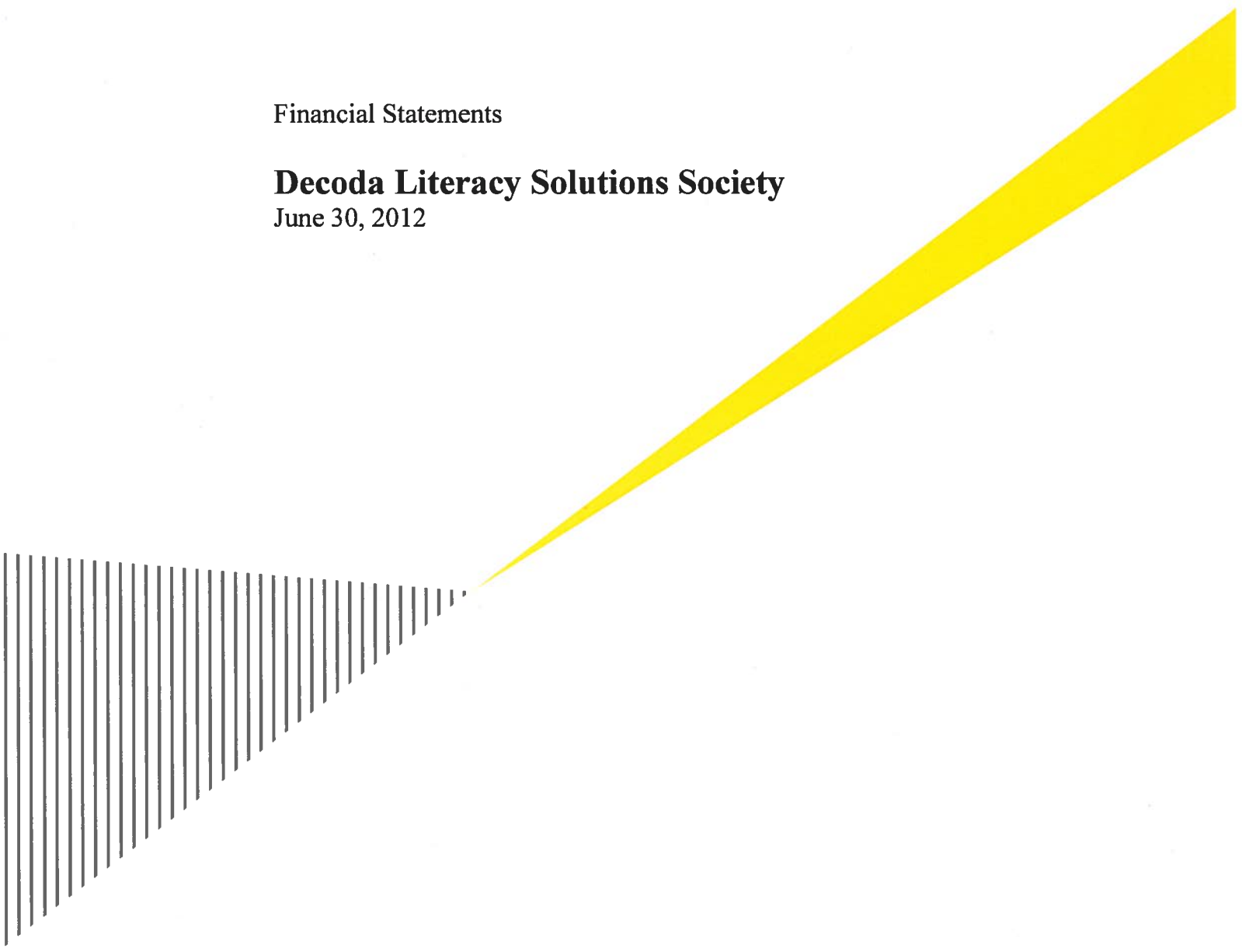


Financial Statements

Decoda Literacy Solutions Society

June 30, 2012



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Decoda Literacy Solutions Society

We have audited the accompanying financial statements of **Decoda Literacy Solutions Society**, which comprise the statement of financial position as at June 30, 2012 and the statements of operations, changes in net assets and cash flows for the period from April 19, 2011 to June 30, 2012, 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 auditors' 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 auditors consider 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Decoda Literacy Solutions Society** as at June 30, 2012 and the results of its operations and its cash flows for the period from April 19, 2011 to June 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Vancouver, Canada,
October 15, 2012.

