

Financial Statements of

**PATHWAYS TO EDUCATION
CANADA/PASSEPORT POUR
MA REUSSITE CANADA**

Year ended March 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Pathways to Education Canada/
Passeport pour ma réussite Canada

We have audited the accompanying financial statements of Pathways to Education Canada/ Passeport pour ma réussite Canada, which comprise the statement of financial position as at March 31, 2016, the statements of revenue and expenses, 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.



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Basis for Qualified Opinion

In common with many charitable organizations, Pathways to Education Canada/Passeport pour ma réussite Canada derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of Pathways to Education Canada/Passeport pour ma réussite Canada. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2016 and March 31, 2015, any adjustments might be necessary to donations, excess (deficiency) of revenue over expenses reported in the statements of revenue and expenses, 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 opinion on the financial statements as at and for the year ended March 31, 2015.

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 Pathways to Education Canada/Passeport pour ma réussite Canada as at March 31, 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

June 14, 2016
Toronto, Canada

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA REUSSITE CANADA

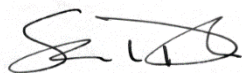
Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015 (Restated - note 2)
Assets		
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 3,700,387	\$ 3,727,830
Restricted	7,333,620	6,498,030
Investments - unrestricted (note 3)	411,671	407,753
Accounts receivable	129,902	44,770
HST/GST receivable	88,578	94,294
Prepaid expenses and sundry	51,777	65,924
	<u>11,715,935</u>	<u>10,838,601</u>
Property and equipment (note 4)	143,692	117,584
	<u>\$ 11,859,627</u>	<u>\$ 10,956,185</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses (note 5)	\$ 607,090	\$ 545,462
Deferred contributions (note 6):		
Community designated (note 7)	6,836,632	5,717,004
Other specified	459,043	742,760
Specified for Ontario	29,434	34,273
Total deferred contributions	<u>7,325,109</u>	<u>6,494,037</u>
Current liabilities	7,932,199	7,039,499
Net assets:		
Internally restricted funds	750,000	750,000
Unrestricted funds	<u>3,177,428</u>	<u>3,166,686</u>
	3,927,428	3,916,686
Lease commitments (note 12)		
	<u>\$ 11,859,627</u>	<u>\$ 10,956,185</u>

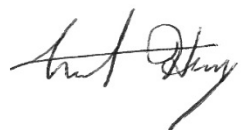
See accompanying notes to financial statements.

On behalf of the Board:



Samuel L. Duboc

Director



Trent Henry

Director

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Statement of Revenue and Expenses

Year ended March 31, 2016, with comparative information for 2015

	Externally restricted funds					2016	2015
	Community Designated	Specified for Ontario	Specified for Federal	Other Specified	Unrestricted funds	Total	Total (Restated - note 2)
Revenue:							
Donations:							
Government (notes 8 and 13)	\$ –	\$ 9,504,839	\$ 9,500,000	\$ –	\$ 6,100	\$ 19,010,939	\$ 15,504,838
Corporations	2,956,589	–	–	542,391	762,250	4,261,230	5,247,406
Foundations	1,434,079	–	–	778,750	775,973	2,988,802	3,233,050
Individuals	250,126	–	–	86,671	695,062	1,031,859	1,512,629
Agencies and other organizations (note 9)	119,296	–	–	50,000	98,481	267,777	274,546
Investment income (note 3)	43,113	–	–	–	45,595	88,708	140,025
	4,803,203	9,504,839	9,500,000	1,457,812	2,383,461	27,649,315	25,912,494
Grants to communities:							
Operating grants (notes 9 and 10)	3,129,788	8,550,000	6,424,019	828,127	–	18,931,934	17,980,000
Community engagement Scholarship/bursary contribution	–	–	–	–	–	–	20,212
	1,378,925	–	493,847	–	–	1,872,772	1,570,748
	4,508,713	8,550,000	6,917,866	828,127	–	20,804,706	19,570,960
National Office expenses:							
Salaries and benefits	206,571	590,000	1,947,578	411,224	1,445,709	4,601,082	4,359,912
Purchased services	41,226	45,000	227,989	161,826	103,734	579,775	576,662
Events - internal and external	–	–	33,346	8,122	309,225	350,693	396,626
Information and technology	8,078	95,000	29,194	13,131	104,137	249,540	270,895
Marketing and communication	–	–	57,774	–	125,807	183,581	156,143
Office rent	540	90,000	46,079	–	135,501	272,120	276,112
Travel and transportation	29,734	90,000	31,683	24,978	29,091	205,486	223,335
HR related	28	–	32,863	–	35,427	68,318	105,528
Office supplies	5,551	10,000	48,636	–	7,250	71,437	68,544
Audit, legal and insurance	–	30,000	56,513	2,686	–	89,199	69,940
Publication and printing	1,061	–	48,218	6,945	15,689	71,913	71,197
Conference	1,042	–	5,398	773	–	7,213	8,230
Donor cultivation and stewardship	659	–	–	–	36,685	37,344	49,010
Bank charges and online donation fees	–	–	5,102	–	24,464	29,566	24,778
Amortization	–	4,839	11,761	–	–	16,600	16,816
	294,490	954,839	2,582,134	629,685	2,372,719	6,833,867	6,673,728
Total expenses	4,803,203	9,504,839	9,500,000	1,457,812	2,372,719	27,638,573	26,244,688
Excess (deficiency) of revenue over expenses	\$ –	\$ –	\$ –	\$ –	\$ 10,742	\$ 10,742	\$ (332,194)

