

Consolidated Financial Statements

Decoda Literacy Solutions Society

June 30, 2013

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Decoda Literacy Solutions Society

REPORT ON THE 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, 2013, 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 in our audit 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, 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.

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 9, 2013.

Ernst + Young LLP

Chartered Accountants

Decoda Literacy Solutions Society

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30

	2013	2012
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	164,463	103,507
Short-term investments <i>[note 3]</i>	2,327,500	2,443,000
Grants and other receivables	26,561	285,681
Prepaid expenses	9,830	14,469
Supplies	12,359	8,187
	<u>2,540,713</u>	<u>2,854,844</u>
Property and equipment, net <i>[note 4]</i>	49,067	59,717
Deposits	41,837	41,837
	<u>2,631,617</u>	<u>2,956,398</u>
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	180,818	741,142
Capital lease obligation, current <i>[note 5]</i>	3,870	3,870
Deferred lease inducement, current <i>[note 8]</i>	4,194	4,194
	<u>188,882</u>	<u>749,206</u>
Deferred contributions <i>[note 7]</i>	2,255,457	2,042,307
Deferred lease inducement <i>[note 8]</i>	9,784	13,978
Deferred capital contributions <i>[notes 4 and 6]</i>	34,174	46,576
Capital lease obligation <i>[note 5]</i>	1,289	5,159
	<u>2,489,586</u>	<u>2,857,226</u>
Commitments <i>[note 11]</i>		
NET ASSETS		
Unrestricted	142,031	99,172
	<u>142,031</u>	<u>99,172</u>
	<u>2,631,617</u>	<u>2,956,398</u>

See accompanying notes

On behalf of the Board:



Director



Director

Decoda Literacy Solutions Society

CONSOLIDATED STATEMENT OF OPERATIONS

	Year ended June 30, 2013 \$	Period from April 19, 2011 to June 30, 2012 \$
REVENUE		
Contributions		
Province of British Columbia <i>[note 9]</i>	2,839,615	2,124,020
Federal Government <i>[note 10]</i>	505,904	594,487
LIFT Philanthropy Partners' Society [formerly 2010 Legacies Now Society]	1,542,089	1,970,294
Legacies in Action Society	—	520,000
LBCS Literacy B.C. Society	—	326,833
Postmedia Network Foundation	7,000	53,038
	<u>4,894,608</u>	<u>5,588,672</u>
Program and other revenue	37,540	75,990
Interest income	35,442	22,082
Amortization of deferred capital contributions <i>[note 6]</i>	12,402	12,402
	<u>4,979,992</u>	<u>5,699,146</u>
EXPENSES		
Programs		
Adult	667,087	929,267
Family	733,357	837,463
Community	2,544,003	2,967,597
Program support	234,072	174,301
	<u>4,178,519</u>	<u>4,908,628</u>
General office <i>[schedule]</i>	758,614	691,346
	<u>4,937,133</u>	<u>5,599,974</u>
Excess of revenue over expenses for the period	<u>42,859</u>	<u>99,172</u>

See accompanying notes

Decoda Literacy Solutions Society

**CONSOLIDATED STATEMENT OF
CHANGES IN NET ASSETS**

	Year ended June 30,		Period from
	2013		April 19, 2011
	Unrestricted	Total	to June 30,
	\$	\$	2012
			Total
			\$
Balance, beginning of period	99,172	99,172	—
Excess of revenue over expenses for the period	42,859	42,859	99,172
Balance, end of period	142,031	142,031	99,172

See accompanying notes

Decoda Literacy Solutions Society

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended June 30, 2013 \$	Period from April 19, 2011 to June 30, 2012 \$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the period	42,859	99,172
Add (deduct) items not affecting cash		
Deferred lease inducement	—	22,366
Amortization of property and equipment	16,779	15,802
Amortization of deferred capital contributions	(12,402)	(12,402)
Amortization of deferred lease inducement	(4,194)	(4,194)
	<u>43,042</u>	<u>120,744</u>
Changes in non-cash working capital balances related to operations		
Grants and other receivables	259,120	(285,681)
Prepaid expenses and deposits	4,639	(56,306)
Supplies	(4,172)	(8,187)
Accounts payable and accrued liabilities	(560,324)	741,142
Deferred contributions	213,150	2,042,307
Cash (used in) provided by operating activities	<u>(44,545)</u>	<u>2,554,019</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(6,129)	(4,932)
Redemption (purchase) of short-term investments	115,500	(2,443,000)
Cash provided by (used in) investing activities	<u>109,371</u>	<u>(2,447,932)</u>
FINANCING ACTIVITIES		
Payments of capital lease obligation	(3,870)	(2,580)
Cash used in financing activities	<u>(3,870)</u>	<u>(2,580)</u>
Increase in cash and cash equivalents during the period	<u>60,956</u>	<u>103,507</u>
Cash and cash equivalents, beginning of period	103,507	—
Cash and cash equivalents, end of period	<u>164,463</u>	<u>103,507</u>

