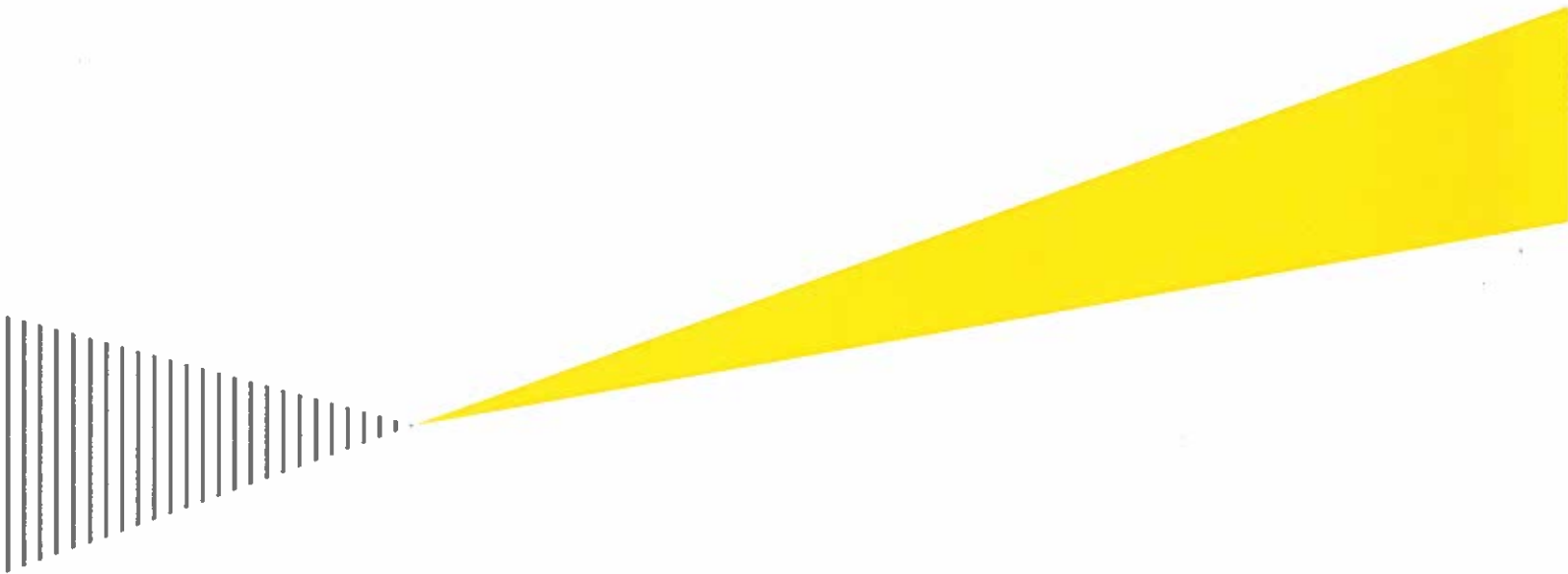


Consolidated Financial Statements

Decoda Literacy Solutions Society

June 30, 2014



Building a better
working world

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Decoda Literacy Solutions Society

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of **Decoda Literacy Solutions Society**, which comprise the consolidated statement of financial position as at June 30, 2014, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Decoda Literacy Solutions Society** as at June 30, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Society Act of British Columbia, we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Vancouver, Canada,
September 29, 2014.