See accompanying notes to financial statements.

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

	2016			2015
	Internally restricted funds	Unrestricted funds	Total	Total (Restated - note 2)
Net assets, beginning of year	\$ 750,000	\$ 3,166,686	\$ 3,916,686	\$ 4,248,880
Excess (deficiency) of revenue over expenses	–	10,742	10,742	(332,194)
Net assets, end of year	\$ 750,000	\$ 3,177,428	\$ 3,927,428	\$ 3,916,686

See accompanying notes to financial statements.

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
		(Restated - note 2)
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 10,742	\$ (332,194)
Amortization which does not involve cash	16,600	16,816
Change in non-cash operating working capital:		
Accounts receivable	(85,132)	(23,736)
HST/GST receivable	5,716	11,315
Prepaid expenses and sundry	14,147	36,666
Accounts payable and accrued expenses (note 5)	61,628	49,134
Deferred contributions	831,072	275,497
	<u>854,773</u>	<u>33,498</u>
Financing activities:		
Additions to property and equipment (note 4)	(42,708)	–
Investing activities:		
Decrease (increase) in investments, net	(3,918)	3,250
Increase in cash and cash equivalents	808,147	36,748
Cash and cash equivalents, beginning of year	10,225,860	10,189,112
<u>Cash and cash equivalents, end of year</u>	<u>\$ 11,034,007</u>	<u>\$ 10,225,860</u>
Cash and cash equivalents:		
Unrestricted	\$ 3,700,387	\$ 3,727,830
Restricted	7,333,620	6,498,030
	<u>\$ 11,034,007</u>	<u>\$ 10,225,860</u>

See accompanying notes to financial statements.

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements

Year ended March 31, 2016

Pathways to Education Canada/Passeport pour ma réussite Canada ("Pathways") is a registered charity under the Income Tax Act (Canada). Pathways was previously incorporated under the Canada Corporations Act and was continued under the Canada Not-For-Profit Corporations Act on August 21, 2014 as a not-for-profit organization without share capital. The charity registration number is 861908499RR0001.

Pathways is a charitable organization that helps youth in low-income communities graduate from high school and successfully transition into post-secondary education or training. Pathways addresses systemic barriers to education by providing leadership, expertise and community-based programs proven to lower dropout rates. Founded in 2001, Pathways operates in 17 communities across Canada, with programs in Ontario, Québec, Nova Scotia, Manitoba and British Columbia.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada Handbook.

(a) Fund accounting:

(i) Externally restricted funds:

Externally restricted funds include:

- (a) Community Designated - receives donations that are restricted by donors to be used to support the Pathways to Education Program in specific communities. Certain donors have further restricted the funds to be used for scholarships within specific communities.
- (b) Specified for Ontario - receives grants from the Government of Ontario to be used in accordance with the grant agreement for the Pathways to Education Program in Ontario (note 13).

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(c) Specified for Federal - receives grants from the Government of Canada to be used in accordance with the grant agreement for the Pathways to Education Program in Canada (note 7).

(d) Other Specified - receives grants from government, foundations, corporations and individuals to be used in accordance with specific grant agreements for the Pathways to Education Program.

(ii) Internally restricted funds:

The Board of Directors approved an internal reserve of \$750,000 to be used in the event of a financial shortfall. The internally restricted amount is not available without approval of the Board of Directors.

(iii) Unrestricted funds:

Unrestricted funds are amounts without external restrictions imposed by donors.

(b) Revenue recognition:

Pathways follows the deferral method of accounting for contributions from donors. Refer to note 2 for details of change in accounting policy.

