Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

CPA Professional Program Exams –
CPA Core - Common

Case #2 – Mont-Bellevue Academy

Sample Case, Illustrative Response and Assessment Mapping

The sample examination questions provided in this package are intended to offer a general indication of the format, structure, and nature of questions that candidates may encounter. While these materials have been developed with careful consideration and are intended to be broadly representative, they are not exhaustive and cannot capture the full range of possible question variations. These samples should therefore be used as a guide rather than a definitive representation.

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Mont-Bellevue Academy (Suggested Time: 120 minutes)

Mont-Bellevue Academy (the Academy) is a private not-for-profit secondary school located in Quebec. In addition to its core academic curriculum, the Academy offers five enriched extracurricular programs: alpine skiing, mountain biking, gymnastics, dance, and theatre. Students pay an annual program fee to participate, in addition to regular tuition. The Academy's total revenues last year were just over $600,000.

For the past 15 years, all finance functions were managed single-handedly by Ginette Lapointe, a bookkeeping technician. Ginette managed accounts payable, accounts receivable, payroll, bank deposits, and bookkeeping.

You, CPA, are the newly appointed finance manager of the Academy. You joined the organization in May and are now preparing for the July 31, 2026, fiscal year-end and the upcoming external audit, scheduled to begin in mid-September. Today is August 2, 2026.

The Academy prepares its financial statements in accordance with Accounting Standards for Not-for-Profit Organizations (ASNPO), using the deferral method for contributions with a single fund.

Shortly after the July 31 year-end, you receive an email from Robert Gagnon, chair of the board of directors (Appendix I).

Robert asks you to prepare a report that addresses all the issues identified.

Appendix I

Email from Robert Gagnon

To: [You], CPA, Finance Manager

From: Robert Gagnon, Chair of the Board of Directors

Date: August 2, 2026

Subject: Board Meeting - August 15, 2026

Attachments: Appendix II-VII

CPA,

Welcome to the team! Now that the year-end is behind us, I wanted to reach out about a few items I would like us to address at the August 15 board meeting.

The board would like to better understand each program's financial contribution. Given the financial statements use the deferral method, we have never had reliable program-level financial information we need for internal decision-making at the board level. I would like to understand our reporting options when it comes to how to present each program's financial contribution and performance in the financial statements. To my knowledge, the bank has never asked for anything beyond our annual audited statements, and the donations we receive rarely come with strings attached, so I don't think that should limit our options when it comes to what we can do in the financial statements.

Two specific accounting issues came up during the year (Appendix II). I would like to know how they would be accounted for in the financial statements.

For 10 years, Ginette handled everything on her own. The Academy trusted her, and I have no reason to doubt her integrity. However, with you joining the team, we have the opportunity to strengthen our internal controls. Ginette has left you some notes on the process (Appendix III). I would like you to evaluate where we stand. Tell me if you identify any internal control weaknesses and how to address them.

Before Ginette left, she mentioned she had always tracked donations on paper. As part of her transition, she compiled all donations received over the past two fiscal years into a spreadsheet (Appendix IV). Total donations recorded in our financial statements for the year ending July 31, 2026, amount to $109,275. Review the donations spreadsheet, identify any anomalies and trends, and recommend next steps to the board.

I also think it is time we formalized how we report non-financial information to the board. Right now, we only see the financial statements once a year in December. There are other important metrics that we should track and monitor as a school. Please propose what metrics we should track and why. I'm forwarding you an email I received from the head of school on this topic (Appendix V).

Appendix I (continued)

Email from Robert Gagnon

For the past 10 years, our audited financial statements have arrived in December for a July 31 year-end. The auditors explained the audit delays were largely driven by them having to wait for information that was not organized in advance. This year I want us to do things differently. Can you walk the board through the procedures the auditors will perform for the accounting questions so we can get organized?

There is one additional matter I would like you to look into. I understand Ginette told you about our gymnasium equipment supplier, Dupuis Sports Inc., shortly after you joined. I have been aware of this arrangement for some time, and it's always made me uncomfortable, but I've never known quite how to deal with it. Review the situation and share your assessment with me (Appendix VI).

There is also a separate matter I would like your help with. My mother passed away earlier this summer, and I am the executor of her estate. I would appreciate your advice on how best to structure the donation of the shares to the Academy as well as your analysis of the tax implications for each asset (Appendix VII).

Looking forward to a productive meeting.

Robert Gagnon

Chair, Board of Directors

Mont-Bellevue Academy

Appendix II

Accounting Issues

Alpine Skiing Travel Fund

In June 2026, the Academy received a $40,000 cheque from a parent, accompanied by the following letter:

> *June 12, 2026*
>
> *Dear Mont-Bellevue Academy,*
>
> *Please find enclosed a cheque in the amount of $40,000. These funds are to be used exclusively to cover the travel expenses of students in the alpine skiing program to compete in races across the province in 2027. They may not be used for any other purpose.*
>
> *Thank you for the exceptional experience your school provides.*
>
> *Martin Beauchamp*

Ginette recorded the full $40,000 as contribution revenue upon receipt. As of July 31, 2026, no travel expenses have been incurred, since the races will take place during the 2027 winter season.

Mountain Bikes

The Academy maintains a fleet of mountain bikes available to students enrolled in the mountain biking program. By 2026, this fleet had reached the end of its useful life and needed replacement.

In April 2026, Vélo Expert Inc., a sporting goods supplier, donated 15 mountain bikes to support the mountain biking program. The owner of Vélo Expert Inc. is the parent of a current student. A signed donation letter confirmed the fair market value of the bikes at $3,000 each. Ginette recorded the following entry upon receipt:

Account	Debit	Credit
Equipment - Mountain Bikes	$45,000	
Contribution Revenue		$45,000

The bikes are expected to have a useful life of 5 years with a residual value of $750 per bike.

Appendix III

Noted from Ginette Lapointe

Before her departure, Ginette left the following notes to help with the transition:

I am responsible for all the financial functions at the Academy, including accounts payable, accounts receivable, payroll processing, bank deposits, enrollment fee collection, and bookkeeping. I report directly to Daniel Smith, the Academy's head of school, and everyone comes to me for anything finance related. I am the sole person with access to the Academy's accounting system and financial records. I know that system inside and out.