Ernst + Young LLP

Chartered Accountants

Decoda Literacy Solutions Society

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30

	2014	2013
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	3,009,609	164,463
Short-term investments <i>[note 3]</i>	10,000	2,327,500
Grants and other receivables	85,503	26,561
Prepaid expenses	15,739	9,830
Supplies	22,314	12,359
	<u>3,143,165</u>	<u>2,540,713</u>
Property, equipment and intangibles, net <i>[note 4]</i>	42,689	49,067
Deposits	41,852	41,837
	<u>3,227,706</u>	<u>2,631,617</u>
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	824,879	180,818
Capital lease obligation, current <i>[note 5]</i>	1,289	3,870
Deferred lease inducement, current <i>[note 8]</i>	4,194	4,194
	<u>830,362</u>	<u>188,882</u>
Deferred contributions <i>[note 7]</i>	2,178,266	2,255,457
Deferred lease inducement <i>[note 8]</i>	5,590	9,784
Deferred capital contributions <i>[notes 4 and 6]</i>	21,772	34,174
Capital lease obligation <i>[note 5]</i>	—	1,289
	<u>3,035,990</u>	<u>2,489,586</u>
Commitments <i>[note 11]</i>		
NET ASSETS		
Unrestricted	191,716	142,031
	<u>191,716</u>	<u>142,031</u>
	<u>3,227,706</u>	<u>2,631,617</u>

See accompanying notes

On behalf of the Board:

Director



Director




Decoda Literacy Solutions Society

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended June 30

	2014	2013
	\$	\$
REVENUE		
Contributions		
Province of British Columbia <i>[note 9]</i>	2,776,081	2,839,615
Federal Government <i>[note 10]</i>	455,257	505,904
LIFT Philanthropy Partners' Society [formerly 2010 Legacies Now Society] <i>[note 7]</i>	1,131,369	1,542,089
	<u>4,362,707</u>	<u>4,887,608</u>
Program and other revenue	322,428	44,540
Interest income	27,881	35,442
Amortization of deferred capital contributions <i>[note 6]</i>	12,402	12,402
	<u>4,725,418</u>	<u>4,979,992</u>
EXPENSES		
Programs		
Adult	656,847	667,087
Family	888,778	733,357
Community	2,163,655	2,544,003
Program support	129,077	234,072
	<u>3,838,357</u>	<u>4,178,519</u>
General office <i>[schedule]</i>	837,376	758,614
	<u>4,675,733</u>	<u>4,937,133</u>
Excess of revenue over expenses for the year	<u>49,685</u>	<u>42,859</u>

See accompanying notes

Decoda Literacy Solutions Society

**CONSOLIDATED STATEMENT OF
CHANGES IN NET ASSETS**

Year ended June 30

	2014		2013
	Unrestricted	Total	Total
	\$	\$	\$
Balance, beginning of year	142,031	142,031	99,172
Excess of revenue over expenses for the year	49,685	49,685	42,859
Balance, end of year	191,716	191,716	142,031

See accompanying notes



Decoda Literacy Solutions Society

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30

	2014	2013
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	49,685	42,859
Add (deduct) items not affecting cash		
Amortization of property, equipment and intangibles	18,738	16,779
Amortization of deferred capital contributions	(12,402)	(12,402)
Amortization of deferred lease inducement	(4,194)	(4,194)
	<u>51,827</u>	<u>43,042</u>
Changes in non-cash working capital balances related to operations		
Grants and other receivables	(58,942)	259,120
Prepaid expenses and deposits	(5,924)	4,639
Supplies	(9,955)	(4,172)
Accounts payable and accrued liabilities	644,061	(560,324)
Deferred contributions	(77,191)	213,150
Cash provided by (used in) operating activities	<u>543,876</u>	<u>(44,545)</u>
INVESTING ACTIVITIES		
Purchase of property, equipment and intangibles	(12,360)	(6,129)
Redemption of short-term investments	2,317,500	115,500
Cash provided by investing activities	<u>2,305,140</u>	<u>109,371</u>
FINANCING ACTIVITIES		
Payments of capital lease obligation	(3,870)	(3,870)
Cash used in financing activities	<u>(3,870)</u>	<u>(3,870)</u>
Net increase in cash and cash equivalents during the year	2,845,146	60,956
Cash and cash equivalents, beginning of year	164,463	103,507
Cash and cash equivalents, end of year	<u>3,009,609</u>	<u>164,463</u>

