
YOUTH CHALLENGE INTERNATIONAL
FINANCIAL STATEMENTS
MARCH 31, 2007

YOUTH CHALLENGE INTERNATIONAL

MARCH 31, 2007

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AUDITORS' REPORT

To the Board of Directors of Youth Challenge International

We have audited the statement of financial position of Youth Challenge International as at March 31, 2007 and the statements of revenues and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, the Organization derives revenues from donations and volunteer fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses for the year, assets and net assets.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations and volunteer fundraising revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

MALINSKY AND ASSOCIATES
Chartered Accountants
Licenced Public Accountants

Toronto, Ontario
September 4, 2007

YOUTH CHALLENGE INTERNATIONAL
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2007

| | 2007 | 2006 |
|--|-----------------------|-----------------------|
| | \$ | \$ |
| ASSETS | | |
| CURRENT | | |
| Cash and short-term investments | 439,087 | 281,654 |
| Accounts receivable and sundry receivable | 63,285 | 23,475 |
| Prepaid expenses and deposits | 75,276 | 76,480 |
| Deferred costs | <u>13,596</u> | <u>-</u> |
| | 591,244 | 381,609 |
| CAPITAL ASSETS (Note 2) | <u>41,978</u> | <u>14,557</u> |
| | <u>633,222</u> | <u>396,166</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | 33,711 | 36,367 |
| Loan payable (Note 3) | 15,000 | 15,000 |
| Current portion of obligations under capital leases (Note 4) | 5,894 | - |
| Deferred contributions (Note 5) | <u>395,247</u> | <u>308,755</u> |
| | 449,852 | 360,122 |
| OBLIGATIONS UNDER CAPITAL LEASES (Note 4) | <u>15,442</u> | <u>-</u> |
| | <u>465,294</u> | <u>360,122</u> |
| NET ASSETS | | |
| NET ASSETS | | |
| Invested in capital assets | 41,978 | 14,557 |
| Unrestricted | <u>125,950</u> | <u>21,487</u> |
| | <u>167,928</u> | <u>36,044</u> |
| | <u>633,222</u> | <u>396,166</u> |

Commitment (Note 10)

APPROVED ON BEHALF OF THE BOARD:

 Director

 Director

See accompanying notes to financial statements

YOUTH CHALLENGE INTERNATIONAL
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2007

| | <u>2007</u> | <u>2006</u> |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| REVENUES | | |
| Government support | 849,471 | 609,881 |
| Contributed services (Note 6) | 825,822 | 704,261 |
| Volunteer fundraising | 642,001 | 562,859 |
| Foundation support | 29,975 | 30,600 |
| Volunteer flight revenues | 23,964 | 73,131 |
| Other income | 22,323 | 928 |
| Other contributions | <u>18,918</u> | <u>14,828</u> |
| | <u>2,412,474</u> | <u>1,996,488</u> |
| PROGRAM EXPENSES | | |
| Overseas programs | 1,199,825 | 899,977 |
| Contributed services (Note 6) | 825,822 | 704,261 |
| Volunteer flight costs | 23,964 | 73,131 |
| Canadian programs | <u>17,220</u> | <u>15,534</u> |
| | <u>2,066,831</u> | <u>1,692,903</u> |
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Administration | 198,709 | 195,115 |
| Amortization | 14,269 | 6,239 |
| Fundraising expenses | <u>781</u> | <u>24,696</u> |
| | <u>213,759</u> | <u>226,050</u> |
| TOTAL EXPENSES | <u>2,280,590</u> | <u>1,918,953</u> |
| EXCESS OF REVENUES OVER EXPENSES | <u>131,884</u> | <u>77,535</u> |

See accompanying notes to financial statements

YOUTH CHALLENGE INTERNATIONAL
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2007

| | Investment in Capital Assets \$ | Unrestricted \$ | 2007 \$ | 2006 \$ |
|--|---------------------------------------|-----------------------|-----------------------|----------------------|
| BALANCE , beginning of year | 14,557 | 21,487 | 36,044 | (41,491) |
| Excess (deficiency) of revenues over expenses | (14,269) | 146,153 | 131,884 | 77,535 |
| Investment in capital assets | <u>41,690</u> | <u>(41,690)</u> | <u>-</u> | <u>-</u> |
| BALANCE , end of year | <u>41,978</u> | <u>125,950</u> | <u>167,928</u> | <u>36,044</u> |

