# FIRST BOOK/LE PREMIERE LIVRE

## FINANCIAL STATEMENTS

### DECEMBER 31, 2014

**INDEX**

NORTON McMULLEN
CHARTERED PROFESSIONAL ACCOUNTANTS + LLP

# INDEPENDENT AUDITORS' REPORT

To the Directors
First Book/Le Premiere Livre
Mississauga
Ontario

*Report on the Financial Statements*
We have audited the accompanying financial statements of First Book/Le Premiere Livre which comprise the statement of financial position as at December 31, 2014 and the statements of operations, statement of changes in fund balances 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 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 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 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*
As is common with many charitable organizations, First Book/Le Premiere Livre derives part of its income from the general public in the form of contributions, which are not susceptible to complete audit verification. Accordingly, our verification of revenue from this source was limited to the amounts recorded in the records of First Book/Le Premiere Livre and we were not able to determine whether any adjustments might be necessary to contribution revenue, excess of revenues over expenses, assets and fund balances.

*Qualified Opinion*
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of First Book/Le Premiere Livre as at December 31, 2014 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.

Norton McMullen LLP

NORTON McMULLEN LLP
Chartered Professional Accountants, Licensed Public Accountants

Markham, Canada
April 8, 2015



DAVID J. NORTON, CPA, CA, LPA | JOHN C. KARRAM, CPA, CA, LPA | PAUL SIMPSON, CPA, CA, LPA
WILLIAM L. McMULLEN, CPA, CA, LPA | RODNEY J. RUSSELL, CPA, CA, LPA | PAUL W. McMULLEN, CPA, CA, LPA | MARK D. POTTER, CPA, CA, LPA

NORTON McMULLEN LLP
ONE VALLEYWOOD DRIVE SUITE 200 MARKHAM ONTARIO L3R 5L9 T 905-479-7001 F 905-479-0045

# FIRST BOOK/LE PREMIERE LIVRE

## STATEMENT OF FINANCIAL POSITION

| **As at December 31,** | | **2014** | | 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | $ | **287,293** | $ | 206,440 |
| Accounts receivable | | **43,761** | | 41,728 |
| Inventories | | **104,909** | | 86,334 |
| Prepaid expenses | | **5,793** | | 5,793 |
| | $ | **441,756** | $ | 340,295 |
| **Capital Assets** (Note 2) | | **4,054** | | 5,544 |
| | $ | **445,810** | $ | 345,839 |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (Note 3) | $ | **108,398** | $ | 93,040 |
| **FUND BALANCES** | | | | |
| Unrestricted | $ | **261,192** | $ | 188,139 |
| Restricted | | **76,220** | | 64,660 |
| | $ | **337,412** | $ | 252,799 |
| | $ | **445,810** | $ | 345,839 |

**Commitment** (Note 6)

Approved by the Board:

____________________ Director ____________________ Director



See accompanying notes

# FIRST BOOK/LE PREMIERE LIVRE

## STATEMENT OF CHANGES IN FUND BALANCES

**For the year ended December 31,** **2014** 2013

| | Unrestricted Fund | Restricted Fund | Total 2014 | Total 2013 |
|---|---|---|---|---|
| **Revenues** | $ 7,143,170 | $ 11,560 | $ 7,154,730 | $ 6,341,216 |
| **Expenses** | 7,070,117 | - | 7,070,117 | 6,503,532 |
| **Excess (deficiency) of revenues over expenses** | $ 73,053 | $ 11,560 | $ 84,613 | $ (162,316) |
| **Interfund transfers** | - | - | - | - |
| **Increase (decrease) in fund balances** | $ 73,053 | $ 11,560 | $ 84,613 | $ (162,316) |
| **FUND BALANCES** - Beginning | 188,139 | 64,660 | 252,799 | 415,115 |
| **FUND BALANCES** - Ending | $ 261,192 | $ 76,220 | $ 337,412 | $ 252,799 |

