

**LINUX PROFESSIONAL INSTITUTE INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**  
**(EXPRESSED IN U.S. DOLLARS)**

*Kwart & Company*  
*Professional Corporation*

# *Kwart & Company*

*Professional Corporation*

## INDEPENDENT AUDITOR'S REPORT

### **To the Members of Linux Professional Institute Inc.**

We have audited the accompanying consolidated financial statements of Linux Professional Institute Inc., which comprise of the consolidated statement of financial position as at December 31, 2023 and the consolidated statements of changes in net assets, revenue and expenses and cash flows for the year then 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 consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines 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 consolidated 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 the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 Corporation'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 consolidated financial statements.

We believe that the audit evidence We have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Linux Professional Institute Inc. as at December 31, 2023 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.

### **KWART & COMPANY PROFESSIONAL CORPORATION**

*Kwart & Company Professional Corporation*

*Chartered Professional Accountants, Licensed Public Accountants*

Markham, Ontario  
April 24, 2024

**LINUX PROFESSIONAL INSTITUTE INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2023**  
**(EXPRESSED IN U.S. DOLLARS)**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 2,111,561	\$ 2,437,370
Accounts receivable	154,941	171,835
Government remittances receivable	31,699	14,908
Prepaid expenses	<u>141,527</u>	<u>126,975</u>
	2,439,728	2,751,088
<b>CAPITAL ASSETS (Note 2)</b>	<u>25,081</u>	<u>32,122</u>
	<u>\$ 2,464,809</u>	<u>\$ 2,783,210</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 219,538	\$ 251,984
Prepaid vouchers	<u>2,000</u>	<u>8,627</u>
	<u>221,538</u>	<u>260,611</u>
<b>NET ASSETS</b>		
<b>OPERATING FUND</b>	2,218,188	2,490,477
<b>INVESTED IN CAPITAL ASSETS</b>	<u>25,083</u>	<u>32,122</u>
	<u>2,243,271</u>	<u>2,522,599</u>
	<u>\$ 2,464,809</u>	<u>\$ 2,783,210</u>

**APPROVED BY THE BOARD:**

\_\_\_\_\_ Director  
(Signed)

\_\_\_\_\_ Director  
(Signed)

**LINUX PROFESSIONAL INSTITUTE INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
**(EXPRESSED IN U.S. DOLLARS)**

	<u>Operating</u> <u>Fund</u>	<u>Invested in</u> <u>Capital</u> <u>Assets</u>	<u>Internally</u> <u>Restricted</u> <u>Funds</u>	<u>2023</u> <u>Total</u>	<u>2022</u> <u>Total</u>
<b>BALANCE</b> , beginning of year	\$ 2,490,477	\$ 32,122	\$ -	\$ 2,522,599	\$ 3,266,198
Excess of expenses over revenue	<u>(272,289)</u>	<u>(7,039)</u>	<u>-</u>	<u>(279,328)</u>	<u>(743,599)</u>
	<u>2,218,188</u>	<u>25,083</u>	<u>-</u>	<u>2,243,271</u>	<u>2,522,599</u>
<b>BALANCE</b> , end of year	\$ <u>2,218,188</u>	\$ <u>25,083</u>	\$ <u>-</u>	\$ <u>2,243,271</u>	\$ <u>2,522,599</u>

**LINUX PROFESSIONAL INSTITUTE INC.**  
**CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
**(EXPRESSED IN U.S. DOLLARS)**

	<b>2023</b>	<b>2022</b>
<b>REVENUE:</b>		
Revenue	\$ 7,900,215	\$ 6,840,695
Less: Testing Direct Costs	<u>(5,366,662)</u>	<u>(4,319,682)</u>
Net Testing Revenue	<u>2,533,553</u>	<u>2,521,013</u>
<b>EXPENSES:</b>		
Operating and maintenance	1,606,468	1,686,609
Payroll and related	685,949	949,798
Marketing and advertising	204,921	246,863
General and administrative	199,381	265,031
Utilities and facilities	63,171	61,556
Loss (gain) on foreign exchange	45,022	44,344
Amortization	<u>7,969</u>	<u>10,411</u>
	<u>2,812,881</u>	<u>3,264,612</u>
<b>EXCESS OF EXPENSES OVER REVENUE</b>	<u>\$ (279,328)</u>	<u>\$ (743,599)</u>

