FIRST BOOK/LE PREMIERE LIVRE

FINANCIAL STATEMENTS

DECEMBER 31, 2022

INDEX

NORTONMcMULLEN
CHARTERED PROFESSIONAL ACCOUNTANTS | LLP

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, 2022 and the statements of operations, statement of changes in net assets 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 statement present fairly, in all material respects, the financial position of the entity as at December 31, 2022 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
As is common with many charitable organizations, First Book/Le Premiere Livre derives part of its revenues from fundraising and donations, the completeness of which is not susceptible to satisfactory 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 fundraising and donations revenue, deficiency of revenues over expenses, and cash flows from operations for the years December 31, 2022 and 2021, current assets as at December 31, 2022 and 2021, and net assets as at January 1 and December 31 for both the 2022 and 2021 years.

Our audit opinion on the financial statements for the year ended December 31, 2021 was modified accordingly because of the possible effects of this limitation in scope.

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.

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
May 31, 2023

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF FINANCIAL POSITION

As at December 31,		2022		2021
ASSETS				
Current				
Cash	$	**59,454**	$	24,973
Restricted cash		**135,875**		444,842
Accounts receivable (Note 2)		**80,136**		28,426
Prepaid expenses		**11,862**		11,025
	$	**287,327**	$	509,266
Capital Assets (Note 3)		**2,199**		2,468
	$	**289,526**	$	511,734
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 4)	$	**789,137**	$	656,278
Government remittances payable		**-**		11,505
Deferred contributions (Note 5)		**131,525**		405,637
Deferred program income (Note 6)		**4,350**		39,205
	$	**925,012**	$	1,112,625
NET ASSETS		**(635,486)**		(600,891)
	$	**289,526**	$	511,734

Commitments (Note 7)

Approved by the Board:

____________________________ Director ____________________________ Director

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31,		2022		2021
BALANCE - Beginning	$	**(600,891)**		(260,210)
Deficiency of revenues over expenses		**(34,595)**		(340,681)
BALANCE - Ending	$	**(635,486)**	$	(600,891)

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF OPERATIONS

For the year ended December 31,	2022	2021
REVENUES		
Books received in-kind	$ 3,329,648	$ 5,769,393
Fundraising and donations (Note 5)	789,544	584,013
Program income	669,776	556,020
Program income on account of grants (Note 5)	231,341	123,186
Other Income	9,467	8,917
	$ 5,029,776	$ 7,041,529
PROGRAM EXPENSES		
Books distributed in-kind	$ 3,329,648	$ 5,769,393
Cost of books for program distribution (Note 4)	836,338	583,708
Salaries and benefits	398,534	411,540
Other program expenses	114,266	100,832
Shipping costs	85,749	173,640
Travel and lodging	7,423	3,909
	$ 4,771,958	$ 7,043,022
ADMINISTRATIVE EXPENSES		
Salaries and benefits	$ 165,024	$ 211,058
Other administrative expenses (Note 4)	54,769	48,883
Professional fees	50,961	41,179
Occupancy	12,147	32,296
Loss (gain) on foreign exchange	6,609	(1,517)
Travel and lodging	1,534	5,081
Amortization	1,369	2,208
	$ 292,413	$ 339,188
TOTAL EXPENSES	$ 5,064,371	$ 7,382,210
DEFICIENCY OF REVENUES OVER EXPENSES	$ (34,595)	$ (340,681)

See accompanying notes

FIRST BOOK/LE PREMIERE LIVRE

STATEMENT OF CASH FLOWS

For the year ended December 31,	2022	2021
CASH AND CASH EQUIVALENTS WERE PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	$ (34,595)	$ (340,681)
Items not affecting cash:		
Amortization	1,369	2,208
	$ (33,226)	$ (338,473)
Net change in non-cash working capital balances:		
Accounts receivable	(51,710)	27,610
Prepaid expenses	(837)	284
Accounts payable and accrued liabilities	132,859	165,993
Government remittances payable	(11,505)	11,505
Deferred contributions	(274,112)	319,230
Deferred program income	(34,855)	39,205
	$ (273,386)	$ 225,354
INVESTING ACTIVITIES		
Purchase of capital assets	(1,100)	-
INCREASE (DECREASE) IN CASH	$ (274,486)	$ 225,354
CASH - Beginning	469,815	244,461
CASH - Ending	$ 195,329	$ 469,815
Cash is allocated as follows:		
Unrestricted cash	$ 59,454	$ 24,973
Restricted cash	135,875	444,842
	$ 195,329	$ 469,815

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) 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.

b) 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.

c) Cash and cash equivalents

Cash and cash equivalents consists of bank deposits.