Ernst & Young LLP

Chartered Accountants

Decoda Literacy Solutions Society

STATEMENT OF FINANCIAL POSITION

As at June 30

	<u>2012</u>
	<u>\$</u>
ASSETS	
Current	
Cash	103,507
Short-term investments <i>[note 3]</i>	2,443,000
Grants and other receivables	285,681
Prepaid expenses	14,469
Supplies	8,187
Total current assets	<u>2,854,844</u>
Property and equipment, net <i>[note 4]</i>	59,717
Deposits	41,837
Total assets	<u>2,956,398</u>
LIABILITIES AND NET ASSETS	
Current	
Accounts payable and accrued liabilities	741,142
Capital lease obligation, current <i>[note 5]</i>	3,870
Deferred lease inducement, current <i>[note 8]</i>	4,194
Total current liabilities	<u>749,206</u>
Deferred revenue <i>[note 7]</i>	2,042,307
Deferred lease inducement <i>[note 8]</i>	13,978
Deferred capital contributions <i>[notes 4 and 6]</i>	46,576
Capital lease obligation <i>[note 5]</i>	5,159
Total liabilities	<u>2,857,226</u>
Commitments <i>[note 11]</i>	
NET ASSETS	
Unrestricted Fund	<u>99,172</u>
Total net assets	<u>99,172</u>
	<u>2,956,398</u>

See accompanying notes

On behalf of the Board:


Director


Director

Decoda Literacy Solutions Society

STATEMENT OF OPERATIONS

	Period from April 19, 2011 to June 30, 2012 \$
REVENUE	
Contributions	
Province of British Columbia <i>[note 9]</i>	2,124,020
Federal Government <i>[note 10]</i>	594,487
2010 Legacies Now Society	1,970,294
Legacies in Action Society	520,000
LBCS Literacy B.C. Society	326,833
Postmedia Network Foundation	53,038
	<u>5,588,672</u>
Program and other revenue	75,990
Interest income	22,082
Amortization of deferred capital contributions <i>[note 6]</i>	12,402
	<u>5,699,146</u>
EXPENSES	
Programs	
Adult	929,267
Family	837,463
Community	2,967,597
Program support	174,301
	<u>4,908,628</u>
General office <i>[schedule 1]</i>	691,346
	<u>5,599,974</u>
Excess of revenue over expenses for the period	<u>99,172</u>

See accompanying notes

Decoda Literacy Solutions Society

STATEMENT OF CHANGES IN NET ASSETS

Period from April 19, 2011 to June 30, 2012

	Unrestricted Fund [note 2] \$	Total \$
Balance, beginning of period	—	—
Excess of revenue over expenses for the period	99,172	99,172
Balance, end of period	99,172	99,172

See accompanying notes

Decoda Literacy Solutions Society

STATEMENT OF CASH FLOWS

	Period from April 19, 2011 to June 30, 2012 \$
OPERATING ACTIVITIES	
Excess of revenue over expenses for the period	99,172
Add (deduct) items not affecting cash	
Deferred lease inducement	22,366
Amortization of property and equipment	15,802
Amortization of deferred capital contributions	(12,402)
Amortization of deferred lease inducement	(4,194)
	<u>120,744</u>
Changes in non-cash working capital balances related to operations	
Grants and other receivables	(285,681)
Prepaid expenses and deposits	(56,306)
Supplies	(8,187)
Accounts payable and accrued liabilities	741,142
Deferred revenue	2,042,307
Cash provided by operating activities	<u>2,554,019</u>
INVESTING ACTIVITIES	
Purchase of property and equipment	(4,932)
Short-term investments	(2,443,000)
Cash used in investing activities	<u>(2,447,932)</u>
FINANCING ACTIVITIES	
Payments of capital lease obligation	(2,580)
Cash used in financing activities	<u>(2,580)</u>
Increase in cash during the period	103,507
Cash, beginning of period	<u>—</u>
Cash, end of period	<u>103,507</u>

See accompanying notes

SCHEDULE OF GENERAL OFFICE EXPENSES

	Period from April 19, 2011 to June 30, 2012 \$
Amortization of property and equipment	15,802
Board expenses	9,044
Bank charges	816
Communications and marketing	31,015
Equipment, rental and maintenance	9,839
Facilities, utilities and property taxes	99,525
Insurance	5,926
Office	15,801
Professional services	236,806
Salaries and benefits	222,787
Travel and business	21,911
Moving and start-up expenses	22,074
	<u>691,346</u>

See accompanying notes

Decoda Literacy Solutions Society

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. THE ORGANIZATION

Decoda Literacy Solutions Society [the “Society” or “Decoda”] is a not-for-profit organization incorporated on April 19, 2011, under the Society Act 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 become even more resilient. Decoda continues the work previously undertaken by LBCS Literacy B.C. Society [“LBCS”] and the literacy department of 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 also 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, 2012, the Society had received a \$3.85 million contribution from 2010 Legacies. In accordance with the Contribution Agreement, the remaining \$3.15 million contribution will be received from 2010 Legacies over the next three fiscal years.

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.
- **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.