See accompanying notes to financial statements

YOUTH CHALLENGE INTERNATIONAL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007

| | <u>2007</u> | <u>2006</u> |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Excess of revenues over expenses | 131,884 | 77,535 |
| Amortization of capital assets | <u>14,269</u> | <u>6,239</u> |
| | 146,153 | 83,774 |
| Changes in non-cash working capital items: | | |
| Decrease in accounts receivable and sundry receivable | (39,810) | (19,670) |
| Increase in prepaid expenses, deposits and deferred costs | (12,392) | (21,398) |
| Increase (decrease) in accounts payable and accrued liabilities | (2,656) | 15,100 |
| Increase in deferred contributions | <u>86,492</u> | <u>121,034</u> |
| | <u>177,787</u> | <u>178,840</u> |
| FINANCING ACTIVITIES | | |
| Increase in obligations under capital leases | <u>21,336</u> | <u>-</u> |
| INVESTING ACTIVITIES | | |
| Purchase of capital assets | <u>(41,690)</u> | <u>(3,742)</u> |
| CHANGE IN CASH AND SHORT-TERM INVESTMENTS | 157,433 | 175,098 |
| CASH AND SHORT-TERM INVESTMENTS , beginning of year | <u>281,654</u> | <u>106,556</u> |
| CASH AND SHORT-TERM INVESTMENTS , end of year | <u>439,087</u> | <u>281,654</u> |

See accompanying notes to financial statements

YOUTH CHALLENGE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Description of the organization:

Youth Challenge International was incorporated as a corporation without share capital under the Business Corporations Act (Ontario) by Letters Patent granted December 29, 1983. The Organization was granted tax-exempt status as a registered charity under the Income Tax Act, effective January 1, 1984, and accordingly is not subject to income tax.

The Organization is a Toronto based non-profit youth development and educational institution. It builds the skills, experience and confidence of young people by involving them in substantive overseas development projects in partnership with local youth-serving organizations. It has active programs which impact youths in Canada, Africa, Central and South America, South Pacific and the Caribbean.

(b) Revenue recognition and deferred contributions:

The deferral method is used to record contributions. Under this method, contributions are recognized as revenue in the year during which the related charges are incurred.

Restricted contributions, which are those subject to an obligation of required use, are recognized as revenue in the year during which the related charges are incurred. Unrestricted contributions are recognized in the year during which they are received.

Contributions restricted for the purchase of capital assets are expensed in the year incurred. There were no restricted contributions related to capital assets at the year end date.

(c) Capital assets:

Capital assets are recorded at cost. Amortization of capital assets is provided as follows:

| | |
|------------------------|------------------------------------|
| Computer equipment | - 30% per annum, declining balance |
| Equipment | - 30% per annum, declining balance |
| Leasehold improvements | - 20% per annum, straight line |

In the year of acquisition, 1/2 of the applicable rate is used.

(d) Contributed materials and services:

Contributed materials and services in the form of capital assets are accounted for at their fair value at the date of the donation or the agreement's date. A capital asset and deferred contribution are then recognized in the balance sheet and amortized in accordance with the accounting policies in note 1(c)

Contributed materials and services in the form of supplies and services are accounted for at their fair value at the date of the donation or the agreement's date. A revenue and an expense are then recognized in the statement of operations.

(e) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from such estimates.

YOUTH CHALLENGE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

(f) Foreign currency:

Monetary assets and liabilities in foreign currencies are converted to Canadian funds using the rate of exchange in existence at the balance sheet date. Non-monetary assets acquired in foreign currencies are converted at the historical rates of exchange prevailing at the date of acquisition. Revenues and expenses are translated using the spot rates of exchange in existence at time of transaction. As at year end, the Organization held no assets or liabilities and had no revenues during the year in foreign currencies.

2. CAPITAL ASSETS

| | Cost | Accumulated Amortization | Net 2007 | Net 2006 |
|------------------------|----------------|-----------------------------|---------------|---------------|
| | \$ | \$ | \$ | \$ |
| Computer equipment | 66,697 | 50,706 | 15,991 | 13,638 |
| Equipment | 32,484 | 6,497 | 25,987 | 919 |
| Leasehold improvements | <u>8,946</u> | <u>8,946</u> | <u>-</u> | <u>-</u> |
| | <u>108,127</u> | <u>66,149</u> | <u>41,978</u> | <u>14,557</u> |

3. LOAN PAYABLE

Loan payable is non-interest bearing, unsecured and due on demand to a former board member.

4. OBLIGATIONS UNDER CAPITAL LEASES

The Company is obligated to capital leases with interest rates varying between 2.97% and 9.53% per annum. Obligations under capital leases are secured by the fixed assets leased. Future minimum lease payments are as follows:

| | \$ |
|-----------------|-----------------|
| 2008 | 5,894 |
| 2009 | 6,425 |
| 2010 | 7,009 |
| 2011 | <u>2,008</u> |
| | 21,336 |
| Current portion | <u>(5,894)</u> |
| | <u>15,442</u> |