**See accompanying notes**

# FIRST BOOK/LE PREMIERE LIVRE

## STATEMENT OF OPERATIONS - UNRESTRICTED FUNDS

| For the year ended December 31, | 2014 | 2013 |
|---|---|---|
| **REVENUES** | | |
| Books received in-kind | $ 6,345,133 | $ 5,899,999 |
| Fundraising and donations | 434,193 | 197,770 |
| Program income on account of grants | 144,740 | 102,495 |
| Program income | 136,465 | 70,206 |
| Freight Income | 82,639 | 58,695 |
| Interest income | - | 49 |
| | $ 7,143,170 | $ 6,329,214 |
| **PROGRAM EXPENSES** | | |
| Books distributed in-kind | $ 6,345,133 | $ 5,899,999 |
| Salaries and benefits | 185,960 | 171,792 |
| Cost of books sold | 198,331 | 114,342 |
| Other program expenses | 65,190 | 65,251 |
| Shipping costs | 66,747 | 56,875 |
| Travel and lodging | 40,692 | 26,221 |
| | $ 6,902,053 | $ 6,334,480 |
| **ADMINISTRATIVE EXPENSES** | | |
| Salaries and benefits | $ 117,943 | $ 110,501 |
| Professional fees | 22,121 | 19,713 |
| Other administrative expenses | 10,965 | 8,838 |
| Occupancy | 9,435 | 8,818 |
| Travel and lodging | 5,851 | 7,814 |
| Amortization of capital assets | 1,490 | 1,527 |
| Loss on foreign exchange | 259 | 11,841 |
| | $ 168,064 | $ 169,052 |
| **TOTAL EXPENSES** | $ 7,070,117 | $ 6,503,532 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES** | $ 73,053 | $ (174,318) |



See accompanying notes

# FIRST BOOK/LE PREMIERE LIVRE

## STATEMENT OF OPERATIONS - RESTRICTED FUNDS

| For the year ended December 31, | 2014 | 2013 |
|---|---|---|
| **REVENUES** | | |
| Fundraising and donations | $ **182,676** | $ 117,000 |
| Grants released from restriction | **(171,116)** | (104,998) |
| | $ **11,560** | $ 12,002 |
| **EXPENSES** | - | - |
| **EXCESS OF REVENUES OVER EXPENSES** | $ **11,560** | $ 12,002 |

# FIRST BOOK/LE PREMIERE LIVRE

## STATEMENT OF CASH FLOWS

| For the year ended December 31, | 2014 | 2013 |
|---|---|---|
| **CASH AND CASH EQUIVALENTS WERE PROVIDED BY (USED IN):** | | |
| **OPERATING ACTIVITIES** | | |
| Excess (deficiency) of revenues over expenses | $ 84,613 | $ (162,316) |
| Items not affecting cash: | | |
| Amortization of capital assets | 1,490 | 1,527 |
| | $ 86,103 | $ (160,789) |
| Net change in non-cash working capital balances: | | |
| Accounts receivable | $ (2,033) | $ 161,389 |
| Inventories | (18,575) | (38,606) |
| Accounts payable and accrued liabilities | 15,358 | 72,367 |
| | $ (5,250) | $ 195,150 |
| | $ 80,853 | $ 34,361 |
| **INVESTING ACTIVITIES** | | |
| Purchase of capital assets | $ - | $ (1,504) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | $ 80,853 | $ 32,857 |
| **CASH AND CASH EQUIVALENTS** - Beginning | 206,440 | 173,583 |
| **CASH AND CASH EQUIVALENTS** - Ending | $ 287,293 | $ 206,440 |



See accompanying notes

**NATURE OF OPERATIONS**

First Book/Le Premiere Livre (the "Organization") provides new books and education materials to Canadian children from low-income families. The Organization works through existing community programs and literacy efforts to provide a steady stream of new, free or low cost books to elevate educational programming and improve access to reading materials. Through work with Canadian publishing partners, an ever expanding network of volunteers and book recipient groups, the Organization provides unprecedented access to new books for programs serving children in need.

The Organization was incorporated without share capital under Part II of the Canada Corporations Act by Letters Patent dated April 23, 2003 and on December 31, 2013 has received a Certificate of Continuance under the Canada Not-for-profit Corporations Act. The Organization is therefore exempt from Income tax.

1. **SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

a) **Fund Accounting**

The **Unrestricted Fund** accounts for the Organization's program, fundraising and administrative activities. This fund reports unrestricted resources in excess of the operating requirements.

The **Restricted Fund** accounts for the Organization's program activities where the grantor or donor has specified restrictions as to the use of the funds and donated items.

b) **Revenue Recognition - Restricted Fund Method**

The Organization follows the restricted fund method whereby externally restricted contributions are recognized in the fund corresponding to the purpose for which they were contributed. Restricted contributions for which there is no fund are recorded in accordance with the deferral method. Unrestricted contributions are recognized as revenues in the Unrestricted Fund when received.

c) **Use of Estimates**

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions based on currently available information. Such estimates and assumptions affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from the estimates used.

