jump math™

MULTIPLYING POTENTIAL.

Presentation of 2015-2016 Audited Financial Statements

Part One: Clarification of treatment of non-recoupable royalty advances

Part Two: Independent Auditors' Report

KPMG, October 4, 2016

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CLARIFICATION

During fiscal years 2014, 2015 and 2016 (FY14, FY15 and FY16), JUMP Math received non-recoupable royalty advances (the "Advances") related to a non-exclusive licensing arrangement for its curriculum resources that are aligned to the US Common Core State Standards for Mathematics. As indicated in Note 5 of the Audited Financial Statements, the license agreement made the Advances "solely recoupable by the licensee from future royalties".

For FY15, JUMP Math's auditors determined that the Advances should be treated as deferred revenue. However, as there were no reasonably foreseeable circumstances in which the Advances would be repaid, we also provided the alternative presentation of the FY15 Statement of Operations (below) to illustrate the impact of recognizing the Advances as revenue in the year received. At that time, we noted that the licensee had been sold and downsized, that JUMP Math and the licensee had mutually agreed to terminate the license, that JUMP Math would retain all Advances, and that we anticipated that our auditors would rule that <u>all</u> Advances be taken into income in 2016.

For FY16, as anticipated, all Advances received in FY14 to FY16 are being recognized in our audited financial statements as FY16 income, creating a large one-time accounting surplus of $1,895,558. This includes $1,688,481 of Advances received in FY15 and FY14, and $947,400 received in FY16. The alternative presentation of the 2016 and 2015 Statements of Operations, below, illustrates the impact of recognizing all Advances as revenue in the year received. The adjustments are shown in the shaded rows added below at the bottom of the audited Statement of Operations. JUMP Math believes that this provides a more informative view of its operations.

JUMP MATH

Statement of Operations (as reported in JUMP Math's Audited Financial Statements)

Year ended April 30, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Publication sales	$ 2,536,199	$ 2,140,009
Grants:	0	
Foundation	507,150	493,902
Donations:	0	
Corporate	355,451	419,631
Individual	103,009	33,780
Training	128,140	142,074
Royalties	2,667,230	39,671
Other	37,354	19,376
Interest	68	268
Total Revenue	6,334,601	3,288,711
Expenditures:		
Personnel and contractors	2,729,962	2,476,105
Printing and distribution	922,185	740,157
Operating	435,915	446,048
Communications and training	250,365	269,063
Research	100,124	57,049
Amortization of capital assets	492	636
Total Expenditures	4,439,043	3,989,058
Deficiency of revenue over expenditures reported in JUMP Math's Audited Financial Statements for 2016 and 2015	**1,895,558**	**-700,347**
Plus: Adjustment to reflect impact of non-recoupable royalty advances in the year received **	**-1,688,481**	**1,517,452**
Adjusted Surplus of revenue over expenditures, including non-recoupable Advances	**207,077**	**817,105**

** Added $1,517,452 in FY15 to reflect Advances received in FY15, but not included in the FY15 audited Statement of Operations, and subtracted $1,688,481 in FY16 to remove Advances that were received in FY14 and FY15 ($947,400 of Advances received in FY16 are included in the adjusted FY16 Adjusted Surplus).

APPROVED by the JUMP Math Board of Directors on November 29, 2016

Board Chair

Chair of Finance

Chair of Governance

Financial Statements of

JUMP MATH

Year ended April 30, 2016

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of JUMP Math

We have audited the accompanying financial statements of JUMP Math, which comprise the statement of financial position as at April 30, 2016, 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, JUMP Math derived part of its revenue from donations, fundraising events and programs, the completeness of which was not susceptible to satisfactory audit verification for the year ended April 30, 2015. Accordingly, verification of these revenues for the year ended April 30, 2015, was limited to the amounts recorded in the records of JUMP Math. Therefore we were not able to determine, whether, as at and for the year ended April 30, 2015 any adjustments might be necessary to donations, fundraising and programs revenue and deficiency of revenues over expenditures reported in the statements of operations, deficiency of revenue over expenses reported in the statements of cash flows and current assets and net assets reported in the statements of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended April 30, 2015.

Our opinion, below, on the financial statements as at and for the year ended April 30, 2016 is also qualified solely because of the possible effects of this matter on the comparability of the current period's figures to the prior period figures.