See accompanying notes

**CONSOLIDATED SCHEDULE OF
GENERAL OFFICE EXPENSES**

	Year ended June 30, 2013 \$	Period from April 19, 2011 to June 30, 2012 \$
Amortization of property and equipment	16,779	15,802
Board expenses	19,402	9,044
Bank charges	361	816
Communications and marketing	45,421	31,015
Equipment, rental and maintenance	6,900	9,839
Facilities, utilities and property taxes	126,145	99,525
Insurance	5,740	5,926
Office	10,677	15,801
Professional services	195,434	236,806
Salaries and benefits	309,517	222,787
Travel and business	22,238	21,911
Moving and start-up expenses	—	22,074
	<u>758,614</u>	<u>691,346</u>

See accompanying notes

Decoda Literacy Solutions Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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, 2013, the Society had received a \$5.60 million contribution from 2010 Legacies. In accordance with the Contribution Agreement, the remaining \$1.40 million contribution will be received from 2010 Legacies over the next two 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.

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- **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 Canadian Institute of Chartered Accountants' 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.

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.

Revenue recognition

Decoda follows the deferral method of accounting for contributions. Unrestricted 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.

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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 lower of cost determined on the actual cost basis and replacement value.

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.

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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 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 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.

3. SHORT-TERM INVESTMENTS

Included in short-term investments are the following GICs:

A \$1,750,000 GIC maturing in October 2013, bearing interest at the borrower's prime rate minus 1.65% per annum.

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A \$550,000 GIC maturing in January 2014, bearing interest at the borrower's prime rate minus 1.75% per annum.

A \$11,500 GIC maturing in July 2013, bearing interest at 0.8% per annum and provided by the Society as security for three corporate credit cards with a combined credit limit of \$10,000.

Interest earned during the year ended June 30, 2013 totalled \$35,442 [2012 - \$22,082]. The prime rate at June 30, 2013 was 3.0% [2012 - 3.0%].

4. PROPERTY AND EQUIPMENT

	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
	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 a net book value at June 30, 2013 of \$6,965 [2012 - \$9,287]. Amortization expense for the period amounted to \$2,322 [2012 - \$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.

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5. CAPITAL LEASE OBLIGATION

	2013 \$	2012 \$
Obligation under capital lease for office telephone system, with interest at the rate of 0%, maturing on October 31, 2014	5,159	9,029
Less current portion	<u>(3,870)</u>	<u>(3,870)</u>
Long-term portion	<u>1,289</u>	<u>5,159</u>

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

	\$
2014	3,870
2015	<u>1,289</u>
	<u>5,159</u>

6. DEFERRED CAPITAL CONTRIBUTIONS

	2013 \$	2012 \$
Balance, beginning of period	46,576	—
Contribution related to property and equipment	—	58,978
Amortization for the period	<u>(12,402)</u>	<u>(12,402)</u>
Balance, end of period	<u>34,174</u>	<u>46,576</u>

7. DEFERRED CONTRIBUTIONS

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

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

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	2012		
	LIFT	Others	Total
	\$	\$	\$
Balance, beginning of period	—	—	—
Contributions received in the period	4,000,776	250,942	4,251,718
Contributions recognized as revenue in the period	(1,970,294)	(239,117)	(2,209,411)
Balance, end of period	2,030,482	11,825	2,042,307

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.

	2013	2012
	\$	\$
Rent-free period	22,366	22,366
Accumulated amortization	(8,388)	(4,194)
Deferred lease inducement	13,978	18,172
Less current portion	(4,194)	(4,194)
Long-term portion	9,784	13,978

9. CONTRIBUTIONS FROM THE PROVINCE OF BRITISH COLUMBIA

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

	2013	2012
	\$	\$
Ministry of Education	2,502,000	1,538,000
Ministry of Advanced Education	130,000	250,000
Ministry of Jobs, Tourism and Skills Training [formerly Ministry of Jobs, Tourism and Innovation]	206,361	269,248
Ministry of Public Safety & Solicitor General	1,254	41,262
Ministry of Justice	—	25,510
	2,839,615	2,124,020

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10. CONTRIBUTIONS FROM THE FEDERAL GOVERNMENT

During the period ended June 30, 2013, Decoda recorded revenue from contributions from the Office of Literacy of Essential Skills of Human Resources and Skills Development Canada in the amount of \$505,904 [2012 - \$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>
2014	258,725
2015	265,004
2016	269,273
2017	91,651
	<u>884,653</u>

12. FINANCIAL INSTRUMENTS

The Society is exposed to various financial risks with respect to 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.

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Liquidity risk

Liquidity risk is the risk that Decoda 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.