# LINUX PROFESSIONAL INSTITUTE INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2023

(EXPRESSED IN U.S. DOLLARS)

	<u>2023</u>	<u>2022</u>
<b>OPERATING ACTIVITIES</b>		
Excess of expenses over revenue	\$ (279,328)	\$ (743,599)
<u>Items not requiring an outlay of cash:</u>		
Amortization	<u>7,969</u>	<u>10,411</u>
	<u>(271,359)</u>	<u>(733,188)</u>
<u>Changes in non-cash working capital:</u>		
Accounts receivable	16,894	300,164
Due from affiliates	-	10,953
Government remittances receivable	(16,791)	5,596
Relocation loan	-	10,000
Prepaid expenses	(14,552)	23,843
Accounts payable and accrued liabilities	(32,446)	(72,603)
Prepaid vouchers	<u>(6,627)</u>	<u>(1,780)</u>
	<u>(53,522)</u>	<u>276,173</u>
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<u>(324,881)</u>	<u>(457,015)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	<u>(928)</u>	<u>-</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(928)</u>	<u>-</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(325,809)	(457,015)
<b>CASH &amp; CASH EQUIVALENTS, beginning of year</b>	<u>2,437,370</u>	<u>2,894,385</u>
<b>CASH &amp; CASH EQUIVALENTS, end of year</b>	<u>\$ 2,111,561</u>	<u>\$ 2,437,370</u>

# **LINUX PROFESSIONAL INSTITUTE INC.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2023**

**(EXPRESSED IN U.S. DOLLARS)**

### **NATURE OF OPERATIONS**

Linux Professional Institute Inc. ("LPI") operates internationally serving the community of Linux and open source software users, vendors and developers, in the interest of increasing and supporting professional use of such software throughout the world. The organization seeks to improve the skills and resources of Linux and open source professionals, by providing certification services and setting standards which are relevant, of high quality, and widely accessible.

LPI is incorporated without share capital pursuant to the provisions of the New Brunswick Companies Act as a not-for-profit organization. The organization is tax-exempt under the Income Tax Act (Canada). These consolidated financial statements include all of the activities of Linux Professional Institute Inc, as well as its wholly owned subsidiary Linux Professional Institute Japan K.K. ("LPI Japan"), with the exception of the autonomous affiliates which operate under their own management and are excluded from the financial operations of LPI.

LPI Japan is an incorporated business, which is subject to paying corporate taxes in Japan. LPI Japan was incorporated in 2019, in order to open a bank account in Japan to accept payments from Japan companies who wanted to become training partners of LPI. LPI Japan handles all of the partnership activities in Japan on behalf of LPI, including the sale of exam vouchers.

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and are in accordance with Canadian generally accepted accounting principles.

#### **(a) BASIS OF ACCOUNTING**

The organization follows the accrual method of accounting. The accrual basis recognizes revenues as they become available and measurable, using the deferral method to recognize the revenue; expenses are recognized as they are incurred and measurable as a result of goods or services received and the creation of a legal obligation to pay.

#### **(b) BASIS OF CONSOLIDATION**

The consolidated financial statements for the organization include the accounts of the organization and LPI Japan drawn up to the reporting date. LPI controls LPI Japan.

Control exists when the organization has existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The organization reassesses control on an ongoing basis.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

#### **(c) FOREIGN CURRENCY TRANSLATIONS**

The organization uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Revenues and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income in the current period.

# LINUX PROFESSIONAL INSTITUTE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

(EXPRESSED IN U.S. DOLLARS)

### (d) USE OF ESTIMATES

The preparation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to use estimates and make assumptions that affect the reported amounts of certain assets and liabilities at the date of these financial statements and the reported amounts of certain revenue and expenses during the year. Significant items subject to such estimates and assumptions include the determination of the allowance for uncollectible accounts receivable, the estimated useful life of the capital assets, and the valuation of prepaid vouchers. Actual results may differ from these estimates.

### (e) CAPITAL ASSETS

Capital assets are recorded at cost and amortized over their estimated useful lives on a declining balance basis at the following annual rates:

Computer equipment	- 20%
Office equipment	- 20%
Software and website	- 30%
Furniture and fixtures	- 20%

The above rates are reviewed annually to ensure they are still appropriate. Any changes are adjusted for on a prospective basis.