Daniel and I have a great working relationship. He calls me or stops by to approve large purchases verbally, and I take care of the rest and process the payment. For smaller amounts, say under $500, I use my own judgment. There is no written policy that I know of, and I never asked for anything in writing. I know the Academy's needs well enough that I never had to bother him with every little thing. It keeps things moving efficiently.

I manage enrollment registrations in a spreadsheet that I maintain myself. When families pay their tuition and program fees, I deposit the cheques at the bank and record the revenue. I never formally compare the two lists to make sure every enrolled student has paid and every payment matches an enrolled student. I have a good memory. In 10 years, we never had a problem that I couldn't sort out on my own.

When we receive donations, I record them as revenue right away to keep the books current. I keep things simple. The board was always aware of the major donations, so I don't see the need for a separate tracking log. Less paperwork means fewer errors, in my experience.

Annually, several bursaries are offered to students. Daniel handles bursary decisions personally. There are no written policies or criteria that I know of, but it's a sensitive matter and he knows the families. He would let me know and I would adjust the fees.

For the coaches' fees, I am responsible for paying them. I don't know where the original contracts are kept, so I process coach invoices as they came in. I've been doing this long enough that I can tell when something doesn't look right. We've had turnover in dance: two different coaches in the past 3 years. The gymnastics coaches have been more stable. The alpine skiing and mountain biking coaches come from the mountain centres, so they handle their own arrangements.

I never formally tracked re-enrollment by program, but from processing registrations every spring, I had a good sense of who was coming back. The ski and bike kids are loyal; they come back every year. Dance has been a bit different lately, with more new faces each fall. Theatre is always the same small group.

Appendix IV

Donations Listing

Mont-Bellevue Academy - Donation Log

Fiscal Year 2025 (August 2024 to July 2025)

#	Date	Donor Name	Reason	Amount ($)	Payment Method	Notes
DON-107	2024-09-14	Sophie Tremblay	Mountain Biking	2,500	Cheque	
DON-108	2024-10-03	Thomas Jackson	Gymnastics	1,500	Cheque	
DON-109	2024-10-22	Martin Beauchamp	Alpine Skiing	5,000	Cheque	
DON-110	2024-11-08	Famille Ouellet	Dance	775	Cheque	
DON-111	2024-11-30	Patricia Lévesque	Theatre	750	Cheque	
DON-112	2024-12-15	André Gagnon	General	2,000	Cheque	
DON-113	2025-01-10	Clinique Beauséjour	Gymnastics	3,000	Cheque	Corporate donation
DON-114	2025-01-28	Martin Beauchamp	Alpine Skiing	4,750	Cheque	
DON-115	2025-01-29	VapingZone Puff inc.	General	2,100	Cheque	Corporate donation
DON-116	2025-02-14	Lucie Fontaine	Mountain Biking	1,200	Cheque	
DON-117	2025-03-05	Famille Marchand	Dance	800	Cheque	
DON-118	2025-03-19	Robert Houle	General	1,500	Cheque	
DON-119	2025-04-02	Groupe Immobilier Lefebvre	Gymnastics	4,000	Cheque	
DON-120	2025-04-22	Caroline Bissonnette	Theatre	475	Cheque	
DON-121	2025-05-07	Martin Beauchamp	Alpine Skiing	2,500	Cheque	
DON-122	2025-05-30	Famille Dupont	Mountain Biking	1,000	Cheque	
DON-123	2025-06-18	Yves Deschênes	General	750	Cheque	
DON-124	2025-06-19	VapingZone Puff inc.	General	1,350	Cheque	Corporate donation
DON-125	2025-07-06	Jessica Noor	Dance	1,200	Cheque	
DON-126	2025-07-15	Marc-André Pelletier	Gymnastics	2,000	Cheque	
DON-127	2025-07-16	Fondation du Sommet	Alpine Skiing	3,275	Cheque	Corporate donation
DON-128	2025-07-24	Famille Lavoie	Dance	1,125	Cheque	
DON-129	2025-07-28	Vincent Chartrand	Mountain Biking	1,850	Cheque	
DON-130	2025-07-28	Hôtel Mont-Blanc	General	2,400	Cheque	Corporate donation
DON-131	2025-07-30	Nathalie Bédard	Gymnastics	975	Cheque	

Fiscal Year 2026 (August 2025 to July 2026)

#	Date	Donor Name	Reason	Amount	Payment Meth	Notes
DON-132	2025-08-20	Famille Roy	General	3,500	Cheque	
DON-133	2025-08-21	VapingZone Puff inc.	General	1,350	Cheque	Corporate donation
DON-134	2025-09-11	Martin Beauchamp	Alpine Skiing	6,500	Cheque	
DON-135	2025-09-30	Fondation Altitude	Alpine Skiing	8,000	Cheque	Corporate donation
DON-136	2025-10-15	Martin Beauchamp	Alpine Skiing	3,000	Cheque	
DON-137	2025-11-03	Clinique Beauséjour	Alpine Skiing	2,500	Cheque	
DON-138	2025-11-22	Sophie Tremblay	Mountain Biking	1,500	Cheque	
DON-139	2025-12-09	André Gagnon	General	2,000	Cheque	
DON-140	2026-01-14	Famille Ouellet	Mountain Biking	750	Cheque	
DON-141	2026-01-28	Yves Deschênes	General	1,500	Wire transfer	Wire transfer to Marc Dupuis (B
DON-141	2026-01-28	Famille Smith	Mountain Biking	300	Cheque	
DON-142	2026-02-10	Martin Beauchamp	Alpine Skiing	2,500	Cheque	
DON-143	2026-02-11	VapingZone Puff inc.	General	1,575	Cheque	Corporate donation
DON-144	2026-02-25	Samatha Li	Gymnastics	800	Cheque	
DON-145	2026-03-08	Groupe Immobilier Lefebvre	General	3,000	Cheque	
DON-146	2026-03-22	Patricia Lévesque	Mountain Biking	500	Cheque	
DON-147	2026-04-05	R Houle	General	2,125	Cheque	
DON-148	2026-04-07	Robert Houle	General	2,125	Cheque	
DON-149	2026-04-30	Martin Beauchamp	Alpine Skiing	7,000	Cheque	
DON-150	2026-05-19	Fondation Altitude	Alpine Skiing	5,000	Cheque	
DON-151	2026-05-20	Famille Dupont	Mountain Biking	1,200	Cheque	
DON-152	2026-06-12	Marc-André Pelletier	Mountain Biking	1,000	Cheque	
DON-153	2026-06-13	Jean-François Côté	General	6,500	Cheque	Promised at last day of school t
DON-154	2026-06-12	Martin Beauchamp	Alpine Skiing	40,000	Cheque	To cover travel expenses
DON-155	2026-06-20	Famille Lavoie	Mountain Biking	875	Cheque	
DON-156	2026-06-23	Vincent Chartrand	Mountain Biking	1,350	Cheque	
DON-157	2026-06-24	Jessica Noor	General	2,250	Cheque	
DON-158	2026-06-24	Hôtel Mont-Blanc	Alpine Skiing	4,500	Cheque	Corporate donation
DON-159	2026-07-05	VapingZone Puff inc.	General	1,350	Cheque	Corporate donation
DON-160	2026-07-06	Caroline Bissonnette	Mountain Biking	625	Cheque	
DON-161	2026-07-07	Joey Berkley	Mountain Biking	1,175	Cheque	
DON-162	2026-07-18	Fondation du Sommet	Alpine Skiing	6,250	Cheque	Corporate donation
DON-163	2026-07-27	Famille Marchand	General	1,450	Cheque	
DON-164	2026-07-30	Clinique Beauséjour	General	1,725	Cheque	