Restricted contributions and donations are recognized in the year in which the related expenses are incurred and are recorded in the appropriate externally restricted fund. Unrestricted contributions and donations are recorded as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured in the unrestricted fund. Investment income and events revenue are recognized as earned.

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(c) Allocation of costs:

Pathways national office administration expenses are allocated to other departments on the following basis:

- Salary and benefits: based on effort expended and supported by key performance objectives for the fiscal year;
- Office rent: based on average annual headcount of each department; and
- Information and technology costs: based on average annual headcount of each department.

Pathways allocates costs to restricted funds in a systematic and consistent manner and in accordance with donor agreements.

(d) Operating grants:

Operating grants consist of grants to communities disclosed (note 10). Grants are recognized as expenses when they are paid.

(e) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and certificates of deposit that are redeemable at any time, and short-term investments with original maturities of less than three months.

(f) Property and equipment:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to Pathways' ability to provide services, its carrying amount is written down to its residual value.

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Computer hardware	2 years
Computer software	2 years
Furniture and fixtures	10 years
Leasehold improvements	Term of lease

(g) Donations in kind:

Pathways receives contributions of materials and services, including many volunteer hours. As the fair value of all of these contributions cannot be easily estimated and some of these contributions may not necessarily have been otherwise purchased in the normal course of business, Pathways does not record the fair value of these materials and services in the financial statements. Note 11 discloses an estimated value of donations in kind for which a fair value can be reasonably estimated.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and 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. Pathways has elected to carry any such financial instruments 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. These costs are amortized using the straight-line method.

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

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, Pathways 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 Pathways 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 impairment charge.

(i) Investment income:

Investment income includes interest, dividends and realized gains (losses).

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Change in accounting policy:

In fiscal 2016, Pathways changed its accounting policy for revenue recognition to the deferral method. In previous periods, the restricted fund method had been used. The Organization concludes that the deferral method is preferable as it presents information in a manner that is more easily understood by most users of the financial statements. The deferral method is followed by other organizations within Pathways' sector, thereby making the financial statements more comparable. The deferral method results in less volatility in revenue and resultant surpluses and deficits by closely synchronizing the recognition of revenue and related expenses.

Statement of financial position:

March 31, 2015	As previously presented	Restatement	As restated
Deferred contributions	\$ –	\$ 6,494,037	\$ 6,494,037
Externally restricted funds:			
Community designated	\$ 5,717,004	\$ (5,717,004)	\$ –
Specified for Ontario	34,273	(34,273)	–
Other specified	742,760	(742,760)	–
Internally restricted funds	750,000	–	750,000
Unrestricted funds	3,166,686	–	3,166,686
Total net assets	\$ 10,410,723	\$ (6,494,037)	\$ 3,916,686

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Change in accounting policy (continued):

Statement of operations:

2015	Community designated			Specified for Ontario			Other specified		
	As previously presented	Restatement	As restated	As previously presented	Restatement	As restated	As previously presented	Restatement	As restated
Donations:									
Government	\$ 100,000	\$ (100,000)	\$ –	\$ 9,500,000	\$ 4,838	\$ 9,504,838	\$ –	\$ –	\$ –
Corporations	4,749,808	(1,531,017)	3,218,791	–	–	–	1,204,941	83,158	1,288,099
Foundations	1,059,299	533,511	1,592,810	–	–	–	632,693	608,857	1,241,550
Individuals	366,008	111,825	477,833	–	–	–	75,000	(36,669)	38,331
Agencies and other organizations	127,321	–	127,321	–	–	–	–	50,000	50,000
Investment income	46,711	–	46,711	7,377	–	7,377	–	–	–
	\$ 6,449,147	\$ (985,681)	\$ 5,463,466	\$ 9,507,377	\$ 4,838	\$ 9,512,215	\$ 1,912,634	\$ 705,346	\$ 2,617,980

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Change in accounting policy (continued):

Statement of changes in Fund balance:

2015	Community designated			Specified for Ontario		
	As previously presented	Restatement	As restated	As previously presented	Restatement	As restated
Net assets, March 31, 2014	\$ 4,731,323	\$ (4,731,323)	\$ –	\$ 39,111	\$ (39,111)	\$ –

2015	Other specified		
	As previously presented	Restatement	As restated
Net assets, March 31, 2014	\$ 1,448,106	\$ (1,448,106)	\$ –

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

3. Investment - unrestricted:

Investment consists of a bond with maturity in June 2016. The amount is readily accessible at Pathways' request. Included in investment income on the statement of revenues and expenses is interest income on the bond earned of \$10,000 (2015 - \$8,000).