YOUTH CHALLENGE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

5. DEFERRED CONTRIBUTIONS

Deferred contributions represents unspent contributions totaling \$170,525 (2006 - \$165,173) received from volunteer raised revenues, \$182,812 (2006 - \$85,082) which represents unspent funds received from Canadian International Development Agency (CIDA) and \$41,910 (2006 - \$58,500) representing funds for future organizational program development activities approved by the Board which relate to subsequent periods. Changes in the deferred revenue balance are as follows:

| | <u>2007</u> | <u>2006</u> |
|--|-----------------------|-----------------------|
| | \$ | \$ |
| BALANCE , beginning of year | 308,755 | 129,001 |
| Amounts recognized as revenue in the year | (308,755) | (129,001) |
| Amounts received related to expenses of the following year | <u>395,247</u> | <u>308,755</u> |
| BALANCE , end of year | <u><u>395,247</u></u> | <u><u>308,755</u></u> |

6. CONTRIBUTIONS OF RENDERED SERVICES

The contributions in the form of rendered services represent the value of the non-remunerated contributions provided by the volunteer participants. According to a study conducted during the year, in which the hours of services provided by the volunteers were tracked, 55,950 hours of rendered services were performed during the year (2006 - 53,925 hours). The value of the contributions amounted to \$825,822 (2006 - \$704,261). The hours worked in the year ended March 31, 2007 were valued at the average rate of \$14.76/hour (2006 - \$13.06). The average hourly rate was calculated on the basis of data established by Statistics Canada, representing the economic value of the volunteer work, based on the average hourly remuneration rate paid to employees under the National Occupational Classification for Statistics Canada, which represents community workers .

These contributions, which were received free of charge, are accounted for both as revenue and as a charge to direct expenses and, therefore, have no impact on the year's excess of revenues over expenses.

During the year, volunteers booked and paid for flights in the amount of \$220,633 (2006 - \$180,582) through a travel agency that has a relationship with the organization. These amounts have not been reflected in the statement of revenue and expenses.

7. FINANCING ACTIVITY AND SUBSEQUENT EVENT

On March 26, 2004, a Contribution Agreement was signed between Youth Challenge International and the Canadian International Development Agency (CIDA), which provides funding for the Organization to support the Global Youth Development program. The subsidies are received on an annual basis in accordance with the terms and conditions of the agreement. CIDA provided funding from April 2004 through to March 2007, for up to two thirds of the Canadian costs incurred to run the program. As at year end date, \$1,201,378 had been received and in March 2007 the terms of the agreement expired.

On May 3, 2007, a new Contribution Agreement was signed between Youth Challenge International and CIDA for subsidies to be received on an annual basis to July 2010 in support of the Global Youth Leadership programs in Canada, Guyana, Tanzania, and Kenya. Under the terms of this agreement, CIDA will provide funding up to but not exceeding \$1,365,430 over the three-year term of the contribution agreement subject to a 25% cost-sharing arrangement with Youth Challenge International.

The Organization is economically dependent on the continued support of governmental agencies through receipt of contributions and grants.

YOUTH CHALLENGE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

8. SIGNIFICANTLY INFLUENCED ORGANIZATIONS

Youth Challenge International has the ability to exert significant influence over the affiliated organizations listed below, by virtue of the level of economic contributions made to the organizations and their programs. The significantly influenced organizations operate in Costa Rica, Guyana and Australia where they provide educational and developmental services in the communities in which they operate with objectives similar to those of Youth Challenge International.

During the year Youth Challenge International paid out the following amounts to partnership organizations which represent fees paid for Canadian volunteers sent to the programs:

| | <u>2007</u> | <u>2006</u> |
|----------------------------|-------------|-------------|
| | \$ | \$ |
| Reto Juvenil Internacional | 100,280 | 101,850 |
| Youth Challenge Guyana | 54,946 | 52,063 |
| Youth Challenge Australia | 26,174 | 21,726 |

9. FINANCIAL INSTRUMENTS AND CURRENCY RISK

The carrying value of cash and short-term investments, accounts receivable and sundry receivable, deposits, accounts payable and accrued liabilities and loan payable approximates their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand. Except as noted in the following paragraph, it is the Board's opinion that there is no significant interest rate or credit risk associated with these instruments.

The fair value of the obligations under capital leases is not determinable as the current rate at which these leases could be negotiated is not known.

The Organization, due to the nature of its activities with foreign agencies, conducts various transactions in the currency of the destination country. As a result, the Organization is exposed to foreign currency risk and attempts to mitigate this risk through certain internal procedures designed to reduce the fluctuation on foreign currency transactions. The organization does not use derivative instruments to reduce its exposure to foreign currency risk.

10. COMMITMENT

The Organization is committed under an operating lease expiring in fiscal 2008 for the rental of the office premises. Future minimum lease payments under this lease is as follows:

| | |
|------|--------|
| | \$ |
| 2008 | 20,133 |

11. CHANGE IN PRESENTATION AND COMPARATIVE FIGURES

In order to reflect the nature of operations of the organization, the presentation of revenues and expenses has been restated. Consequently, certain prior year figures have been reclassified to conform with the presentation adopted in the current year.