Appendix V

Email from Head of School

From: Daniel Smith, Head of School
To: Robert Gagnon, Chair of the Board
Date: July 28, 2026

Robert, as requested, here are a few observations from this past school year that I think are worth discussing with the board.

As you know, the Academy's mission is to provide a rigorous academic education, enriched by specialized extracurricular programs, in an environment that is accessible to motivated students regardless of their financial means. I think it is worth keeping that mission front of mind as we consider what we should be measuring and reporting to the board.

On the academic side, we are proud that most of our students graduate each year and are accepted in the program of their choice. That said, our provincial assessment results in mathematics came in below the provincial average for the second year in a row, which concerns me.

On the program side, the mountain biking waitlist continues to grow. We turned away 12 students this year. Between us, I have always used re-enrollment as my informal gauge of how things are going. I have also heard informally from a few dance families that they felt the program lacked consistency following the coach change in the fall. Some have mentioned they are considering other options for next year.

On the access side, demand for financial assistance is increasing. We supported 18 students this year with $45,000 in bursaries, up from 15 students and $38,000 last year. Several families who did not qualify under our informal criteria still reached out for help, which suggests our current approach may not be meeting the full extent of the need.

And on the staff side, I know we have had some turnover among our program coaches that I think deserves attention. I am not sure we have a good handle on how satisfied our people are or whether we are investing enough in their development.

Daniel Smith
Head of School
Mont-Bellevue Academy

Appendix VI

Gymnasium Equipment Supplier

During your first weeks at the Academy, you learned the following from a conversation with Ginette:

> *"You should know that a company owned by Marc Dupuis (he's on the board) supplies all our gymnastic equipment and has for years. I don't know exactly how much we spend with them, but it's at least $35,000 a year. We've never gone to tender for that contract. Marc voted on it at the last board meeting too. I just did what I was told."*

You subsequently confirmed that Dupuis Sports Inc., of which Marc Dupuis is the sole owner, has been the Academy's sole supplier of gym equipment for the past 6 years. Annual purchases from Dupuis Sports Inc. totalled $37,400 in 2026. No competitive bidding process has ever been conducted for this contract. Board meeting minutes confirm that Marc Dupuis was present and voted in favour of the supplier contract renewal at the September 2025 board meeting.

Appendix VII

Details on the Estate of Robert's Mother

My mother left behind 3 main assets. Under the terms of the will, the family home will go to my father Henri and the lakeside cottage will go to me. She also had a portfolio of publicly traded shares listed on the Toronto Stock Exchange, which she wanted to leave to the Academy.

Publicly Traded Share Portfolio

The shares were purchased for $30,000 and had a fair market value of $85,000 at the time of her death. My mother expressed a clear wish during her lifetime that these shares be used to benefit the Academy. I, as executor, am now determining the best way to carry out this intention. I am considering two options. First, sell the shares on the open market and donate the cash proceeds of $85,000 to the Academy or second, transfer the shares directly to the Academy in-kind.

I would like to understand the tax implications of each option for the estate and which option maximizes the benefit to the Academy.

Family Home

My parents purchased their family home in Laval in 1990 for $160,000. At the time of her death, the property had a fair market value of $520,000.

Lakeside Cottage

My mother purchased the cottage in 1985 for a total cost of $60,000 (land: $15,000; building: $45,000). The cottage was used as personal-use property by my family from 1985 until 2004. In 2005, the property was converted to a rental property.

At the time of conversion, the fair market value was $150,000 (land: $60,000; building: $90,000). A deemed disposition occurred at that time. To settle the cottage's tax position upon its conversion to a rental in 2005, the cottage was designated as the principal residence for the years 1985 to 2004 inclusively, and all resulting tax consequences were settled at that time. The building's capital cost for CCA purposes has remained unchanged at $90,000 since 2005.

My mother claimed CCA on the building each year since the conversion. At the time of her death, the undepreciated capital cost (UCC) of the building was $55,000 and the fair market value of the cottage was $350,000 (land: $120,000; building: $230,000).

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Mont-Bellevue Academy (Academy)

Illustrative Response

This illustrative response does not represent a sample response completed under exam conditions but rather illustrates the main points relevant to a complete response.