If there is an indication that the fixed assets may be impaired, an impairment test is performed that compares the carrying amount to the net recoverable amount, which is normally determined by estimating the sales less direct costs on an undiscounted basis over the remaining life of the asset. There were no impairment indicators in 2023.

### (f) FUND ACCOUNTING

The general activities of the organization are recorded in the operating fund. The operating fund is responsible for the organization's program delivery, administration and maintenance of existing examinations. This fund reports unrestricted sources of revenue.

The Internally Restricted Funds reports only internally restricted resources which are to be used pursuant to guidelines established by the Board of Directors. There are two internally restricted funds:

Technology Infrastructure Fund was established to enhance LPI's website presence, social media, and ERP/Reporting systems.

New Exam Development Fund, formerly Linux Essentials Fund, was established to create a new Cloud exam.

The Invested in Capital Asset Fund reports the assets, liabilities, revenue and expenditures related to the fund's capital assets.

### (g) REVENUE RECOGNITION

The organization follows the deferral method of accounting for contributions.



# LINUX PROFESSIONAL INSTITUTE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

(EXPRESSED IN U.S. DOLLARS)

The organization generates the majority of its revenue from certification examinations. The certification examinations include testing revenue which is recognized at the time when the examination is written. Approximately 58% of the testing revenue comes from one customer.

Examination development revenue is recognized on a project completion basis.

All other revenues of the organization are recognized in the year that the related revenue has been earned.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

### (h) MEASUREMENT OF FINANCIAL INSTRUMENTS

The organization initially measures its financial assets and liabilities at fair value.

The corporation subsequently measures all its financial assets and financial liabilities at amortized cost.

Changes in fair value are recognized in excess of revenue over expenses.

Financial assets measured at amortized cost include cash, accounts receivable and government remittances receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and prepaid vouchers.

The organization has not designated any financial asset or financial liability to be measured at fair value.

### (i) CONTRIBUTED SERVICES

Contributed services are not recognized in the financial statements because of measurement uncertainties in determining the fair market value.

### (j) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and bank balances.

# LINUX PROFESSIONAL INSTITUTE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

(EXPRESSED IN U.S. DOLLARS)

### 2. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net 2023</u>	<u>Net 2022</u>
Computer equipment	\$ 52,686	\$ 38,880	\$ 13,806	\$ 17,326
Office equipment	15,010	12,647	2,363	2,954
Software and website	120,897	112,464	8,433	11,243
Furniture and fixtures	<u>2,030</u>	<u>1,551</u>	<u>479</u>	<u>599</u>
	<u>\$ 190,623</u>	<u>\$ 157,573</u>	<u>\$ 25,081</u>	<u>\$ 32,122</u>

### 3. FINANCIAL INSTRUMENTS

In the normal course of its business, the corporation is exposed to risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

#### 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 is exposed to credit risk resulting from the possibility that a counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The organization is also exposed to credit risk arising from its accounts receivable and due from affiliates. Credit risk is the risk that the counterparty to the transaction will not pay.

The organization is exposed to credit risk in connection with its cash since approximately 76% of the organization's cash at year-end is held at one major financial institution.

The organization is exposed to credit risk in connection with its accounts receivable since approximately 85% of the organization's accounts receivable at year-end is owed by one party.

#### Liquidity risk

Liquidity risk is the risk that the organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the organization will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from liabilities such as accounts payable.

# LINUX PROFESSIONAL INSTITUTE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

(EXPRESSED IN U.S. DOLLARS)

### Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Cash includes \$704,990 cash (2022 - \$819,426 cash) denominated in Canadian dollars, \$24,977 cash (2022 - \$8,872 cash) denominated in Euro currency, and \$382,538 cash (2022 - \$170,624 cash) denominated in Japanese Yen.

Approximately 46% of accounts receivable (2022 - 49%) are denominated in Japanese Yen currency and 4% of accounts receivable (2022 - 2%) are denominated in Euro currency, and are subject to foreign exchange fluctuations.

### 4. COMMITMENTS

The organization's obligations for the next five years, under existing rent agreements for premises are as follows:

2024	\$	20,400
2025		-
2026		-
2027		-
2028		-
		<hr/>
	\$	<u>20,400</u>