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HYACK YOUTH HEALTH ASSOCIATION



CPA

**ORDRE DES COMPTABLES
PROFESSIONNELS AGRÉÉS
DU QUÉBEC**

Hyack Youth Health Association

Hyack Youth Health Association (Hyack) is a registered charitable organization located in Longueuil, Québec. Its mission is to provide health awareness and education to youth between the ages of 13 and 17. Hyack's programs and activities relate to drug awareness, obesity, general health and nutrition, and addiction to electronic, and other, media. You, CPA are currently employed as a financial analyst with a mining company. Having read about Hyack's programs, activities, and accomplishments, you joined Hyack's board of directors two months ago. Hyack's volunteer board consists of seven individuals from various professions. The former treasurer—also a CPA—recently moved to another province. As the only CPA on the board, you were elected the new treasurer.

Hyack's operating staff consists of Alicia Cole, the Director of Programs, Sandy Moller, the part-time bookkeeper, a receptionist/administrative assistant, and six part-time program facilitators. Hyack received registered charitable status from Canada Revenue Agency in December 2013.

It is January 6, 2014. Hyack's year-end is December 31. Alicia is bringing you up to date on current issues. Most of Alicia's time is spent researching ideas for programs and activities, including delivery methodologies. She also spends some of her time developing activities.

ALICIA: We receive some of our funding from the provincial government. Our agreement with the government (**Exhibit I**) is expiring this year and we need to develop a plan to secure future funding. We also need to know what our cash situation will look like in 2014, so that we can plan properly. Unfortunately, Sandy isn't experienced enough to prepare a cash flow forecast for 2014. I am particularly interested in what our cash flows will be for the first half of 2014 compared to the last half of 2014, as I know some of our cash flows fluctuate throughout the year.

With the current economic environment, government funding has become increasingly difficult. There are many non-profit organizations like ours competing for the limited funding available. Sandy has prepared the year-end trial balance (**Exhibit II**). I am wondering how we should allocate our expenses so that we receive as much government funding as possible.

ALICIA: I prepared some notes regarding our operations and plans for 2014 (**Exhibit III**).

The board of directors isn't heavily involved in Hyack's day-to-day operations. As you know, the board meets only twice a year. A board meeting is scheduled next week to discuss our budget and plans for 2014. At the same time, we will also need to discuss whether we should accept a private contribution. We received this letter from the individual last month (**Exhibit IV**).

After your meeting with Alicia, you decide to prepare a report for the board that assesses Hyack's cash position for 2014, its current system of internal controls, whether to accept the private contribution, issues affecting the 2013 financial statements, and any other concerns that the board should be aware of.

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Exhibit I

Summary information regarding funding agreement with provincial government

Provincial government (Government) will provide funding on the following basis:

- Hyack must submit a request for funding (RFF) by January 31.
- The RFF is calculated as 35% of the previous year's direct program and activity expenses.
- Government funding as a percentage of total contribution revenues will be limited to the following annual specified limits:
 - 2012: 20%
 - 2013: 18%
 - 2014: 15%
- If government funding as a percentage of total contribution revenues exceeds the annual specified limit, the excess amount must be repaid by February 10 in the year following the excess funding.

In addition, Hyack must submit the following annually:

- Annual financial statements prepared in accordance with generally accepted accounting principles (GAAP), on or by January 31 of the following year. Until February 15, Government reserves the right to request a review or audit engagement on the financial statements or of specific accounts therein. The results of such engagement will be reported to Government no later than 30 days after such written request is made.
- Specified details on the programs and activities conducted in the year.

Assuming all conditions have been met to the satisfaction of Government, funding will be issued on or before April 20.

Exhibit II

Trial Balance

Trial Balance
Year ended December 31, 2013
(Prepared by Sandy Moller)

	Note	2013	2012
Bank balance		\$ 6,040	\$ 39,660
Office equipment	1	4,550	-
Gym and kitchen equipment	1	12,100	-
Cumulative excess of revenues over expenditures		(13,520)	(34,350)
Provincial government grant		(90,580)	(60,700)
Grants and donations from private sources		(307,300)	(256,440)
Sales of t-shirts		(2,130)	-
Activity fees		(106,650)	(75,440)
Salaries – administration		122,400	102,700
Salaries – programs	2	158,900	129,600
IT consulting		12,060	4,210
Fundraising	3	5,000	-
Board expenses	4	4,400	3,130
Rent		29,760	13,410
Office supplies		5,970	5,020
Program supplies and direct costs	5	159,000	129,200

The trial balance has been prepared on a cash basis

Notes:

- 1 Until 2013, all of the office, gym, and kitchen equipment was donated.
- 2 These consist of salaries paid to assistants and support staff, who assist the program and activity facilitators (the program and activity facilitators donate their services).
- 3 Payment to Tammen and Associates (see Exhibit III).
- 4 All board members volunteer their time and services. Board expenses represent out-of-pocket costs for supplies, presentations, travel, and meetings.
- 5 In December 2013, Hyack ran an activity, *Healthy Eating for the Holidays*. It was very popular and attracted over 100 participants. Food, costing \$2,330, was purchased for the activity and paid for on January 5, 2014. We have not included this food cost in the 2013 program supplies and direct costs account.

Exhibit III

Notes regarding Hyack's operations and plans for 2014

(Prepared By Alicia Cole)

Hyack was established in 2013 by three medical health professionals from the local children's hospital. The last of the three founding members, Jennifer Gowling, left Hyack in December 2013.