See accompanying notes

**CONSOLIDATED SCHEDULE OF
GENERAL OFFICE EXPENSES**

Year ended June 30

	2014	2013
	\$	\$
Amortization of property, equipment and intangibles	18,738	16,779
Board expenses	5,650	19,402
Bank charges	2,594	361
Communications and marketing	75,330	45,421
Equipment, rental and maintenance	7,182	6,900
Facilities, utilities and property taxes	129,060	126,145
Fund development	27,878	—
Insurance	3,063	5,740
Office	19,356	10,677
Professional services	89,189	195,434
Salaries and benefits	432,807	309,517
Travel and business	26,529	22,238
	<u>837,376</u>	<u>758,614</u>

See accompanying notes

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

1. THE ORGANIZATION

These consolidated financial statements include the accounts of Decoda Literacy Solutions Society [the “Society”] and Decoda Literacy Foundation [the “Foundation”] [collectively “Decoda”].

The Society is a not-for-profit organization incorporated on April 19, 2011, under the Society Act of the Province of British Columbia. The Society’s mission is to address and support the full continuum of literacy and learning priorities identified by communities across British Columbia so that people can better participate in society and the communities themselves and become even more resilient. Decoda continues the work previously undertaken by LBCS Literacy B.C. Society [“LBCS”] and the literacy department of LIFT Philanthropy Partners Society [“LIFT”], formerly 2010 Legacies Now Society [“2010 Legacies”].

On July 1, 2011, the Society entered into a Service Agreement with LBCS whereby LBCS contracted the Society to carry out certain literacy-related projects and activities in British Columbia until the end of December 2011. As part of the Service Agreement, the Society also assumed contracts with the Office of Literacy and Essential Skills of Human Resources and Skills Development Canada, Ministry of Education, Ministry of Public Safety & Solicitor General, and Ministry of Justice. In addition, LBCS contributed certain property and equipment to the Society with an estimated fair value of \$19,000 on the date of transfer.

On October 31, 2011, the Society entered into a Contribution Agreement with 2010 Legacies whereby 2010 Legacies would contribute \$7.0 million to the Society between July 1, 2011 and June 30, 2014 to assist Decoda in supporting literacy development in British Columbia and build upon literacy programs transferred to Decoda by 2010 Legacies. As at June 30, 2014, the Society had received a \$6.65 million contribution from 2010 Legacies. In accordance with the Contribution Agreement, the remaining \$0.35 million contribution will be received from 2010 Legacies over the next fiscal year.

In addition, 2010 Legacies provided funding to the Society to support its organizational development initiatives. 2010 Legacies also contributed certain property and equipment to the Society with an estimated fair value of \$39,978 on the date of transfer.

Decoda’s key programs are:

- **Communities:** Decoda offers support, facilitation and funding to a network of 102 coordinated community literacy task groups representing literacy stakeholders in more than 400 communities across British Columbia.

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

- **Children & Families:** Decoda offers professional development and resources in family literacy. Decoda's key family literacy programs are LEAP BC and Parents as Literacy Supporters ["PALS"]. LEAP BC is a set of books and activity cards that supports healthy child development. PALS is a family literacy program that gives parents and caregivers new strategies to encourage learning in their preschool and kindergarten-aged children.
- **Adults:** Decoda provides professional development and resources to adult literacy practitioners, conducts research on adult and workplace literacy, and provides literacy consulting to businesses and non-profit organizations.

The Foundation is a not-for-profit organization incorporated on November 19, 2012 under the Society Act of the Province of British Columbia. It was registered as a charitable organization effective November 30, 2012 under the Income Tax Act and is exempt from income taxes. The purpose of the Foundation is to advance education and promote literacy and continuous learning for all people in British Columbia and to raise funds and make grants for these programs. The Society controls the election of all of the directors of the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with Part III of the CPA Canada Handbook - *Accounting Standards for Not-for-Profit Organizations*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Principles of consolidation

All related party balances and transactions have been eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of less than three months.

