FIRST BOOK/LE PREMIERE LIVRE

FINANCIAL STATEMENTS

DECEMBER 31, 2013

INDEX

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, 2013 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 Organization’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 Organization'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 revenue over expenditures, 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, 2013 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
May 7, 2014

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,		**2013**		2012
ASSETS				
Current				
Cash	$	**206,440**	$	173,583
Accounts receivable (Note 2)		**41,728**		203,117
Inventory		**86,334**		47,728
Prepaid expenses		**5,793**		5,793
	$	**340,295**	$	430,221
Capital Assets (Note 3)		**5,544**		5,567
	$	**345,839**	$	435,788
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 4)	$	**93,040**	$	20,673
FUND BALANCES				
Unrestricted	$	**188,139**	$	362,457
Restricted		**64,660**		52,658
	$	**252,799**	$	415,115
	$	**345,839**	$	435,788

Commitment (Note 8)

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, 2013

	Unrestricted Fund	Restricted Fund	2013 TOTAL	2012 TOTAL
Revenues	$ 6,329,214	$ 12,002	$ 6,341,216	$10,623,813
Expenses	6,503,532	-	6,503,532	10,304,042
Excess (deficiency) of revenues over expenses	$ (174,318)	$ 12,002	$ (162,316)	$ 319,771
Interfund transfers	-	-	-	-
Increase (decrease) in fund balances	$ (174,318)	$ 12,002	$ (162,316)	$ 319,771
FUND BALANCES - Beginning	362,457	52,658	415,115	95,344
FUND BALANCES - Ending	$ 188,139	$ 64,660	$ 252,799	$ 415,115

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF OPERATIONS - UNRESTRICTED FUNDS

For the year ended December 31,	2013	2012
REVENUES		
Books received in-kind	**$ 5,899,999**	$ 9,881,711
Fundraising and donations	**197,770**	332,244
Program income on account of grants	**102,495**	43,342
Program income	**70,206**	18,212
Freight Income	**58,695**	46,912
Interest income	**49**	-
Financial assistance (Note 5)	**-**	248,734
	$ 6,329,214	$10,571,155
PROGRAM EXPENSES		
Books distributed in-kind	**$ 5,899,999**	$ 9,881,711
Salaries and benefits	**171,792**	138,900
Cost of books sold	**114,342**	36,478
Other program expenses	**65,251**	75,749
Shipping costs	**56,875**	19,206
Travel and lodging	**26,221**	28,742
	$ 6,334,480	$10,180,786
ADMINISTRATIVE EXPENSES		
Salaries and benefits	**$ 110,501**	$ 73,347
Professional fees	**19,713**	16,487
Loss on foreign exchange	**11,841**	-
Occupancy	**8,818**	9,063
Travel and lodging	**7,814**	8,397
Other administrative expenses	**8,838**	14,570
Amortization of capital assets	**1,527**	1,392
	$ 169,052	$ 123,256
TOTAL EXPENSES	**$ 6,503,532**	$10,304,042
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**$ (174,318)**	$ 267,113

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF OPERATIONS - RESTRICTED FUNDS

For the year ended December 31,	2013	2012
REVENUES		
Fundraising and donations	$ 117,000	$ 96,000
Grants released from restriction	(104,998)	(43,342)
	$ 12,002	$ 52,658
EXPENSES	-	-
EXCESS OF REVENUES OVER EXPENSES	$ 12,002	$ 52,658

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF CASH FLOWS

For the year ended December 31,	2013	2012
CASH WAS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	$ (162,316)	$ 319,771
Items not affecting cash:		
Amortization of capital assets	1,527	1,392
	$ (160,789)	$ 321,163
Net changes in non-cash working capital balances:		
Accounts receivable	$ 161,389	$ (183,485)
Inventory	(38,606)	(47,728)
Prepaid expenses	-	2,686
Accounts payable and accrued liabilities	72,367	5,471
	$ 195,150	$ (223,056)
	$ 34,361	$ 98,107
INVESTING ACTIVITIES		
Purchase of capital assets	$ (1,504)	$ -
NET INCREASE IN CASH	$ 32,857	$ 98,107
CASH - Beginning	173,583	75,476
CASH - Ending	$ 206,440	$ 173,583

See accompanying notes

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. The Organization is a registered charity under paragraph 149(1)(f) of the Income Tax Act (Canada) and is therefore exempt from Income tax.

