	118,606
Amortization of deferred capital contributions	(36,121)	(23,602)
Loss on disposal of tangible capital assets	-	4,834
	<b>131,643</b>	<b>110,706</b>
Changes in		
Accounts receivable (Note 3)	52,798	(51,889)
Prepaid expenses	(7,095)	(17,877)
Inventories	(13,998)	(37,053)
Accounts payable and accruals	62,930	(13,454)
Government remittances payable	(9,057)	9,409
Deferred revenue	206,583	28,782
	<b>423,804</b>	<b>28,624</b>
<b>Financing activities</b>		
Proceeds from long-term liabilities, line of credit and capital lease	147,438	241,286
Deferred capital contributions	149,200	-
Due to related parties	45,000	95,000
Repayment of long-term liabilities	(64,459)	(121,255)
Repayment of obligations under capital lease	(1,878)	(702)
	<b>275,301</b>	<b>214,329</b>
<b>Investing activities</b>		
Purchase of tangible capital assets (Note 3)	(444,383)	(287,288)
Purchase of intangibles	(67,353)	(1,586)
	<b>(511,736)</b>	<b>(288,874)</b>
<b>Change in cash</b>	<b>187,369</b>	<b>(45,921)</b>
Cash, beginning of year	(228,113)	(182,192)
<b>Cash, end of year</b>	<b>(40,744)</b>	<b>(228,113)</b>
<b>Comprised of:</b>		
Unrestricted	(369,376)	(350,162)
Externally restricted (First Nation Summer Camps)	127,588	93,302
Externally restricted (Local summer camps)	10,950	6,725
Externally restricted (Summer festivals)	19,892	22,022
Externally restricted (Trillium grant)	37,100	-
Externally restricted (Cree School Board)	84,226	-
Externally restricted (Skills development grant)	36,566	-
Externally restricted (Other grants)	12,310	-
	<b>(40,744)</b>	<b>(228,113)</b>

See accompanying notes to the financial statements

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**NOTES TO THE FINANCIAL STATEMENTS  
AS AT JUNE 30, 2018**

**Nature of the Organization**

Elephant Thoughts Educational Outreach ("the Organization") is a registered charity incorporated under the Canada Corporations Act on April 26, 2002. The Organization's mandate is to help promote high standards of education worldwide despite economic or geographic barriers while supporting initiatives which propagate cultural understanding and sharing among school aged children. The Organization is exempt from income taxes pursuant to Section 149(1)(l) of the Income Tax Act.

**1. Summary of significant accounting policies**

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit Organizations (referred to as "ASNFPO") and are in accordance with Canadian generally accepted accounting principles (GAAP).

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

**(a) Revenue recognition**

The Organization derives its operating revenue from contributions, program fees, government grants and retail store sales which are accounted for under the deferral method of accounting.

Contributions include proposals to third parties who are not the direct beneficiaries of the proposed programs. Unrestricted contributions are recognized as revenue when earned and collection is reasonably assured. Restricted contributions for operating expenditures are deferred and recognized as revenue in the year in which the related expenses are incurred. Contributions relating to depreciable tangible capital assets are deferred and amortized over the useful life of the depreciable tangible capital assets acquired. In-kind contributions are recognized at fair market value.

Program fees include contracted services performed by the Organization and are recognized as revenue when earned and collection is reasonably assured.

Government grants are recognized as revenue when receivable and performance of any external restrictions has occurred.

**(b) Collections**

The Organization's collections consist of fossils and cast replicas. The collections are recorded in tangible capital assets and are not amortized as they have an unlimited useful life. Any expenditures on collections during the year were recorded as additions to tangible capital assets. There were no collection items sold during the year.

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**1. Summary of significant accounting policies (continued)**

(c) Tangible capital assets

Tangible capital assets are recorded at cost. Cost includes the purchase price and other acquisition costs such as wages directly related to construction, installation costs, legal fees, survey costs, freight charges, transportation, insurance costs, and duties. The cost incurred to enhance the service potential of an item of tangible capital assets (betterment) is also included in the cost of an asset.

Amortization is provided to allocate the cost of assets over their estimated useful lives, beginning with half the amortization amount being taken in the first year of service. Provision is made for amortization as follows:

Buildings	5%	declining balance
Computers	50%	declining balance
Equipment	20%	declining balance
Signs	20%	declining balance
Trailers	20%	declining balance
Vehicles	30%	declining balance

(d) Intangibles

Intangibles consists of software programs and are stated at cost. Amortization is provided on a declining balance basis of 20%.