To: Robert Gagnon, Chair, Board of Directors

From: CPA, Chief Financial Officer

Subject: Board Meeting – August 15, 2026

Date: August 10, 2026

Robert,

Following your August 2 email, I have prepared this briefing to address each of the items you raised ahead of the board meeting:

- **Program-Level Financial Reporting:** I have reviewed the options available to the Academy under ASNPO and provided my recommendation on how best to present program-level financial information.
- **Accounting Issues:** I have analyzed the two issues that arose during the year and determined the correct accounting treatment for each, along with how they would be presented under program-level reporting.
- **Accounting Procedures:** I have described the key audit procedures for the two areas you identified so we can anticipate what will be needed and have everything ready before the auditors arrive.
- **Internal Control Weaknesses:** Following my review of Ginette's process notes, I have identified 6 internal control weaknesses and provided a recommendation for each.
- **Donations Spreadsheet:** My review of the donation log identified 8 anomalies and trends that warrant the board's attention, along with recommended next steps.
- **Reporting of Non-Financial Information:** I have developed a proposed dashboard of non-financial metrics for the board's consideration, organized by category with the rationale for each.
- **Gymnasium Equipment Supplier:** I have reviewed the arrangement with Dupuis Sports Inc. and provided my assessment of the control-environment and conflict-of-interest concerns this raises for the board.

I have also separately analyzed the tax implications arising from your mother's estate for each of the 3 assets, including a recommendation on how best to structure the donation of the share portfolio to the Academy.

Program-Level Financial Reporting

You have asked whether our financial statements can be reorganized to show each program's financial contribution and performance. Below is my analysis of the options available under ASNPO, along with my recommendation.

To understand the options available to the Academy, it is important to distinguish between 3 related but distinct concepts under ASNPO:

- *"**Fund accounting** comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual **or voluntary actions** of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources"* [ASNPO 4400.02(c)].
- The **restricted fund method** *"is a specialized type of fund accounting that involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds, and an endowment fund, if applicable. **Reporting of financial statement elements segregated on a basis other than that of use restrictions (for example, by program or geographic location) does not constitute the restricted fund method**"* [ASNPO 4400.02(d)].
- The **deferral method,** which the Academy currently uses, requires that *"restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. Endowment contributions are reported as direct increases in net assets. All other contributions are reported as revenue of the current period. Organizations that use fund accounting in their financial statements without following the restricted fund method would account for contributions under the deferral method"* [ASNPO 4400.02(e)].

Also, a *"not-for-profit organization would follow either the deferral method or the restricted fund method of accounting for contributions"* [ASNPO.03].

The Academy currently prepares its financial statements using the deferral method with a single fund. While this approach is technically appropriate, it does not provide the program-level visibility the board is looking for. Since the Academy's contributions are rarely externally restricted, the restricted fund method would not be relevant here. Voluntarily segregating our financial information by program would constitute fund accounting, not the restricted fund method. With these distinctions in mind, 3 options are available to the Academy.

Option A – Fund accounting in financial statements

Our first option would be to establish one fund per program, presenting each program's results directly in the audited financial statements. We would retain the deferral method but present more than one fund. Each program fund would include assets, liabilities, net assets, revenues, and expenses [ASNPO 4400.02(c)].

However, this would constitute a change in accounting policy under Section 1506. Per ASNPO.08:

> *"Each fund reported would be presented on a consistent basis from year to year. Particular revenues and expenses reported in a given fund would continue to be reported in that fund in future periods. Any change in the revenues and expenses reported in a particular fund would constitute a change in accounting policy, unless the change results from events or transactions that are clearly different from those previously occurring or from the recognition of events or transactions occurring for the first time (see ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook)."*

This means the prior-year comparative figures would need to be restated as if the new method had always been in place. This is a significant and time-consuming exercise, particularly given that the Academy has limited historical documentation from Ginette's years managing the books.

Furthermore, establishing separate funds by program would add considerable complexity to the financial statements without meaningful benefit for the bank or donors, who are the primary external users of the audited statements. It would likely increase our audit fees, as the auditors would need to audit the allocation of transactions between funds.

Option B – Separate schedule

The simplest and most practical approach is to retain the current deferral method and single-fund structure and to add a supplementary schedule presenting revenues and expenses by program. This schedule would not form part of the audited financial statements and would, therefore, not require a change in accounting policy or any restatement of prior years. It can be implemented immediately for the current fiscal year.

This option directly addresses the board's need for program-level visibility. Since the bank has not requested program-level information and the Academy's contributions are rarely externally restricted, there is no external pressure to reflect this breakdown in the audited statements themselves. A supplementary schedule could be sufficient for board decision-making, including the evaluation of the Gymnastics gymnasium project.

The main limitation of this option is that the program results schedule will not be covered by the auditors' opinion. However, I will prepare it with the same rigour as the audited statements, and the board can rely on it for internal decision-making purposes.

Option C – Note to financial statements

A middle-ground option would be to add a note to the audited financial statements presenting a breakdown of revenues and expenses by program. This would bring the program-level information into the audited statements without requiring the audit of complete funds. Auditors would only need to audit the information presented in the note. However, notes to the financial statements are typically used to explain accounting policies and specific balances, not to present operational performance data. This option is less intuitive for board members and adds length to the audited statements without the flexibility of a standalone schedule.

Recommendation

I recommend Option B. It responds directly to the board's needs, can be implemented for the current year without disruption, and avoids the complexity and cost of a retrospective accounting policy change.

If the board wishes to present program-level information directly in the audited financial statements in the future, I recommend waiting until we have two full years of program-level accounting data before making that change. If I begin tracking transactions by program this year, we will have the comparative information required to present the prior year figures should we decide to adopt fund accounting by program next year. With Ginette's records as they currently stand, we do not have the historical information needed to restate last year's financial statements by program.

Accounting Questions

You have asked me to determine the correct accounting treatment for 2 transactions that occurred during the year and to explain how they would be presented if the Academy were reporting by program.

<u>Contribution restricted to Alpine Skiing travel expenses ($40,000)</u>

The $40,000 received from Martin Beauchamp in June 2026 is accompanied by a written condition specifying that the funds must be used exclusively to cover travel expenses for students from the Alpine Skiing program attending 2027 provincial ski races.

> *"A **restricted contribution** is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used"* [ASNPO.4410.02(b)(i)].

This is an externally restricted contribution, as the restriction was imposed by the donor, not by the board. It is not an internally designated amount.

Ginette recorded the full $40,000 as contribution revenue upon receipt. As of July 31, 2026, no travel expenses were incurred because the races are during winter.