Hyack rents a 3,000 square-foot facility consisting of a gymnasium, kitchen and food-preparation area, and a small, 700 square-foot office for administrative purposes. We moved into this facility in December 2012. Previously, the organization had only a 1,000 square-foot office that it rented. We had to rent gymnasiums and kitchens for the programs and activities, which limited the number of times we were able to deliver services to our clientele.

I facilitate a few programs, but most of our program facilitators are volunteers from the local private children's hospital. The volunteers include doctors, nurses, dieticians, and physiotherapists, many of whom have been with Hyack since its inception. Jennifer Gowling was instrumental in persuading the hospital to volunteer some of its staff to us. As we try to ensure that we have qualified volunteers available for the delivery of our programs, we work very closely with the hospital when scheduling our activities. Our programs and activities have been very popular from the outset; in 2013, we had 93% enrollment.

Hyack's funding comes from a number of sources: provincial government; private (personal and corporate) grants and donations; fees for programs and activities; and, since 2013, sales of t-shirts. Until recently, Hyack has sought grants and donations from a limited number of specific individuals and organizations only. This was because of our limited number of employees and human resources, and our lack of registered charitable status. Most of the private donors are connected to board members. One of our donors is Jennifer Gowling's father, who contributed \$50,000 in 2013. Now that Jennifer has left, we do not expect that he will continue contributing to Hyack. Most of the donation cheques are collected by board members in the latter half of the year, and are subsequently brought to the office for deposit to the bank account. Occasionally, cheques are received in the mail; we expect this will increase in frequency in 2014. All mail is opened by the receptionist.

With our recently obtained registered charitable status, Hyack will now seek donations from the general public. As part of our strategy, we have hired Tammen and Associates (Tammen), a professional fundraising organization. We have agreed to pay Tammen \$5,000 plus 5% of all funds raised in excess of \$25,000. Tammen will begin its fundraising activities in February, and will complete them by the end of April. Tammen believes it will be able to raise \$50,000 to \$80,000, all within the first six months of the year.

Exhibit III (continued)

Notes regarding Hyack's operations and plans for 2014

For the first time, we also plan to canvas door-to-door, and to collect donations in shopping malls. We have already contacted a number of mall managers, who have agreed to let us set up "collection bowls" near their entrances on specific dates. Of course, one person will always be in attendance at the collection bowl. For the door-to-door canvassing and mall collections, we plan to use current and former participants of our programs and activities. There is already a large list of individuals interested in these tasks. We expect that the door-to-door canvassing will raise between \$5,000 and \$10,000, and that the mall canvassing will generate \$10,000 to \$20,000. We plan to do all of the canvassing in the spring.

Until 2013, the organization's website identified our mission, programs and activities, and ways to contact us. In 2013, educational materials on drug awareness, addiction, and nutrition were added to the website. These additions generated many hits and provided the initiative for lively discussion forums. We will continue to develop the website in the future, as it is a highly effective method of delivering educational information.

In late 2013, Hyack received a gift of 300 t-shirts from one of our earliest participants, who took our programs in 2013. He has since started up his own successful clothing business and generously donated printed t-shirts to us. The t-shirts sell for \$15 each and have been extremely popular. We still have 95 on hand and expect to sell these by the end of January. They are kept in the storage room in the gymnasium with all of the fitness equipment.

We do not plan to reduce the number of programs and activities we currently deliver. In fact, we plan to add four additional programs on drug awareness, at a total cost of \$15,000 each. We will probably not be able to add any more than this, as the hospital has indicated it is nearing its limit on the availability of volunteer staff. The additional programs should generate an additional \$36,000 in activity fees in total for 2014. We expect to deliver our programs and activities throughout the year.

We also plan to purchase an additional \$10,000 in gym and kitchen equipment in 2014.

Exhibit IV

Letter from Trevor Brown

December 20, 2013

Hyack Youth Health Association
123 Main Street
Longueuil, QC
M5Z 1H7
Attention: Board of Directors

Dear Sirs or Madams:

I am the grandparent of one of your program participants. In 2012, my grandson, who was 15 at the time, was on a path of self-destruction, engaging in high-risk and illegal activities. Over the course of the next two years, he enrolled in three of your programs, which literally changed his life. He is now a healthy, sober 19 year-old college student with plans to work in health and social sciences when he graduates. My grandson is not yet financially able to contribute to your organization, but I am.

I am currently 71 years old and am in the process of planning the distribution of my assets. As such, I am interested in contributing up to \$75,000 to the Hyack Youth Health Association.

I realize that your organization has only been in existence since 2013. While you have performed excellent work during that time, I wish to see my contribution have an impact over a number of years. Accordingly, I propose the following use of my contribution:

- The full amount of the contribution is to be invested in five-year investment-grade bonds, currently yielding 6%.
- For the first five years, only the annual income shall be spent on programs and activities involving environmental awareness, climate change and/or democratization of emerging nations. In the sixth year, 20% of the initial contribution may also be spent on these programs. Each subsequent year, an additional 20% of the initial contribution shall be “released.”
- To ensure that I am comfortable and informed as to your organization’s financial health and operations, I will require a clean audit report of your annual financial statements until the final 20% of the initial contribution has been released, or upon such time as my passing, whichever comes first.

I look forward to your reply.

Yours faithfully,

Trevor Brown