(e) Inventories

The Organization's store inventory is recorded at the lower of cost and net realizable value and consumables inventory is recorded at the lower of cost and replacement cost. The store inventory is valued using the average cost method while the consumables inventory is valued using the first-in, first-out method. Store inventory consists of retail merchandise and consumables inventory consists of handouts and other materials used in the delivery of programs.

(f) Deferred capital contributions

Deferred capital contributions reported in the balance sheet include the estimated fair value of the contributed tangible capital assets at the time they were donated. Deferred capital contributions are amortized on the same basis as the donated asset.



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**1. Summary of significant accounting policies (continued)**

(g) Contributed services

The Organization receives volunteer services from many individuals. Since these services are not normally purchased by the Organization and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

(h) Financial instruments

The Organization considers any contract that creates a financial asset, a financial liability or equity instrument as a financial instrument, except in limited items such as leases and loan commitments.

*Initial recognition and measurement*

A financial asset or a financial liability is recognized when the Organization becomes a party to the contractual provisions of the financial instrument.

Financial assets originated or acquired or financial liabilities issued or assumed in an arm's length transaction, are initially measured at their fair value.

*Subsequent measurement*

Changes in fair value of investments in equity instruments, as quoted in an active market, are recognized in operations in the period incurred. All other financial assets and financial liabilities are measured at amortized cost.

*Impairment*

At the end of each reporting period, the Organization assesses whether there are any indications that financial assets measured at cost or amortized cost may be impaired.

(i) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Significant estimates include the useful lives of tangible capital assets and deferred capital contributions. Actual results could differ from those estimates.

**2. Inventories**

Inventories consists of:

	2018	2017
	\$	\$
Consumables	143,036	130,171
Store	65,271	64,138
	<b>208,307</b>	<b>194,309</b>

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**3. Tangible capital assets**

Tangible capital assets are comprised of:

	2018	2017
	\$	\$
Cost		
Land	624,211	553,827
Collections	25,200	25,200
Buildings	1,055,550	896,277
Computers	42,180	42,180
Equipment (Note 6)	736,344	536,415
Signs	8,996	8,996
Trailers	25,786	27,676
Vehicles	302,659	210,473
Capital in progress	-	38,000
	<b>2,820,926</b>	<b>2,339,044</b>
Accumulated amortization		
Buildings	198,235	157,304
Computers	42,180	39,361
Equipment	383,157	319,852
Signs	5,517	4,647
Trailers	17,356	14,776
Vehicles	179,885	147,023
	<b>826,330</b>	<b>682,963</b>
	<b>1,994,596</b>	<b>1,656,081</b>

During the year the sale agreement for the New Brunswick property was terminated. An accounts receivable for \$37,500 was written off and this amount was capitalized to land.

**4. Operating line of credit**

The Organization has an operating line of credit available in the amount of \$200,000 with an interest rate of Prime plus 1%. At year end there were drawings of \$NIL (2017 - \$86,325) against the line of credit.

**5. Line of credit - construction**

This amount represents a 4.75% line of credit construction facility payable to PACE Savings and Credit Union Limited (PACE), which is secured by the property in Grey Highlands with a net book value of \$691,280 (2017 - \$523,253). The facility will convert to a commercial term loan upon completion of renovations. The term loan will be paid in monthly blended payments amortized over a twenty year period. As a condition of the Organization's loan with PACE, certain covenants must be met or PACE would be able to call the loan prior to its maturity date. All such covenants were met at year end.

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**6. Related party transactions**

Included in contract labour is \$29,100 (2017 - \$27,600) paid to a director for financial consulting services. All services are performed in the normal course of operations. These transactions were recorded using the exchange value of the services performed.

During the year, multiple directors made loans to the Organization to cover short-term cash needs. \$140,000 (2017 - \$95,000) was outstanding on the loans at year end. Interest on the loans is payable at prime plus 1%. There are no set terms of principal repayment, except as noted for the mortgage portion. Included in this figure is \$49,081 (2017 - \$49,505) for a mortgage secured by the New Brunswick property. It is repaid \$193 monthly principal and interest, with no set maturity date.

Included in international expenses is \$28,519 (2017 - \$70,275) paid to Elephant Thoughts Tanzania (ETT), a not-for-profit non-governmental Organization acting as an agent for the purpose of building and setting up operations of new schools. The Organization is currently the sole source of ETT's funding and as a result, the Organization can significantly influence their operations.

During the year, the executive director sold \$30,500 (2017 - \$NIL) in equipment to the Organization for Kimbercote. This transaction took place at market value.