Under the deferral method, restricted contributions must be deferred until the conditions are met. Per ASNPO:

> *"Under the deferral method, restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions.*
>
> *As a result, the organization's excess of revenue over expenses for the period represents the increase in resources that are not restricted to cover specific expenses of a future period"* [ASNPO.4410.28].

Restricted contributions related to expenses of future periods must be deferred and recognized as revenue in the period in which the related expenses are incurred.

Since the ski races will take place in 2027, no travel expenses have been incurred as of July 31, 2026. The full $40,000 must, therefore, be deferred at year-end.

Ginette's entry — recording the full $40,000 as contribution revenue upon receipt — is incorrect. The correct treatment is as follows:

Upon receipt (June 2026):

Account	**Debit**	**Credit**
Cash	$40,000	
Deferred Contributions — Alpine Skiing Travel Fund		$40,000

In 2027, as travel expenses are incurred:

Account	**Debit**	**Credit**
Deferred Contributions — Alpine Skiing Travel Fund	$X	
Contribution Revenue — Alpine Skiing		$X
Travel Expenses — Alpine Skiing	$X	
Cash/Accounts Payable		$X

Presentation by Program

If the Academy were presenting its financial information by program, the deferred contribution of $40,000 would appear on the balance sheet of the Alpine Skiing program fund. In 2027, when the travel expenses are incurred, both the revenue and the corresponding expense would be recognized in the Alpine Skiing program, resulting in a net nil impact on that program's results for the year.

Audit Procedures

The auditors will focus on whether this contribution was correctly deferred at July 31, 2026, rather than recognized as revenue.

- Obtain the original donation letter from Martin Beauchamp. Read the donor's written conditions to confirm the contribution is externally restricted and the required timing of the use of funds, supporting the completeness, accuracy, and classification of the deferred contribution balance.
- Obtain the bank statement for June 2026. Trace the $40,000 deposit to the cash receipts journal and to the deferred contribution balance on the balance sheet to confirm the contribution was received and correctly classified.
- Obtain travel expense records for the Alpine Skiing program for the period up to July 31, 2026. Read the documentation to confirm that no travel expenses related to the 2027 ski races were incurred prior to year-end, supporting the completeness of the deferred contribution balance. Confirm with the alpine ski coach that no travel expenses have been incurred for the 2027 winter season as of July 31, 2026, to support accuracy and cutoff.

<u>Non-monetary Contribution Mountain Bikes ($45,000)</u>

In April 2026, Vélo Expert Inc. donated 15 mountain bikes with a total FMV of $45,000 to support the Mountain Biking program. Ginette recorded the full $45,000 as contribution revenue upon receipt. The bikes have an estimated useful life of 5 years with a residual value of $750 per bike.

This is a contribution of materials. Per ASNPO: "An *organization may choose to recognize contributions of materials and services but should do so only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the organization's operations and would otherwise have been purchased"* [ASNPO.4410.16].

The 3 criteria are assessed as follows:

- **Fair value can be reasonably estimated:** Met. The donor provided a signed donation letter confirming the FMV at $3,000 per bike, for a total of $45,000.
- **Used in the normal course of operations:** Met. The mountain bikes will be used directly in the delivery of the Mountain Biking program, which is a core activity of the Academy.
- **Would otherwise have been purchased:** Met. The Academy maintains a fleet of bikes for students who cannot afford their own equipment. The existing fleet had reached the end of its useful life. Had the bikes not been donated, the Academy would have had to purchase replacements to continue offering the program.

Therefore, the Academy has the choice to recognize this contribution. I recommend that the Academy recognize it because doing so provides more meaningful information to users of the financial statements: It reflects the full cost of delivering the Mountain Biking program, including the economic value of resources received at no cost, and allows the board to better understand the true investment required to sustain the program. It also ensures that the Academy's financial statements faithfully represent all resources used in its operations, which is particularly relevant as the board evaluates future infrastructure investments.

Furthermore, per ASNPO:

> *"Contributed materials and services that are part of a constructed or developed capital asset would be recognized at fair value in accordance with Section 4433"* [ASNPO.4410.18].

The Academy does not qualify as a small organization under ASNPO, because small organizations are defined as those with average annual revenues of less than $500,000 [ASNPO 4433.03]. The Academy's total revenues last year were just over $600,000. The Academy must, therefore, apply Section 4433 and capitalize its tangible capital assets.

Under Section 4433, tangible capital assets are identifiable assets that meet all of the following criteria [ASNPO 4433.06(b)]:

i. *are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other tangible capital assets;*

   MET; the mountain bikes are used to provide program services to enrolled students.

ii. *have been acquired, constructed or developed with the intention of being used on a continuing basis;*

   MET; the mountain bikes are expected to be used over 5 years.

iii. *are not intended for sale in the ordinary course of operations; and*

   MET; the Academy does not sell bikes in its ordinary course of operations.

iv. *are not held as part of a collection"* [ASNPO4433.06(b)]

   NA; the bikes do not meet the definition of a collection under ASNPO.

The bikes, therefore, qualify as tangible capital assets. Per ASNPO:

> "*For a contributed tangible capital asset, cost is deemed to be fair value at the date of contribution plus all costs directly attributable to the acquisition of the tangible capital asset."* [ASNPO4433.07].

Capital assets should be amortized over their useful life.

As a capital asset, the bikes should be recorded at FMV at the date of donation; i.e., $45,000. However, the offsetting credit should not be contribution revenue. Under the deferral method, a contribution used to acquire a capital asset must be deferred and amortized into revenue over the asset's useful life, to match the recognition of the related amortization expense.

Ginette's entry is incorrect: She recognized the full $45,000 as revenue immediately. The correct entries are as follows:

At the date of donation:

Account	Debit	Credit
Equipment — Mountain Bikes	$45,000	
Deferred Contributions — Capital (Mountain Bikes)		$45,000

At each year-end (annual recognition over 5 years):

Account	Debit	Credit
Deferred Contributions — Capital (Mountain Bikes)	$6,750	
Contribution Revenue — Capital (Mountain Bikes)		$6,750
Amortization Expense — Mountain Bikes	$6,750	
Accumulated Amortization — Mountain Bikes		$6,750

* ($3,000 − $750) ÷ 5 years = $450 per bike × 15 bikes = $6,750

Since the bikes were donated in April 2026, 4 months fall within the fiscal year ending July 31, 2026 (April through July). Amortization for 2026: $6,750 × 4/12 = **$2,250.** The same amount should be recognized as contribution revenue for the period.