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

Revenue recognition

Decoda follows the deferral method of accounting for contributions. Unrestricted contributions and program and other revenue are recorded as revenue when received or receivable, if the amount can be reasonably estimated, collection is reasonably assured, and the services have been provided, if applicable.

When a contribution is intended for specific operations or future periods, it is initially recorded as deferred contributions on the consolidated statement of financial position and recorded in revenue when the specific terms have been satisfied.

Interest income is recorded as earned.

Short-term investments

Short-term investments are comprised of Guaranteed Investment Certificates ["GICs"] with an original maturity date greater than three months and less than one year and are recorded at cost plus accrued interest.

Supplies

Supplies consist of printed literacy materials used for workshops or for sale and are valued at the lower of cost, determined on the actual cost basis, and replacement value.

Property, equipment and intangibles

Property, equipment and intangibles are recorded at cost or fair value on the date of contribution and amortized over their useful economic lives using the straight-line method over the following terms:

Furniture and equipment	5 years
Computer equipment	3 years
Intangibles - website development	5 years

Deferred lease inducement

The deferred lease inducement is comprised of a two-month rent-free period offered by the landlord and is being amortized on a straight-line basis over the term of the lease and recorded as a reduction of the rent expense.

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

Deferred capital contributions

The contributed property and equipment received from LBCS and 2010 Legacies are recorded as deferred capital contributions and are amortized on the same basis as the related property and equipment.

Related party transactions

Related party transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Gifts-in-kind

Donations of products or services, which Decoda would otherwise have purchased, are recognized as revenue at their fair value.

Decoda receives contributed services, including time contributed by volunteers, that are not recognized in the financial statements due to the difficulty in determining the fair market value of such contributions.

Use of estimates

The preparation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimated. Significant items requiring the use of management estimates include the valuation of property and equipment, and amortization periods.

Allocation of expenses

The costs of personnel and other expenses directly related to functions are allocated to each function. General support and other costs are not allocated.

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

3. SHORT-TERM INVESTMENTS

	2014 \$	2013 \$
GIC - Maturing October 2014, bearing interest at prime rate minus 1.65% per annum	—	1,750,000
GIC - Maturing January 2014, bearing interest at prime rate minus 1.75% per annum	—	550,000
GIC - Maturing July 2013, bearing interest at 0.8% per annum	—	11,500
GIC - Maturing November 2014, bearing interest at 0.8% per annum	10,000	—
	10,000	2,311,500
Accrued interest	—	16,000
	10,000	2,327,500

Interest earned during the year ended June 30, 2014 totalled \$11,910 [2013 - \$35,442].

4. PROPERTY, EQUIPMENT AND INTANGIBLES

	2014		
	Cost \$	Accumulated amortization \$	Net book value \$
Furniture and equipment [i] [ii]	70,285	42,171	28,114
Computer equipment [i]	12,735	8,598	4,137
Intangibles - website development	10,988	550	10,438
	94,008	51,319	42,689

	2013		
	Cost \$	Accumulated amortization \$	Net book value \$
Furniture and equipment [i] [ii]	70,285	28,114	42,171
Computer equipment [i]	11,363	4,467	6,896
	81,648	32,581	49,067

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

- [i] The Society received furniture, equipment and computer equipment from 2010 Legacies and LBCS during the period ended June 30, 2012. The fair value of these assets at the date of contribution was \$58,978.
- [ii] Included in furniture and equipment is an office telephone system under a three-year capital lease with a cost of \$11,609 and a net book value as at June 30, 2014 of \$1,289 [2013 - \$5,159]. Amortization expense for the year amounted to \$3,870 [2013 - \$2,322]. The interest rate implicit in the lease is 0% with monthly payments of \$306 excluding taxes. The Society has accepted the option to purchase the system from the vendor with a payment of \$1 at the end of October 2014 when the lease ends.

