
YOUTH CHALLENGE INTERNATIONAL
FINANCIAL STATEMENTS
MARCH 31, 2006

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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, 2006 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, 2006 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

Toronto, Ontario

August 4, 2006

YOUTH CHALLENGE INTERNATIONAL
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2006

	2006	2005
	\$	\$
ASSETS		
CURRENT		
Cash and short-term investments	281,654	106,556
Accounts receivable	23,475	3,805
Prepaid expenses and deposits	76,480	55,082
	<u>381,609</u>	<u>165,443</u>
CAPITAL ASSETS (Note 2)	14,557	17,053
	<u>396,166</u>	<u>182,496</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	36,367	21,266
Loan payable (Note 3)	15,000	15,000
Deferred contributions (Note 4)	308,755	187,721
	<u>360,122</u>	<u>223,987</u>
NET ASSETS		
NET ASSETS		
Invested in capital assets	14,556	17,053
Unrestricted	21,488	(58,544)
	<u>36,044</u>	(41,491)
	<u>396,166</u>	<u>182,496</u>

Commitments (Note 9)

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, 2006

	<u>2006</u>	<u>2005</u>
	\$	\$
REVENUES		
Contributed services (Note 5)	704,261	570,560
Volunteer fundraising	635,991	569,785
Government support	609,881	447,480
Foundation support	30,600	3,250
Other contributions	14,828	15,761
Interest income	928	795
	<u>1,996,489</u>	<u>1,607,631</u>
PROGRAM EXPENSES		
Overseas programs	973,109	742,579
Canadian programs	15,534	63,680
Contributed services (Note 5)	<u>704,261</u>	<u>570,560</u>
	<u>1,692,904</u>	<u>1,376,819</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Administration	195,115	190,178
Fundraising expenses	24,696	29,356
Amortization	<u>6,239</u>	<u>6,105</u>
	<u>226,050</u>	<u>225,639</u>
TOTAL EXPENSES	<u>1,918,954</u>	<u>1,602,458</u>
EXCESS OF REVENUES OVER EXPENSES	<u>77,535</u>	<u>5,173</u>

See accompanying notes to financial statements

YOUTH CHALLENGE INTERNATIONAL
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2006

	Invested in Capital Assets \$	Unrestricted \$	2006 \$	2005 \$
BALANCE , beginning of year	17,053	(58,544)	(41,491)	(46,664)
Excess (deficiency) of revenues over expenses	(6,239)	83,774	77,535	5,173
Investment in capital assets	<u>3,742</u>	<u>(3,742)</u>	<u>-</u>	<u>-</u>
BALANCE , end of year	<u><u>14,556</u></u>	<u><u>21,488</u></u>	<u><u>36,044</u></u>	<u><u>(41,491)</u></u>

See accompanying notes to financial statements

YOUTH CHALLENGE INTERNATIONAL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Excess of revenues over expenses	77,535	5,173
Amortization of capital assets	<u>6,239</u>	<u>6,105</u>
	83,774	11,278
Changes in non-cash working capital items:		
(Increase) decrease in accounts receivable	(19,670)	2,780
Increase in prepaid expenses and deposits	(21,398)	(26,862)
Increase (decrease) in accounts payable and accrued liabilities	15,100	(9,274)
Increase in deferred contributions	<u>121,034</u>	<u>58,720</u>
	<u>178,840</u>	<u>36,642</u>
INVESTING ACTIVITIES		
Purchase of capital assets	<u>(3,742)</u>	<u>(5,618)</u>
CHANGE IN CASH AND SHORT-TERM INVESTMENTS	175,098	31,024
CASH AND SHORT-TERM INVESTMENTS , beginning of year	<u>106,556</u>	<u>75,532</u>
CASH AND SHORT-TERM INVESTMENTS , end of year	<u><u>281,654</u></u>	<u><u>106,556</u></u>

See accompanying notes to financial statements

YOUTH CHALLENGE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

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, and the South Pacific.

(b) Revenue recognition and deferred contributions:

The deferral method is used to record contributions.

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, 2006

(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 2006	Net 2005
	\$	\$	\$	\$
Computer equipment	57,492	43,854	13,638	16,787
Equipment	3,431	2,512	919	266
Leasehold improvements	<u>8,946</u>	<u>8,946</u>	<u>-</u>	<u>-</u>
	<u>69,869</u>	<u>55,312</u>	<u>14,557</u>	<u>17,053</u>

3. LOAN PAYABLE

Loan payable is non-interest bearing, unsecured and due on demand.

4. DEFERRED CONTRIBUTIONS

Deferred contributions represents unspent contributions totaling \$165,173 received from volunteer raised revenues, \$85,082 which represents unspent funds received from Canadian International Development Agency (CIDA) and \$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>2006</u>	<u>2005</u>
	\$	\$
BALANCE, beginning of year	187,721	129,001
Amounts recognized as revenue in the year	(187,721)	(129,001)
Amounts received related to expenses of the following year	<u>308,755</u>	<u>187,721</u>
BALANCE, end of year	<u>308,755</u>	<u>187,721</u>

YOUTH CHALLENGE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

5. 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, 53,925 hours of rendered services were performed in 2006 (2005 - 46,050 hours). The value of the contributions amounted to \$704,261 (2005 - \$570,560). The hours worked in the year ended March 31, 2006 were valued at the average rate of \$13.06/hour (2005 - \$12.39). 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.

6. FINANCING ACTIVITY

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 will provide funding from April 2004 through to March 2007, for up to two thirds of the Canadian costs incurred to run the program, not to exceed \$1,103,584 over the term of the agreement. As at year end date, \$717,501 has been received.

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

7. 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 South Pacific 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>2006</u>	<u>2005</u>
	\$	\$
Reto Juvenil Internacional	101,850	139,659
Youth Challenge Guyana	52,063	114,365
Youth Challenge Australia	21,726	32,065

YOUTH CHALLENGE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

8. FINANCIAL INSTRUMENTS AND CURRENCY RISK

The carrying value of cash and short-term investments, accounts receivable, prepaid expenses and 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 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.

9. COMMITMENTS

The Organization is committed under operating leases expiring in the year fiscal 2010 for the rental of an office and office equipment . Future minimum lease payments under these leases are as follows:

	\$
2007	33,870
2008	26,687
2009	5,136
2010	<u>3,852</u>
	<u><u>69,545</u></u>

10. 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.