Account	Debit	Credit
Deferred Contributions — Capital (Mountain Bikes)	$2,250	
Contribution Revenue — Mountain Bikes		$2,250
Amortization Expense — Mountain Bikes	$2,250	
Accumulated Amortization — Mountain Bikes		$2,250

Presentation by Program

If the Academy were presenting its financial information by program, the mountain bikes would appear as a capital asset on the balance sheet of the Mountain Biking program fund. The deferred contribution balance of $42,750 would also appear in that fund. Each year, the amortization expense of $6,750 and the corresponding contribution revenue of $6,750 would both be recorded in the Mountain Biking program, resulting in a net nil impact on that program's annual results — correctly reflecting the fact that the bikes were donated and represent no net cost to the program.

Per ASNPO, when fund accounting is used, *"the choice of the fund or funds to which amortization expense would be charged would be based on providing the most meaningful presentation"* [ASNPO 4433.13]. We recommend recording both the amortization expense and the corresponding contribution revenue in the Mountain Biking program fund, as this presentation best reflects the true cost of service delivery for that program.

Audit Procedures

The auditors will focus on whether the bikes were correctly classified as capital assets, whether the deferred contribution was properly recorded, and whether the amortization and revenue recognition for the period are accurate.

- Obtain the signed donation letter from Vélo Expert Inc. Read the letter to confirm the existence of the donation, as well as physically inspect that the bikes exist (and compare serial numbers to the donation letter, if available), supporting the existence and accuracy, valuation, and allocation of the capital asset.
- Review the Academy's capitalization policy, if one exists, to determine whether the bikes meet the threshold for capitalization, supporting the accuracy, valuation, and allocation of the capital asset.
- Obtain the amortization schedule for the mountain bikes. Recalculate the amortization for the period April to July 31, 2026: ($45,000 - $11,250) / 5 years × 4/12 = $2,250 to confirm the accuracy of the amortization expense and the corresponding contribution revenue recognized in the period.
- Obtain screenshots or listings of comparable new mountain bikes available for sale online at stores other than the donor's store. Read to confirm that the value of $3,000 per bike is reasonable relative to the market value of similar bikes, supporting the accuracy, valuation, and allocation of the amount to be recorded.
- Obtain screenshots or listings of comparable used mountain bikes available for sale online. Read to confirm that the estimated residual value of $750 per bike is reasonable relative to the market value of similar bikes at the end of their 5-year useful life, supporting the accuracy of the depreciable amount used in the amortization calculation.
- Discuss with management whether historically bikes have been used for 5 years, to support the assessment of the useful-life estimate.

Internal Control Weaknesses

Following your request and my review of Ginette's process notes, I have identified the following internal control weaknesses in the Academy's current environment. For each weakness, I have described the implication for the Academy and provided a recommendation.

1. No Segregation of Duties

Weakness: Ginette was solely responsible for all financial functions at the Academy, including accounts payable, accounts receivable, payroll processing, bank deposits, enrollment fee collection, and bookkeeping. She was also the sole person with access to the Academy's accounting system and financial records. No independent review or oversight was applied to any of these functions.

Implication: When the same individual controls all aspects of a financial transaction, from initiation to recording to custody of assets, there is no mechanism to detect errors, irregularities, or fraud. The Academy is exposed to the risk that transactions are recorded incorrectly, omitted entirely, or manipulated without detection. In the absence of oversight, even unintentional errors can go uncorrected for years, potentially resulting in materially misstated financial statements. More significantly, the lack of segregation creates an environment where misappropriation of assets, such as diverting cash receipts or processing fictitious payments, could occur without any independent check. For example, Ginette could have deposited a student's fee payment into her personal account rather than the Academy's bank account, recorded a fictitious vendor payment and redirected the funds, or simply omitted to record a cash receipt — and none of these would have been detected.

Recommendation: Now that a finance manager is in place, a clear and formal division of responsibilities should be established and documented. However, simply replacing Ginette with a new finance manager does not resolve the underlying control weakness, it only changes the person at risk. Segregation of duties requires that no single individual controls an entire financial process from start to finish.

The finance manager should prepare and process payments, but Daniel Smith, as head of school, should provide written approval for all disbursements above a defined threshold before payment is released. For payroll specifically, Daniel should review and approve each payroll run independently before the finance manager processes it.

Enrollment fee deposits should be made by the school secretary or other administrative staff, not the finance manager, and the finance manager should independently reconcile deposits to the enrollment register each month.

The finance manager should prepare monthly bank reconciliations, which should be reviewed and signed off by Daniel or a designated board member.

2. No Documented Expenditure Approval Process

Weakness: There is no written policy governing the approval of expenditures. Larger purchases were approved verbally by the head of school, typically by phone or in passing, while purchases below $500 were made at Ginette's sole discretion. No written authorization was obtained or retained for any expenditure.

Implication: Without a documented approval process, the Academy has no assurance that its funds are being spent appropriately and in accordance with its mission. Expenditures may be made for goods or services that were never properly authorized, creating the risk of waste, misuse of funds, or even fraud. Verbal approvals leave no audit trail, meaning that if a payment is ever questioned by the board, a donor, or a regulatory body, the Academy cannot demonstrate that proper authorization was obtained. This is concerning for the Academy, where the board has a fiduciary duty to ensure that resources are used in a manner consistent with the organization's mission and the expectations of its funders.

Recommendation: The Academy should immediately implement a written expenditure authorization policy with defined approval thresholds. For example, purchases under $1,000 may be approved by the finance manager; purchases between $1,000 and $10,000 require the head of school's written approval; purchases above $10,000 require board approval. All approvals should be documented in writing prior to the expenditure being made and retained with the supporting invoice.

3. Enrollment Records Not Reconciled to Cash Receipts

Weakness: Ginette maintained the enrollment lists in a spreadsheet and separately handled all fee deposits at the bank. No formal reconciliation was ever performed between the list of enrolled students and the fees collected to verify that every enrolled student had paid and every payment corresponded to an enrolled student.

