

JA Central Ontario Virtual Company Program Venture Funding 2020-2021

Venture Funding Overview

Once your team has decided on a product or service and have received approval from the JA Company Program Team to move forward, it is time to determine your capitalization needs.

JA Companies gain start-up funding through the sale of shares.

There are two types of shares that students may choose to issue: **Common Shares** and **Preferred Shares**.

Common Shares: *Participate in the profit share of the company and entitle the holder to voting privileges. The purchase price is set by the Company; value at liquidation will depend on profitability of the company.*

These are the only shares that hold a vote in the company. **Each student is allowed ONE common share which is equal to ONE vote in the company.** Shares are priced between \$5 - \$25 which the students will determine based on their capitalization needs.

Each student must purchase a common share in the company to be an active company member with voting privileges. If there are circumstances which would prevent a participant from purchasing a share they should speak with their advising team and/or JA Staff to make alternate arrangements. Such conversations will be held in strictest confidence.

If the capital requirements exceed the revenue from the common share purchase, students can sell preferred shares (i.e. to parents, friends, family, advisors or the students themselves can buy an extra share – *but does not mean extra voting privileges*). The Company must vote to issue preferred shares and a majority must be in favour.

Preferred Shares: *Do not participate in the profit share or have voting privileges. Such shares should be treated as a company expense and the face value (determined by the Company) plus dividend (20%) must be paid at liquidation. These shareholders will be paid out first during company liquidation.*

At the end of the 18 weeks, after the students have paid out their preferred shares and have determined their profit, they then split this amongst the common shareholders (the students in the group).

Capitalization Requirements: Companies must complete the Capitalization Requirements exercise to determine the funding needed for start-up. Prior to this, they must complete their break-even analysis. Companies should reference the product/service cost, break even and pricing tools provided to determine these numbers.

Companies should also keep in mind the JA Fixed Costs.

Max Shares:

Companies should avoid over or under capitalization.

Common Shares: To determine the max amount of common shares, simply use the max share amount \$25 X the number of students in the program.

Example: If you have 20 students in your program, your max amount for common shares is \$500 (\$25 X 20 students = \$500); If you had 15 students in your program, your max amount for common shares is \$375 (\$25 X 15 students = \$375)

Preferred Shares: A maximum of \$300 can be raised through preferred shares no matter the size of your student group.

Common Share Max + \$300 (max Preferred Share amount) = Total Share Max

If additional start-up funding beyond the total share max is required, the company must contact the Program Manager to obtain approval.

No single individual should own more than one common share and one preferred share in any one JA Company. Shares are non-transferable and non-legal. Please remind students behind the importance of ethics when issuing shares (i.e. they should not be buying another member's share and not telling anyone or holding more than 2 shares, etc.)

Issuing Shares

Once the companies have completed the Capitalization Requirements exercise and determined the funding needed for start-up, they can start issuing shares.

There is a worksheet in the Record Keeping Tool named "HR2 – Shareholder Info", this is where the VP of Finance should be keeping track of each share that is issued whether it is common or preferred share.

When issuing a share, use the Shareholders' Certificate (a fillable PDF will be provided). It is essential that complete and accurate shareholder records are maintained. The purchaser of the share should get the Share Certificate Portion and the VP of Finance should keep the Shareholder Information Card and use the information to update the Record Keeping Tool.

The value of the share is recorded under "Per Value". The "Representative" is the VP of Finance. We recommend that an advisor reviews and signs off on the Certificates and Information Cards as well.

Sometimes, a student may sell a preferred share to a friend or family member outside of the company. They are the "salesperson" and complete that bottom portion on the Shareholder Information Card. Once they have sold the share, they are to return the completed Shareholder Information Card along with the money for the share to the VP of Finance.

The full name, mailing address, email address and phone number for all shareholders must be recorded.

Once the share price is determined, encourage students to start e-transferring their share payments to the bank account. This

process can take time and it is required before they can begin to make purchases.

What happens if a participant leaves the Company Program?

The company should decide and agree on what the policy is for a participant who leaves the program and include the agreement in their Employee Handbook and Company By-Laws.

Option 1:

If a participant leaves the Company Program after purchasing a common share, that share will become a preferred share, payable at year-end with dividend.

Option 2:

If a participant leaves the Company Program after purchasing a common share, they forfeit their share money and are not entitled to profit-sharing or year-end dividend.

Other Means of Funding

Teams may be permitted to seek out in-kind opportunities for their company.

Appropriate “services in-kind” should not exceed a total of \$300.

Examples include:

- i. *Services in Kind*: i.e. print/media company providing services in-kind to a team for printing, marketing or design services.
- ii. *Coupons*: Teams have struck a deal with companies to get digital coupons from a retailer to include with their product.
- iii. *Raw materials*: Students have gathered raw materials for free or at cost from a supplier.

In-kind sponsorship needs to be acknowledged by the JA Company on print and digital materials and students must inform JA all sponsorship deals.

If you have any questions or are unsure if an activity your team is engaged in falls into this category, please contact JA before proceeding.