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that 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 reporting period. The primary components of these financial statements which include estimates are accounts receivables with respect to collection and accounts payable and accrued liabilities with respect to the amount accrued. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

b) Financial Instruments

The Organization initially recognizes financial instruments at fair value and subsequently measures them at each reporting date as follows:

Asset/Liability	Measurement
Cash	Fair Value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Financial assets measured at amortized cost are assessed at each reporting date for indications of impairment. If such impairment exists the asset shall be written down and the resulting impairment loss will be recognized in the statement of operations for the period. There were no indicators of impairment in the current year.

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

c) **Inventory**

Inventory donated is valued at the lower of cost or net replacement cost. Cost is determined on a first-in, first-out basis.

Inventory purchased is measured at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

d) **Capital Assets**

Purchased capital assets are recorded at cost. Contributed capital assets are reported at fair value at the date of contribution. Amortization is provided on a declining balance basis over the assets' estimated useful lives as follows:

Computer equipment	55%
Furniture and equipment	20%

Half the normal rate of amortization is taken in the year of acquisition.

e) **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 average rates of exchange during the year, except for amortization, which has been translated at the same foreign exchange rate as was used to record the cost of the related assets.

f) **Fund Accounting**

The Unrestricted Fund accounts for the Organization's 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.

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

g) **Revenue Recognition**

The Organization follows the restricted fund method of accounting for contributions.

Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Sales of books are recognized as revenue on customers' receipt of books.

Unrestricted contributions and sales of books are recognized as revenue in the Unrestricted fund.

Externally restricted contributions are recognized as revenue in the Restricted fund.

h) **Contributed Services and In Kind Donations**

Contributed services and in kind donations are recorded as contributions and expensed at fair value when an objective basis to measure their value is available. Contributed inventory is recorded at the estimated fair value on the date of their contribution.

i) **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.

2. **ACCOUNTS RECEIVABLE**

Included in accounts receivable are contributions receivable of $nil (2012 - $162,900).

3. **CAPITAL ASSETS**

Capital assets consist of the following:

	2013			2012
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer equipment	**$ 1,503**	**$ 413**	**$ 1,090**	$ -
Furniture and equipment	**7,732**	**3,278**	**4,454**	5,567
	$ 9,235	**$ 3,691**	**$ 5,544**	$ 5,567

4. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

At December 31, 2013 there is $1,920 (2012 - $2,108) owing to the WSIB. There are no other amounts owing with respect to government remittances. Accounts payable are unsecured and not subject to any terms or covenants.

5. **RELATED PARTY TRANSACTIONS - First Book USA Inc.**

In 2013 the Organization's affiliated company First Book U.S. provided organizational support related to Canadian operations. Operating expenses totaling $nil (2012 - $248,734) were recorded as contributed services and corresponding expenses by the Organization. Organizational support has no objective basis of measure and has not been reflected in the Organization's accounting records.

Included in accounts payable and accrued liabilities at year end was $59,496 owing to First Book-U.S.

6. **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.

7. FINANCIAL INSTRUMENTS

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, 2013:

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's main credit risks relate to its accounts receivable. There were no concentrations of credit risk as at December 31, 2013.

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 manages this risk by managing its working capital and ensuring that sufficient credit is available.

8. COMMITMENT

The Organization has entered into a lease agreement for office space for basic rent ending August 2014. Subsequent to year end, the lease was renewed at a marginally increased rate until August 2016. The basic rent payments, through to expiry of the lease, are as follows:

2014	$ 18,072
2015	18,588
2016	12,392
	$ 49,052