**7. Deferred revenue**

Deferred revenue consists of the following:

	2018	2017
	\$	\$
First Nation summer camps	127,588	93,302
Local summer camps	10,950	6,725
Summer festivals	19,892	22,022
Trillium grant	37,100	-
Cree School Board	84,226	-
Skills development grant	36,566	-
Other grants	12,310	-
	<b>328,632</b>	<b>122,049</b>

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**8. Long-term liabilities**

Long-term liabilities consists of the following:

	2018	2017
	\$	\$
(a) 3.79% loan payable to TD Auto Finance. Repayable in blended bi-weekly payments of \$389, due June 2019. Secured by vehicle with a net book value of \$7,312 (2017 - \$10,466).	9,919	19,467
(b) Mortgage payable to TD Canada trust at a fixed rate of 4.51% per annum. Repayable in monthly blended payments of principal and interest in the amount of \$4,695, due February 2019 and secured by land and building in Collingwood with a net book value of \$752,750 (2017 - \$769,547).	575,694	605,577
(c) 3.99% loan payable to TD Financial Services. Repayable in blended bi-monthly payments of \$342, due July 2019. Secured by a vehicle with a net book value of \$11,719 (2017 - \$16,742).	9,040	17,396
(d) 4.00% loan payable to Kubota Canada. Repayable in blended monthly payments of \$539, due April 2021. Secured by a vehicle with a net book value of \$13,624 (2017 - \$19,463).	18,320	24,786
(e) 3.99% loan payable to TD Auto Finance. Repayable in blended monthly payments of \$772, due February 2018.	-	6,082
(f) 6.48% loan payable to Chrysler Capital. Repayable in blended monthly payments of \$379, due January 2026. Secured by vehicle with a net book value of \$52,186 (2017 - \$NIL).	57,271	-
	<b>670,244</b>	<b>673,308</b>
Less portion due within one year	<b>(606,041)</b>	<b>(60,335)</b>
	<b>64,203</b>	<b>612,973</b>

Principal retirement requirements for subsequent years are:

	\$
2019	606,041
2020	13,118
2021	12,486
2022	7,572
2023	8,078
Thereafter	22,949

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**9. Obligations under capital lease**

Obligations under capital lease consist of the following:

	2018	2017
	\$	\$
8.99% capital lease to Chrysler Financial. Repayable in blended monthly payments of \$706, due February 2023.	32,131	-
Less portion due within one year	(5,926)	-
	<b>26,205</b>	-

Principal retirement requirements for subsequent years are:

	\$
2019	5,926
2020	6,453
2021	7,038
2022	7,670
2023	5,044

**10. Deferred capital contributions**

Deferred capital contributions represent contributions restricted by the donors for the purchase of tangible capital assets. The changes in deferred capital contributions for the year are as follows:

	2018	2017
	\$	\$
Balance, beginning of year	166,640	190,242
Capital contributions - Trillium	86,600	-
Capital contributions - Brilliant Labs	30,000	-
Capital contributions - CanCode	32,600	-
Amortization of deferred capital contributions	(36,121)	(23,602)
Balance, end of year	<b>279,719</b>	166,640

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**11. Financial instruments**

The Organization's financial instruments consist of accounts receivable, bank overdraft, accounts payable, line of credit, due to related parties, obligations under capital lease and long-term liabilities.

The Organization is not exposed to significant market risk, currency risk nor other price risk.

*Financial risks*

**(a) Interest rate risk**

Exposure to interest rate risk arises on financial assets and financial liabilities recognized at the balance sheet date whereby a future change in interest rates will affect future cash flows or the fair value of fixed financial instruments. The Organization has several vehicle loans and leases with fixed interest rates and a mortgage and construction facility with floating rates. Management uses a mix of floating and fixed rates in order to mitigate interest rate risk.

**(b) Liquidity risk**

Liquidity risk is the risk that the Organization will not be able to meet its obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Organization's cash requirements. Additional cash requirements are met with the use of the available overdraft function of the bank. The available bank overdraft and periodic loans from the board of directors and management provide flexibility in the short-term to meet operational needs.

**(c) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization's main credit risk relates to accounts receivable. The Organization has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The Organization provides credit to its funders in the normal course of operations and mitigates credit risk by restricting access to programs and/or future programs in cases where accounts receivable remain outstanding.

**12. Comparative figures**

Certain comparative figures on the statement of operations and net assets have been reclassified to conform to the current year's financial statement presentation.