FIRST BOOK/LE PREMIERE LIVRE

FINANCIAL STATEMENTS

DECEMBER 31, 2018

INDEX

INDEPENDENT AUDITOR'S REPORT

To the Directors
First Book/Le Premiere Livre
MISSISSAUGA
Ontario

Qualified Opinion
We have audited the accompanying financial statements of First Book/Le Premiere Livre which comprise the statement of financial position as at December 31, 2018 and the statement of operations, statement of changes in fund balances and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the entity as at December 31, 2018 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.

Basis for Qualified Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

As is common with many charitable organizations. First Book/Le Premiere Livre derives part of its revenue from the general public in the form of contributions, which are not subject 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 donations revenue, deficiency of revenues over expenses, assets and fund balances.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Norton McMullen LLP

NORTON McMULLEN LLP
Chartered Professional Accountants, Licensed Public Accountants

MARKHAM, Canada
June 17, 2019

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF FINANCIAL POSITION

As at December 31,		2018		2017
ASSETS				
Current				
Cash	$	**386,892**	$	328,257
Restricted cash		**106,839**		109,489
Accounts receivable (Notes 2 and 5)		**52,357**		101,210
Inventories		**-**		50,354
Prepaid expenses		**10,771**		10,542
	$	**556,859**	$	599,852
Capital Assets (Note 3)		**1,645**		1,961
	$	**558,504**	$	601,813
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 5 & 6)	$	**249,826**	$	60,331
Deferred revenue (Note 4)		**-**		20,000
	$	**249,826**	$	80,331
FUND BALANCES				
Unrestricted	$	**201,839**	$	411,993
Restricted		**106,839**		109,489
	$	**308,678**	$	521,482
	$	**558,504**	$	601,813

Commitment (Note 7)

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, **2018** 2017

	Unrestricted Fund	Restricted Fund	Total	Total
Revenues	$ 8,763,204	$ (2,650)	$ 8,760,554	$ 14,696,018
Expenses	8,973,358	-	8,973,358	14,802,307
Deficiency of Revenues Over Expenses	$ (210,154)	$ (2,650)	$ (212,804)	$ (106,289)
Inter-Fund Transfers	-	-	-	-
Changes in Fund Balances	$ (210,154)	$ (2,650)	$ (212,804)	$ (106,289)
FUND BALANCES - Beginning	411,993	109,489	521,482	627,771
FUND BALANCES - Ending	$ 201,839	$ 106,839	$ 308,678	$ 521,482

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF OPERATIONS - UNRESTRICTED FUND

For the year ended December 31,	2018	2017
REVENUES		
Books received in-kind	$ **7,604,370**	$ 13,700,329
Fundraising and donations	**589,173**	542,884
Program income	**311,216**	234,816
Program income on account of grants	**164,762**	164,527
Freight income	**85,474**	67,088
Gain on foreign exchange	**8,209**	-
	$ **8,763,204**	$ 14,709,644
PROGRAM EXPENSES		
Books distributed in-kind	$ **7,604,370**	$ 13,700,329
Cost of books for program distribution (Note 5)	**403,112**	322,798
Salaries and benefits	**357,530**	302,084
Other program expenses	**205,657**	80,205
Shipping costs	**103,779**	142,536
Travel and lodging	**31,905**	38,379
	$ **8,706,353**	$ 14,586,331
ADMINISTRATIVE EXPENSES		
Salaries and benefits	$ **202,730**	$ 158,229
Other administrative expenses	**26,550**	28,209
Occupancy	**23,641**	9,355
Professional fees	**9,788**	10,464
Travel and lodging	**3,980**	8,863
Amortization	**316**	419
Loss on foreign exchange	**-**	437
	$ **267,005**	$ 215,976
TOTAL EXPENSES	$ **8,973,358**	$ 14,802,307
DEFICIENCY OF REVENUES OVER EXPENSES	$ **(210,154)**	$ (92,663)

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF OPERATIONS - RESTRICTED FUND

For the year ended December 31,	2018	2017
REVENUES		
Fundraising and donations	$ 152,286	$ 155,641
Grants released from restriction	(154,936)	(169,267)
	$ (2,650)	$ (13,626)
EXPENSES	-	-
DEFICIENCY OF REVENUES OVER EXPENSES	$ (2,650)	$ (13,626)