4. Property and equipment:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$ 58,006	\$ 15,297	\$ 42,709	\$ –
Computer software	18,435	18,435	–	–
Furniture and fixtures	48,384	18,951	29,433	34,272
Leasehold improvements	117,617	46,067	71,550	83,312
	\$ 242,442	\$ 98,750	\$ 143,692	\$ 117,584

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of nil (2015 - nil).

6. Deferred contributions:

Deferred contributions related to unspent externally restricted funds received which will be spent in the following fiscal years:

	2016	2015
Balance, beginning of year	\$ 6,494,037	\$ 6,218,540
Contributions received	7,096,926	8,361,782
Recognition of restricted deferred contributions	(6,265,854)	(8,086,285)
Balance, end of year	\$ 7,325,109	\$ 6,494,037

Included in deferred contributions are funds restricted for scholarship/bursaries of \$1,756,385 (2015 - \$1,572,259).

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Contribution to Winnipeg community bursary fund:

In fiscal 2016, Pathways made a one-time contribution to the Winnipeg community bursary fund of \$100,000, as per agreement with Province of Manitoba, Children and Youth Opportunities department. This contribution is included within Deferred Contributions - Community Designated.

8. Government funding:

During fiscal 2016, Pathways' four-year agreement with Employment and Social Development Canada was amended to receive a contribution in the amount of \$9,500,000 in fiscal year 2016 for the purpose of delivering and expanding the Pathways to Education Program in Canada.

9. United Way contribution:

In fiscal 2016, United Way of Kingston, Frontenac, Lennox, and Addington ("UWKFLA") contributed towards the Pathways to Education Program in Kingston. Included in revenue from agencies and other organizations is \$80,000 from UWKFLA (2015 - \$80,000). This amount was included in operating grants to Kingston Community Health Centre for the Pathways program.

10. Grants to communities:

Grants to communities include grants to:

Chebucto Community Development Association, Halifax, Nova Scotia;
Community Education Development Association, Winnipeg, Manitoba;
Kingston Community Health Centre, Kingston, Ontario;
Mosaic Counselling and Family Services, Kitchener, Ontario;
New Heights Community Health Centre, Toronto, Ontario;
North Hamilton Community Health Centre, Hamilton, Ontario;
Pinecrest-Queensway Health and Community Services, Ottawa, Ontario;
Regent Park Community Health Centre, Toronto, Ontario;
Rexdale Community Health Centre, Toronto, Ontario;
Scarborough Youthlink, Scarborough, Ontario;
Toujours Ensemble, Verdun, Québec;
Carrefour jeunesse-emploi de Shawinigan, Shawinigan, Québec;
Maison-Jeunes Est, Sherbrooke, Québec;
Les YMCA du Québec, Montréal, Québec; and
Puakuteu-Comité de Femmes de Mashteuiatsh, Québec.
Pacific Community Resources - Vancouver, British Columbia
Teen Resource Centre, Saint John, New Brunswick

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

11. Donations in kind:

(a) Materials and services:

As described in note 1(g), Pathways receives contributions of certain materials and services for which a fair market value cannot be reasonably estimated. Pathways does not record the fair value of these materials and services in the financial statements. Pathways received the following donations in kind:

	2016	2015
Other services and goods	\$ 404,904	\$ 647,394

(b) Shares:

Included in donations on the statement of revenue and expenses is \$55,795 (2015 - \$87,397) in donated shares.

12. Lease commitments:

In 2013, Pathways entered into a lease with a third party for premises, which expires in 2022. Within the first five years of this lease agreement, Pathways has the ability to terminate the lease, with penalty, if one year's notice is provided to the landlord prior to the start of the fifth year. The annual rents, exclusive of certain operating costs, over the next five years and thereafter are as follows:

2017	\$ 129,300
2018	133,500
2019	139,800
2020	141,900
2021	150,192
Thereafter	185,608
	<hr/>
	\$ 880,300

PATHWAYS TO EDUCATION CANADA/ PASSEPORT POUR MA RÉUSSITE CANADA

Notes to Financial Statements (continued)

Year ended March 31, 2016

13. Subsequent event:

Subsequent to year end, Pathways entered into a two-year agreement with the Province of Ontario to receive a contribution in the amount of \$19,000,000 over a two-year period in fiscal 2017 and 2018 for the purpose of delivering the Pathways to Education Program in Ontario.

14. Comparative information:

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