Implication: Without a reconciliation between enrollment records and cash receipts, the Academy cannot confirm that all program fees owed have been collected or that all amounts collected have been properly recorded as revenue. Students may be attending programs without having paid, or fees may have been collected and deposited without being recorded in the accounting system. Over time, these discrepancies could result in a significant understatement of receivables or revenues, directly affecting the Academy's financial position and its ability to make informed decisions about program viability and pricing.

Recommendation: A monthly reconciliation should be performed between the enrollment register and the revenue ledger, with any discrepancies investigated and resolved before the following month. The reconciliation should be prepared by one individual and independently reviewed by another. Going forward, the finance manager should review this reconciliation monthly, prepared by the school secretary or other administrative staff. There could also be a 3-way match of the enrollment list, billing list, and cash receipts.

4. Restricted Contributions Not Tracked Separately

Weakness: When the Academy received contributions, Ginette recorded them as revenue immediately without maintaining a separate log of any donor-imposed restrictions on the use of the funds. Restricted and unrestricted contributions were commingled in a single revenue line with no deferred contribution balance maintained.

Implication: As demonstrated by the 2 accounting issues addressed in Appendix II, this practice resulted in material misstatements in the financial statements. By recording all contributions as revenue upon receipt regardless of donor restrictions, the Academy risks using restricted funds for purposes other than those intended by the donor. This is not only a breach of the donor's trust, which could damage the Academy's reputation and its ability to attract future donations, but may also constitute a violation of the terms of the donation agreement, exposing the Academy to legal liability. Furthermore, the financial statements do not faithfully represent the Academy's obligations: Restricted funds that have not yet been spent on their designated purpose should appear as liabilities on the balance sheet, not as revenue.

For example, the $40,000 received from Martin Beauchamp with the explicit condition that it be used for Alpine Skiing travel expenses was recorded as general revenue and was effectively available to be spent on any purpose. If those funds had been used for operating expenses before the ski races took place, the Academy would have been in breach of the donor's conditions without even knowing it. Over time, this practice could erode donor trust and expose the Academy to legal claims from donors whose restrictions were not honoured. The board is, therefore, making decisions based on an overstated picture of the Academy's available resources.

Recommendation: The Academy should implement a contribution tracking log that records, for each donation received, the donor's name, amount, date, any restrictions imposed by the donor, the accounting treatment applied, and the balance remaining to be recognized as revenue. This log should be reviewed and approved by the finance manager at each period end. All donor agreements and correspondence should be filed with the log. There should also be a monthly reconciliation of the deferred revenue balance performed.

5. Bursary Program Operated Without Formal Policy

Weakness: Bursary awards are approved by the head of school on a case-by-case basis, with no written eligibility criteria, no formal application process, and no documentation of the basis for each award. Ginette receives verbal or informal notification and reduces the fees accordingly.

Implication: Without documented eligibility criteria and a formal approval process, bursary decisions are entirely dependent on the head of school's personal judgment and relationships with families. This creates the risk that awards are made inconsistently, inequitably, or in a manner that does not reflect the Academy's mission. It also exposes the Academy to allegations of favouritism, which could damage its reputation and its relationships with the broader school community. For an NFPO, the absence of a formal policy governing how charitable resources are distributed is a governance failure that could attract scrutiny from regulators or funders.

Recommendation: The Academy should develop and adopt a formal bursary policy, approved by the board, that defines which group of individuals decides, the eligibility criteria, the application process, maximum award amounts, and the approval authority. All bursary decisions should be documented in writing, including the student's information, the amount awarded, and the basis for the decision. This documentation should be retained in a confidential file maintained by the finance manager.

6. Coach Invoices Paid Without Verification Against Contracts

Weakness: Ginette processed and paid coach invoices as they were received, without verifying the amounts against the underlying contracts. The location of the original coaching contracts is unknown.

Implication: Without verifying invoices against signed contracts, the Academy has no assurance that the amounts paid to coaches reflect the agreed terms.

The Academy may be overpaying coaches, paying for hours not worked, or making payments to individuals whose contracts have expired or were never properly formalized. Over time, these discrepancies can result in a material overstatement of program costs and a direct loss of funds.

Recommendation: The Academy should locate or reconstruct all existing coaching contracts and maintain them in a centralized file accessible to the finance manager. Going forward, no coach invoice should be processed for payment without being matched to a signed contract on file. Any discrepancy between the invoice amount and the contracted rate should be investigated and resolved before payment is released. A formal contract management process should be established requiring all coaching agreements to be signed before services commence and retained for the duration of the engagement plus 7 years.

Overall Assessment

The weaknesses identified in this report reflect a financial control environment that was built around a single trusted individual rather than around documented processes and independent oversight. With the arrival of a finance manager, the Academy now has an opportunity to build a sustainable and auditable control environment. The board may wish to consider requesting a prioritized control improvement plan with a realistic timeline for implementation before the audit begins in September.

Donations Spreadsheet

I reviewed the donation log compiled by Ginette. My analysis of Appendix IV identified several items that warrant the board's attention. I have organized my findings below.

Observation 1: File total does not reconcile to the financial statements

When I summed all entries in Appendix IV for fiscal year 2026, the file totalled $147,150. However, you indicated that total donations recorded in the financial statements amount to $109,275. This brings into question the accuracy of the amount in the financial statements.

Observation 2: Duplicate donation number

DON-141 appears twice in the 2026 log, assigned to 2 different donors on the same date: Yves Deschênes ($1,500, wire transfer) and Famille Smith ($300, cheque). A donation number should uniquely identify a single transaction. This duplication suggests a data entry error and raises questions about the reliability of the log as a whole. The Academy should investigate both entries to confirm their validity and implement a sequential numbering process that prevents

Observation 3: Wire transfer to a board member

DON-141 (Yves Deschênes, $1,500) is recorded as a wire transfer, with a note reading, "Wire transfer to Marc Dupuis (board member)." This is the only wire transfer in the entire 2-year log. The framing of this entry is concerning: A donation is a payment received by the Academy, not a payment made to a board member. It is unclear whether this entry represents a donation received by wire, a payment made to a board member that was incorrectly recorded as a donation, or something else entirely. This entry requires immediate clarification. If funds were transferred to a board member and recorded as a donation to conceal the payment, this would represent a serious breach of trust and fiduciary duty. The board should request full documentation of this transaction before the next meeting.