1. **SIGNIFICANT ACCOUNTING POLICIES** - Continued

d) **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

e) **Impairment of Capital Assets**

When a tangible capital asset no longer contributes to an organization's ability to provide goods and services, or the value of future economic benefits or service potential associated with the tangible capital asset is less than its carrying amount, the net carrying amount of the tangible capital asset is written down to the asset's fair value or replacement cost.

f) **Revenue Recognition**

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which related expenses are incurred. Unrestricted contributions, fundraising revenue, and other income are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Program income is recognized as revenue when orders are accepted and collection is reasonably assured. Program income received that spans multiple years is deferred and recognized as revenue based on the actual amount of program items purchased over time by the customer.

g) **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.

h) **Contributed Goods**

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

1. **SIGNIFICANT ACCOUNTING POLICIES** - Continued

i) **Financial Instruments**

Initial Measurement
The Organization initially measures its financial assets and liabilities originating or exchanged in arm's length transactions at fair value.

Financial assets and liabilities originated or exchanged in related party transactions, except for those that involve parties whose sole relationship with the organization is in the capacity of management, are initially measured at cost. The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms.

Subsequent Measurement
The Organization subsequently measures all its financial assets and liabilities at cost or amortized cost.

Financial assets subsequently measured at amortized cost include cash, and certain amounts included in accounts receivable. Financial liabilities subsequently measured at amortized cost include accounts payable and accrued liabilities originating or exchanged in arm's length transactions.

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.

j) **Allocation of Common Expenses**

The Organization incurs expenses to support restricted and unrestricted programs as well as to maintain program 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 HST refundable of $7,456 (2021 - $13,819).

3. CAPITAL ASSETS

Capital assets consist of the following:

	2022 Cost	2022 Accumulated Amortization	2022 Net Book Value	2021 Net Book Value
Computer equipment	$ 7,613	$ 6,079	$ 1,534	$ 1,637
Furniture and equipment	7,732	7,067	665	831
	$ 15,345	$ 13,146	$ 2,199	$ 2,468

4. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2022	2021
Cost of books for program distribution	$ 501,144	$ 536,077
Other administrative expenses	6,582	8,132
	$ 507,726	$ 544,209

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:

	2022	2021
Included in accounts payable and accrued liabilities	$ 725,090	$ 636,059

5. DEFERRED CONTRIBUTIONS

Deferred contributions consists of restricted contributions received for which the associated expense has not yet been incurred. The change in deferred contributions consists of the following:

	2022	2021
Balance - Beginning	$ 405,637	$ 86,407
Add: Restricted contributions received in the year	155,126	442,416
Less: Restricted contributions recognized as program income on account of grants	231,341	123,186
Less: Restricted contributions recognized as fundraising and donations revenue	197,897	-
Balance - Ending	$ 131,525	$ 405,637

6. DEFERRED PROGRAM INCOME

Deferred program income consists of amounts received from a customer in advance for books purchases. The change in deferred program income consists of the following:

	2022	2021
Balance - Beginning	$ 39,205	$ -
Add: Advance received in the year	-	50,000
Less: Program income recognized as revenue	34,855	10,795
Balance - Ending	$ 4,350	$ 39,205

7. COMMITMENTS

Subsequent to the year end, the Organization entered into a lease agreement for a premise commencing on August 1, 2023 and expiring on November 30, 2027. This lease agreement includes a clause terminating the current lease for their premise as of July 31, 2023. Future minimum annual rental payments (excluding property taxes, maintenance, and insurance) for each of the next five years and thereafter are as follows:

2023	$ 42,614
2024	40,690
2025	40,690
2026	40,690
2027	37,299
	$ 201,983

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, 2022:

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. The Organization provides credit to its clients in the normal course of operations, however the risk is limited as accounts receivable consists primarily of contributions receivable and amounts due from Canada Revenue Agency. There is no concentration of credit risk as at December 31, 2022. 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 or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price 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. As at December 31, 2022 accounts payable of $16,758 (2021 - $Nil), are denominated in US dollars and have been converted into equivalent Canadian dollars at the exchange rate in effect at the year end. Foreign exchange losses are included in deficiency of revenues over expenses and total $6,609 (2021 - gains of $1,517). The exposure to this risk changes as transaction amounts change and as exchange rates fluctuate. The average USD exchange rate for 2022 was 1.3013 (2021 - 1.2535).