1. **SIGNIFICANT ACCOUNTING POLICIES** - Continued

d) **Foreign Currency Translation**

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate, while non-monetary assets are translated at the rate of exchange prevailing at the date of the transaction. Revenues and expenses are translated at the rate of exchange prevailing at the date of the transaction.

e) **Cash and cash equivalents**

Cash and cash equivalents consists of bank deposits.

f) **Inventories**

Inventories consist of books and educational publications for distribution. Contributed inventories are recorded at their estimated fair value on the date of their contribution. Inventories purchased are measured at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method.

g) **Capital Assets**

Capital Assets are recorded at cost. Amortization is being provided over the estimated useful life of the assets using the following annual rates and methods:

| | Rate | Method |
|---|---|---|
| Computer equipment | 55% | declining balance |
| Furniture and equipment | 20% | declining balance |

h) **Impairment of Long-lived Assets**

A long-lived asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

i) **Contributed Services**

Volunteer services contributed to the Organization in carrying out its operating activities are not recognized in these financial statements due to the difficulty in determining their fair value.

1. **SIGNIFICANT ACCOUNTING POLICIES** - Continued

j) **Financial Instruments**

**Measurement of Financial Instruments**
The Organization initially measures all of its financial assets and liabilities at fair value and subsequently measures all of its financial assets and liabilities at amortized cost.

Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

The Organization has no financial assets measured at fair value and has not elected to carry any financial asset or liability at fair value.

**Impairment**
Financial assets measured at amortized cost are tested for impairment when events or circumstances indicate possible impairment. Write-downs, if any, are recognized in net income and may be subsequently reversed to the extent that the net effect after the reversal is the same as if there had been no write-down. There are no indicators of impairment in the current year.

2. **CAPITAL ASSETS**

Capital assets consist of the following:

| | **2014** | | | 2013 |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** | Net Book Value |
| Computer equipment | **$ 1,503** | **$ 1,012** | **$ 491** | $ 1,090 |
| Furniture and equipment | **7,732** | **4,169** | **3,563** | 4,454 |
| | **$ 9,235** | **$ 5,181** | **$ 4,054** | $ 5,544 |

3. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Included in accounts payable and accrued liabilities is $2,292 (2013 - $1,920) owing to the WSIB. There are no other amounts owing with respect to government remittances.

## 4. RELATED PARTY TRANSACTIONS AND BALANCES

The Organization engaged with First Book USA Inc., an affiliated company, in the following transactions:

| | 2014 | 2013 |
|---|---|---|
| Cost of books sold | $ 125,985 | $ 64,546 |

These transactions were in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration agreed upon by the related parties.

Amounts owing to First Book USA Inc. are non-interest bearing and due on demand as follows:

| | 2014 | 2013 |
|---|---|---|
| Included in accounts payable and accrued liabilities | $ 83,021 | $ 59,496 |

## 5. CAPITAL MANAGEMENT

**Restricted Funds**

The Restricted fund was established under external restrictions to provide capital for specific programs and projects, as directed by the donors and grantors. The objective of managing this capital is as follows: to protect the principal to ensure that the required disbursements may be met and to maintain liquidity so that the funds will be available when required.

Management has determined that the restrictions imposed by donors and grantors have been complied with for the year ended December 31, 2013 on a consistent basis with the proceeding year.

**Unrestricted Funds**

The Unrestricted fund accounts for the Organization's operations and administrative activities. In managing this capital, the Organization focuses on resources available for operations. The Organization's objective is to have sufficient resources to continue operations in accordance with its mission and to provide it with the flexibility to take advantage of opportunities. The need for sufficient resources is considered in the preparation of an annual budget, the monitoring of cash flows and the comparison of actual operating results to budget.

## 6. COMMITMENT

The Organization has entered into a lease agreement for office space for basic rent ending August 2016. The basic rent payments, through to expiry of the lease, are as follows:

| | |
|---|---|
| 2015 | $ 18,588 |
| 2016 | 12,392 |
| | $ 30,980 |

## 7. FINANCIAL INSTRUMENTS

**Risks and Concentrations**

The Organization is exposed to various risks through its financial instruments. The following analysis provides a summary of the Organization's exposure to and concentrations of risk at December 31, 2014.

a) **Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. The Organization is exposed to this risk mainly with respect to its accounts receivable. Management is of the opinion that its credit risk is not significant and there has been no change in the assessment of credit risk from the prior year.

b) **Liquidity Risk**

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to this risk mainly with respect to its accounts payable and accrued liabilities. The Organization expects to meet its obligations by maintaining adequate cash resources and generating sufficient cash flows from operations. There has been no change in the assessment of liquidity risk from the prior year.

c) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, price risk, and currency risk. Management is of the opinion that its market risk is not significant and there has been no change in the assessment of market risk from the prior year.