5. CAPITAL LEASE OBLIGATION

	2014 \$	2013 \$
Obligation under capital lease for office telephone system, with interest at the rate of 0%, maturing on October 31, 2014	1,289	5,159
Less current portion	(1,289)	(3,870)
Long-term portion	—	1,289

6. DEFERRED CAPITAL CONTRIBUTIONS

	2014 \$	2013 \$
Balance, beginning of year	34,174	46,576
Amortization for the year	(12,402)	(12,402)
Balance, end of year	21,772	34,174

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

7. DEFERRED CONTRIBUTIONS

As at June 30, deferred contributions are comprised of contributions received from the following, related to projects and programs where services are still required to be performed:

	<u>2014</u>		
	<u>LIFT</u>	<u>Others</u>	<u>Total</u>
	\$	\$	\$
Balance, beginning of year	2,238,393	17,064	2,255,457
Contributions received in the year	1,050,000	13,530	1,063,530
Contributions recognized as revenue in the year	(1,131,369)	(9,352)	(1,140,721)
Balance, end of year	2,157,024	21,242	2,178,266

	<u>2013</u>		
	<u>LIFT</u>	<u>Others</u>	<u>Total</u>
	\$	\$	\$
Balance, beginning of year	2,030,482	11,825	2,042,307
Contributions received in the year	1,750,000	284,133	2,034,133
Contributions recognized as revenue in the year	(1,542,089)	(278,894)	(1,820,983)
Balance, end of year	2,238,393	17,064	2,255,457

8. DEFERRED LEASE INDUCEMENT

The Society received two months of free rent under the terms of a lease agreement. The two months of free rent amounting to \$22,366 was recorded as a deferred lease inducement and is amortized as a reduction to facilities, utilities, and property taxes expense over the term of the lease.

	<u>2014</u>	<u>2013</u>
	\$	\$
Rent-free period	22,366	22,366
Accumulated amortization	(12,582)	(8,388)
Deferred lease inducement	9,784	13,978
Less current portion	(4,194)	(4,194)
Long-term portion	5,590	9,784

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

9. CONTRIBUTIONS FROM THE PROVINCE OF BRITISH COLUMBIA

During the year ended June 30, Decoda recorded revenue from contributions from the following provincial government ministries:

	2014 \$	2013 \$
Ministry of Education	2,499,970	2,502,000
Ministry of Advanced Education	62,000	130,000
Ministry of Jobs, Tourism and Skills Training [formerly Ministry of Jobs, Tourism and Innovation]	214,111	206,361
Ministry of Public Safety & Solicitor General	—	1,254
	<u>2,776,081</u>	<u>2,839,615</u>

10. CONTRIBUTIONS FROM THE FEDERAL GOVERNMENT

During the year ended June 30, Decoda recorded revenue from contributions from the following federal government agencies:

	2014 \$	2013 \$
Office of Literacy of Essential Skills of Human Resources and Skills Development Canada	429,360	505,904
Citizenship and Immigration Canada	25,897	—
	<u>455,257</u>	<u>505,904</u>

11. COMMITMENTS

Decoda is committed to operating lease payments on certain of its equipment and office premises. The future minimum annual lease payments are approximately:

	\$
2015	293,000
2016	293,000
2017	100,000
	<u>686,000</u>

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

12. FINANCIAL INSTRUMENTS

Decoda's financial instruments consist of cash and cash equivalents, short-term investments, grants and other receivables, accounts payable and accrued liabilities and capital lease obligation. It is management's view that the fair values of these financial instruments approximate their carrying value.

Decoda is exposed to various financial risks with respect to these financial instruments. The following provides helpful information in assessing the extent of Decoda's exposure to these risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Decoda's main credit risk relates to its grants and other receivables.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Decoda is exposed to interest rate risk on its short-term investments.

Liquidity risk

Liquidity risk is the risk that Decoda will encounter difficulty in meeting obligations associated with financial liabilities. Decoda is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, capital lease obligation, and operating lease commitments.