Qualified Opinion

In our opinion, except for the possible effects on the comparative information of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of JUMP Math as at April 30, 2016, 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

October 4, 2016

Vaughan, Canada

JUMP MATH

Statement of Financial Position

April 30, 2016, with comparative information for 2015

		2016		2015
Assets				
Current assets:				
Cash	$	1,582,431	$	1,277,481
HST Receivable		73,651		70,372
Accounts receivable		96,888		138,173
Inventory (note 2)		315,635		386,244
Prepaids		9,645		13,730
		2,078,250		1,886,000
Capital assets (note 3)		1,786		2,278
	$	2,080,036	$	1,888,278
Liabilities and Net Assets (Deficiency)				
Current liabilities:				
Accounts payable and accrued liabilities	$	294,343	$	334,832
Deferred revenue (note 5)		302,823		1,966,134
		597,166		2,300,966
Net assets (deficiency):				
Invested in capital assets		1,786		2,278
Unrestricted		1,481,084		(414,966)
		1,482,870		(412,688)
Lease commitments (note 6)				
	$	2,080,036	$	1,888,278

See accompanying notes to financial statements.

On behalf of the Board:

R. Goodall Director

Vinay Sarin Director

JUMP MATH

Statement of Operations

Year ended April 30, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Publication sales	$ 2,536,199	$ 2,140,009
Training	128,140	142,074
Royalties (note 5)	2,667,230	39,671
Other	37,354	19,376
Interest	68	268
Foundation grants	507,150	493,902
Donations:		
Corporate	355,451	419,631
Individual	103,009	33,780
	6,334,601	3,288,711
Expenditures:		
Personnel and contractors	2,729,962	2,476,105
Printing and distribution	922,185	740,157
Operating	435,915	446,048
Communications and training	250,365	269,063
Research	100,124	57,049
Amortization of capital assets	492	636
	4,439,043	3,989,058
Excess (deficiency) of revenue over expenditures	$ 1,895,558	$ (700,347)

See accompanying notes to financial statements.

JUMP MATH
Statement of Changes in Net Assets

Year ended April 30, 2016, with comparative information for 2015

	Invested in capital assets	Unrestricted	2016 Total	2015 Total
Net assets (deficiency), beginning of year	$ 2,278	$ (414,966)	$ (412,688)	$ 287,659
Excess (deficiency) of revenue over expenditures	(492)	1,896,050	1,895,558	(700,347)
Net assets (deficiency), end of year	$ 1,786	$ 1,481,084	$ 1,482,870	$ (412,688)

See accompanying note to financial statements.

JUMP MATH

Statement of Cash Flows

Year ended April 30, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenditures	$ 1,895,558	$ (700,347)
Items not involving cash:		
Amortization of capital assets	492	636
	1,896,050	(699,711)
Changes in non-cash operating working capital:		
HST receivable	(3,279)	(2,789)
Accounts receivable	41,285	170,957
Inventory	70,609	(239,059)
Prepaids	4,085	1,558
Accounts payable and accrued liabilities	(40,489)	135,319
Deferred revenue	(1,663,311)	1,430,005
Increase in cash	304,950	796,280
Cash, beginning of year	1,277,481	481,201
Cash, end of year	$ 1,582,431	$ 1,277,481

See accompanying notes to financial statements.

JUMP Math (the "Organization") is a mathematics education program designed for classroom use, but which also includes a derivative version that is available to non-profit tutoring programs. JUMP was founded in 1998 by mathematician and writer John Mighton. JUMP was incorporated under the Ontario Corporations Act as a not-for-profit organization on August 24, 2001 and is a registered charity under the Income Tax Act, effective April 13, 2002 and accordingly is tax exempt provided JUMP meets certain disbursement requirements. Effective February 12, 2010, a Supplementary Letter Patent was issued to change the corporate name to JUMP Math from Junior Undiscovered Math Prodigies.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Revenue from royalties, training, and sales of publications is recognized when the services are provided or the goods are sold.

Interest income is recognized as revenue when earned.

(b) Inventory:

Inventory is comprised of teacher materials and student Assessment & Practice books in the field of mathematics. The books are developed and published by the Organization primarily for resale to schools and individuals at the elementary level and middle school level.

Inventory is stated at the lower of cost and selling price net of distributions costs. Cost includes the direct costs to typeset, print and bind the books.

1. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets using the methods and annual rates as follows:

Asset	Method	Rate
Computer equipment	Declining balance	33%
Leasehold improvements	Straight-line	Over lease term

When capital assets no longer contribute to the Organization's ability to provide services, its carrying amount is written down to the residual value.

(d) Investments:

Investments in other companies are accounted for at cost. Investments are assessed individually 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 investment. If there is a significant adverse change in the expected cash flows, the carrying amount of the investment is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the investment 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.

(e) Contributed materials and services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements. In addition, the value of contributed materials is not recognized in the financial statements.

(f) Non-monetary transactions:

Non-monetary transactions are measured at the more reliably measurable of the fair value of the asset given up and the fair value of the asset received unless the transaction lacks commercial substance or the transaction is an exchange of a product held for sale in the ordinary course of business, in which case the transaction is measured at the carrying amount of the asset given up.

1. Significant accounting policies (continued):

(g) 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 recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Organization has not elected to carry any such financial instruments at fair value.

(h) Translation of foreign currencies:

Assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at exchange rates prevailing at the year-end date. Revenue and expenditures have been translated using exchange rates prevailing on the transaction date. Gains and losses arising from these translation policies are included in the statement of operations.

(i) Use of estimates:

The preparation of the 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. Significant items subject to such estimates and assumptions include the carrying amount of investments and accrued liabilities. Actual results could differ from those estimates.

2. Inventory:

Inventory is comprised of teacher materials and student Assessment & Practice books in the field of mathematics. The cost of publication sales recognized as expense during the year totaled $637,281 (2015 - $486,070).

3. Capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment	$ 6,758	$ 6,498	$ 260	$ 371
Leasehold improvements	2,918	1,392	1,526	1,907
	$ 9,676	$ 7,890	$ 1,786	$ 2,278

4. Investment:

During the year, the Organization entered into a long-term licensing agreement with a Spanish social enterprise. Under the terms of the agreement, the Organization agreed to forgo its royalty for the first two years in return for a 10% equity interest. The Organization has ascribed a nominal value to these shares and as such there is no value reported in the statement of financial position.

5. Deferred revenue:

Deferred revenue represents royalty advances and grants received for specific purpose. This revenue will be taken into income when royalties have been earned and the grant specifications have been met. In 2014, the Organization entered into a long-term non-exclusive Licensing Agreement (the "Agreement"). As per the terms of the Agreement, royalty advances made to the Organization by the licensee were to be solely recoupable by the licensee from future royalties earned by the Organization. During the year, the Agreement was terminated by mutual consent of the Organization and the licensee and the royalty advances were forfeited resulting in approximately $2.6 million being recorded as revenue in 2016.

	2016	2015
Royalty advances	$ -	$ 1,688,482
Grants	302,823	277,652
	$ 302,823	$ 1,966,134

Changes in deferred revenue are as follows:

	2016	2015
Balance, beginning of year	$ 1,966,134	$ 536,129
Amounts received	1,830,750	1,969,553
Amounts amortized into revenue	(3,494,061)	(539,548)
	$ 302,823	$ 1,966,134

6. Lease commitments:

The Organization is committed under operating leases for office premises and equipment. Future minimum lease payments are approximately as follows:

2017	$	75,000
2018		74,000
2019		67,000
2020		67,000
2021		24,000
	$	307,000

In addition, to these lease payments, the Organization is responsible for its proportionate share of maintenance and realty taxes related to the leased premises.

7. Deficiency:

The deficiency of revenue over expenditures for the period ending April 30, 2015 was approved by the Board of Directors to fund growth and enhancements for initiatives in line with the strategic direction of the Organization.

8. Financial risks:

Management has established policies and procedures to manage risks related to financial instruments, with the objective of minimizing any adverse effects on financial performance. The financial instruments held by the Organization are exposed to a variety of financial risks. There has been no significant change to the risk exposure from 2015, except the addition of market risk.

(a) Currency risk:

The Organization is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Organization receives grants and donations and incurs operating expenses denominated in U.S. dollars and European dollars. The Organization does not currently enter into forward contracts to mitigate this risk.

8. Financial risks (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Organization will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization manages its liquidity risk by monitoring its operating requirements. The Organization prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Organization is exposed to credit risk with respect to the accounts receivable. The Organization assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

(d) Market risk:

The Organization's investments may include companies that have limited business histories, product or service lines, markets financial resources and management depth. Such companies also may not have profitable operations or positive cash flows.