Decoda Literacy Solutions Society

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

- **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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Decoda was established as a newly incorporated Society on April 19, 2011 to continue the work of LBCS and 2010 Legacies. However, as the predecessor organizations do not have control over the newly established Board of Directors, “Fresh Start” accounting rules were followed in preparing these financial statements. The contributions made by LBCS and 2010 Legacies were recorded as either revenue, deferred revenue or deferred capital contributions. Accordingly, no comparative figures are presented in these financial statements.

These financial statements have been prepared in accordance with Part III of the Canadian Institute of Chartered Accountants’ Handbook - *Accounting Standards for Not-for-Profit Organizations*.

Fund accounting

The Society maintains its accounts in accordance with the principles of fund accounting. Resources are classified for accounting and reporting purposes into funds according to the activity or objective specified by outside restrictions or determinations made by the Board of Directors.

Unrestricted Fund – The Unrestricted Fund reflects the operating activities of the Society. These amounts are unrestricted in nature.

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 FINANCIAL STATEMENTS

June 30, 2012

Revenue recognition

The Society follows the deferral method of accounting for contributions. Contributions and program 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 recorded as deferred revenue on the 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, which approximates fair value.

Supplies

Supplies consist of printed literacy materials used for workshops or for sale and are valued at cost.

Property and equipment and assets under capital lease

Property and equipment 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

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 FINANCIAL STATEMENTS

June 30, 2012

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.

Gifts in kind

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

The Society receives contributed services, including significant time contributed by volunteers, that are not recognized in the financial statement due to their difficulty in determining the fair market value of such contributions.

Use of estimates

The preparation of these 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 and rates.

3. SHORT-TERM INVESTMENTS

Included in short-term investments is a one-year GIC maturing in November 2012 bearing interest rate at the borrower's prime rate minus 1.8% per annum. Interest earned during the period ended June 30, 2012 totalled \$22,082. Prime rate at June 30, 2012 was 3.0%.

Also included in short-term investment is a \$11,500 GIC provided by the Society as security for three corporate credit cards with a combined credit limit of \$10,000. This GIC does not bear interest.

Decoda Literacy Solutions Society

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. PROPERTY AND EQUIPMENT

	2012		
	Cost \$	Accumulated amortization \$	Net book value \$
Furniture and equipment [i] [ii]	70,285	14,057	56,228
Computer equipment [i]	5,234	1,745	3,489
	75,519	15,802	59,717

[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 net book value of \$9,287 as at June 30, 2012. Amortization expense for the period amounted to \$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

	2012 \$
Obligation under capital lease for office telephone system, with interest at the rate of 0%, maturing on October 31, 2014	9,029
Less current portion	3,870
Long-term portion	5,159

Future minimum lease payments under the capital lease for subsequent years are as follows:

	\$
2013	3,870
2014	3,870
2015	1,289
	9,029

Decoda Literacy Solutions Society

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

6. DEFERRED CAPITAL CONTRIBUTIONS

	2012
	\$
	<u> </u>
Balance, beginning of period	—
Contribution related to property and equipment	58,978
Amortization for the period	<u>(12,402)</u>
Balance, end of period	<u>46,576</u>

7. DEFERRED REVENUE

As at June 30, 2012, deferred revenue is comprised of contributions received from the following, related to services still to be performed:

	2012
	\$
	<u> </u>
2010 Legacies	2,030,482
LBCS	9,599
Others	<u>2,226</u>
	<u>2,042,307</u>

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.

	2012
	\$
	<u> </u>
Rent-free period	22,366
Amortization for the period	<u>(4,194)</u>
Deferred lease inducement as at June 30, 2012	18,172
Current portion	<u>(4,194)</u>
Long-term portion	<u>13,978</u>

Decoda Literacy Solutions Society

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

9. CONTRIBUTIONS FROM THE PROVINCE OF BRITISH COLUMBIA

During the period ended June 30, 2012, Decoda recorded revenue from contributions received or receivable from the following provincial government ministries:

	<u>2012</u> \$
Ministry of Education	1,538,000
Ministry of Advanced Education	250,000
Ministry of Jobs, Tourism and Innovation	269,248
Ministry of Public Safety & Solicitor General	41,262
Ministry of Justice	25,510
	<u>2,124,020</u>

10. CONTRIBUTIONS FROM THE FEDERAL GOVERNMENT

During the period ended June 30, 2012, Decoda recorded revenue from contributions received or receivable from the Office of Literacy of Essential Skills of Human Resources and Skills Development Canada in the amount of \$594,487.

11. COMMITMENTS

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

	<u>\$</u>
2013	254,851
2014	258,724
2015	265,004
2016	269,273
2017	91,651
	<u>1,139,503</u>

Decoda Literacy Solutions Society

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

12. FINANCIAL INSTRUMENTS

The Society's financial instruments consist of cash, 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 values. The Society is exposed to various financial risks with respect to these financial instruments. The following provides helpful information in assessing the extent of the Society'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. The Society'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. The Society is exposed to interest rate risk on its short-term investments.

Liquidity risk

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