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF CASH FLOWS

For the year ended December 31,	2018	2017
CASH AND CASH EQUIVALENTS WERE PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Deficiency of revenues over expenses:		
Unrestricted funds	**$ (210,154)**	$ (92,663)
Restricted funds	**(2,650)**	(13,626)
	$ (212,804)	$ (106,289)
Items not affecting cash:		
Amortization	**316**	419
	$ (212,488)	$ (105,870)
Net change in non-cash working capital balances:		
Accounts receivable	**48,853**	(54,374)
Inventories	**50,354**	22,491
Prepaid expenses	**(229)**	(4,459)
Accounts payable and accrued liabilities	**189,495**	(85,924)
Deferred revenue	**(20,000)**	-
INCREASE (DECREASE) IN CASH	**$ 55,985**	$ (228,136)
CASH - Beginning	**437,746**	665,882
CASH - Ending	**$ 493,731**	$ 437,746
Cash is allocated as follows:		
Unrestricted cash	**$ 386,892**	$ 328,257
Restricted cash	**106,839**	109,489
	$ 493,731	$ 437,746

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 received its Certificate of Continuance under the Canada Not-for-profit Corporations Act. The Organization is a registered charitable organization and 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 grant activities related to the First Book Marketplace.

b) Revenue Recognition

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. Program income, program income on account of grants, and freight income are recognized as revenue when orders are accepted and collection is reasonably assured.

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. Significant estimates include the estimated useful life of capital assets.

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. Revenues and expenses are translated at the average exchange rate during the year.

e) **Cash and cash equivalents**

Cash and cash equivalents consists of bank deposits.

f) **Inventories**

Inventories consist of books and educational publications for program distribution. 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 Capital Assets**

When a capital asset no longer has any long-term service potential to the Organization, the excess of the net carrying amount over any residual value is recognized as an expense in unrestricted funds.

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.

j) **Contributed Goods**

Books contributed in-kind are recognized when the fair value of the contributed goods can be reasonably estimated and are used in the normal course of the Organization's program operations. Fair value is determined on the basis of market or appraised values or the market value of similar goods.

1. **SIGNIFICANT ACCOUNTING POLICIES** - Continued

k) **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 the excess (deficiency) of revenues over expenses 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.

l) **Allocation of Common Expenses**

The Organization incurs expenses to support restricted and unrestricted programs as well as to maintain general and administrative functions. The preparation of financial statements requires management to make estimates and assumptions based on currently available information in order to allocate shared expenses between these activities. Such estimates and assumptions affect gross program and administrative expenses reported on the statement of operations.

2. **ACCOUNTS RECEIVABLE**

Included in accounts receivable is a public service body sales tax rebate of $21,775 (2017 - $6,282 net of sales taxes payable).

3. **CAPITAL ASSETS**

Capital assets consist of the following:

	2018			2017
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	$ 1,503	$ 1,482	$ 21	$ 46
Furniture and equipment	7,732	6,108	1,624	1,915
	$ 9,235	$ 7,590	$ 1,645	$ 1,961

4. DEFERRED REVENUE

In 2017, the Organization received sponsorship funding from RBC Capital Markets for use toward the 2018 Pongapalooza fundraising event. This amount was recognized as revenue in the year. There was no deferred revenue in 2018.

5. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2018	2017
Cost of books for program distribution	$ 209,428	$ 129,790

These transactions were carried out 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 from (to) First Book USA Inc. result from shared expense invoicing, cross inventory purchasing, and volume purchase rebates. The resulting year end balances are non-interest bearing and due on demand as follows:

	2018	2017
Included in accounts receivable	$ 11,221	$ 77,339
Included in accounts payable and accrued liabilities	(194,182)	(20,820)
	$ (182,961)	$ 56,519

6. ACCOUNTS PAYABLE

Included in accounts payable is sales tax payable of $18,164 (2017 - $Nil).

7. COMMITMENT

The Company's lease agreement for its premises expires November 30, 2027. Future minimum annual rental payments (excluding property taxes, maintenance, and insurance) for each of the next five years and thereafter are as follows:

2019	$ 46,402
2020	48,754
2021	48,754
2022	48,967
2023	51,312
Thereafter	200,972
	$ 445,161

8. **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, 2018:

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. There is no concentration of credit risk as at December 31, 2018. 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 manages this risk by managing its working capital and by 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 of 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. The Organization is mainly exposed to currency risk as follows:

i) **Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Organization issues invoices, as described in Note 5, which are denominated in US dollars and exposed to foreign exchange fluctuations. As at December 31, 2018, accounts receivable of $8,500 (2017 – $61,497) is denominated in US dollars and has been converted into equivalent Canadian dollars at the exchange rate in effect at the year end. Foreign exchange gains or losses are included in the deficiency of revenues over expenses and total a 2018 gain of $8,209 (2017 - $437, loss). The exposure to this risk changes as the transaction amounts change and as the exchange rate fluctuates. The average U.S. dollar exchange rate for 2018 was 1.30 (2017 - 1.30).