Observation 4: Probable duplicate entry

DON-147 and DON-148 record 2 donations from Robert Houle (and R. Houle) for the exact same amount ($2,125), to the same program (General), 2 days apart (April 5 and April 7, 2026). While it is possible that 2 separate donations were made, the identical amounts and proximity of dates strongly suggest that the same donation was recorded twice. If this is a duplicate, the donation log overstates 2026 contributions by $2,125, and the financial statements may be misstated accordingly. The Academy should contact Robert Houle to confirm whether 1 or 2 donations were made and correct the record accordingly.

Observation 5: Pledge recorded as a received donation

DON-153 records a pledge from Jean-François Côté ($6,500) that had not been received as of July 31, 2026. This entry reflects a broader weakness in how donations are tracked. Including unconfirmed pledges alongside received contributions in the same log, without a clear status indicator, creates a risk that unearned revenue is recognized prematurely. The Academy should maintain a separate pledge tracking log and establish a clear policy defining when a donation is considered received and eligible for recognition as revenue.

Observation 6: Unusual volume and concentration of donations

Martin Beauchamp appears 3 times in the 2025 log (totalling $42,250) and 5 times in the 2026 log (totalling $89,000), with every donation designated to the Alpine Skiing program. This level of frequency and concentration from a single individual is unusual and warrants attention. While generous donors do exist, the pattern of repeated large contributions all directed to the same program raises questions about the donor's influence over program decisions and whether the Academy has adequate policies governing the acceptance of large donations from individual donors. The board should consider establishing a gift acceptance policy that addresses concentration risk and ensures that no single donor gains undue influence over any program.

Observation 7: Significant shift in donation concentration towards Alpine Skiing

In fiscal year 2025, donations were distributed relatively evenly across all 6 programs. In fiscal year 2026, the pattern shifts dramatically: Donations are concentrated to the Alpine Skiing program and the Mountain Biking Program. Also, only one $800 donation is attributed to the Gymnastics program, while it received $11,475 last year.

While donor-designated gifts are legitimate, this concentration creates an imbalance in program funding that the board should be aware of, particularly when evaluating the relative financial health of each program. It also raises the question of whether the Academy is actively cultivating donors across all programs or whether Alpine Skiing is benefiting from a network effect that other programs do not have access to.

This concentration also warrants scrutiny before the board draws any conclusions about program funding or donor support, since part of the shift may be attributable to miscoding rather than a genuine change in donor intent. For example, Clinique Beauséjour (DON-113 and DON-164), Groupe Immobilier Lefebvre (DON-119 and DON-145), and Marc-André Pelletier (DON-126 and DON-152) all donated to Gymnastics in 2025 but are coded to General and Mountain Biking in 2026. I recommend the Academy contact these donors directly to confirm that their program designations were intentional before the audit begins.

Observation 8: Ethically questionable donor

VapingZone Puff Inc., identified in the log as a vaping products retailer, appears twice in the 2025 log and 3 times in the 2026 log. The Academy serves secondary school students, who are minors. Accepting donations from a company whose core business involves the sale of vaping products to consumers is fundamentally at odds with the Academy's educational mission and its duty of care towards its students. Beyond the ethical concerns, accepting such donations exposes the Academy to reputational risk with parents, staff, and the broader community. I recommend the board formally adopt a gift acceptance policy that identifies categories of donors whose activities are incompatible with the Academy's mission and that donations from VapingZone Puff Inc. be returned or declined going forward.

Reporting of Non-financial Information

Robert, you have asked for a proposal on how to track and report non-financial information to the board on a regular basis. The table below presents non-financial metrics that would be relevant to track to monitor the Academy's performance and assess how well it is fulfilling its mission.

Category	**Metric**	**Rationale**
Academic Mission	Graduation rate	We are proud that most of our students graduate each year, but this should be formally tracked and reported to the board as a core mission indicator, rather than mentioned informally.
Academic Mission	Provincial assessment results vs. provincial average	Math results came in below the provincial average for the second year in a row. The board should be receiving this information annually, not learning about it incidentally.

Category	Metric	Rationale
Academic Mission	Post-secondary admission rate to program of choice	This ensures whether the Academy is fulfilling its ultimate academic mission of preparing students for the next step.
Programs	Re-enrollment rate by program	Daniel has long used re-enrollment as his informal gauge of program health. This should be formalized and tracked by program.
Programs	Enrollment vs. capacity by program	This complements the waitlist metric and flags programs operating below capacity, as well as those with unmet demand.
Satisfaction & Retention	Student re-enrollment rate (overall)	Measures whether students stay at the Academy year over year and measures overall satisfaction.
Satisfaction & Retention	Parent satisfaction survey score	Dance families raised concerns about program consistency following the coach change. A formal survey would have captured this signal a year earlier, before families started considering other options.
Human Resources	Coach turnover rate by program	Dance had 2 coaches in 3 years. Daniel flagged staff turnover as deserving attention. This metric would allow the board to monitor the issue systematically rather than learning about it after the fact.
Human Resources	Average coach tenure by program	Program stability and student satisfaction are closely linked to coach continuity. Tracking tenure by program provides an early warning when a program may be at risk.
Human Resources	Professional development hours per employee	Daniel questioned whether the Academy is investing enough in staff development. This metric would track that investment and support retention.
Mission/ Access	% of students receiving bursaries	We supported 18 students with $45,000 in bursaries this year. This should be reported to the board as a formal mission metric.
Mission/ Access	Total bursaries disbursed as % of revenues	Bursary spending grew from $38,000 to $45,000 in one year. Tracking this as a percentage of revenues ensures the program remains financially sustainable.
Mission/ Access	Unmet demand for financial assistance	Families who did not qualify still reached out for help. Tracking unmet demand would give the board a fuller and more honest picture of whether we are truly living up to our accessibility mission.

Recommendation

I recommend that the non-financial metric dashboard be presented at each quarterly board meeting alongside the financial statements. A one-page summary showing current values, prior-year comparatives, and simple trend indicators (up/down/stable) would allow the board to monitor the Academy's health at a glance.

Gymnasium Equipment Supplier

I have learned that the gymnasium equipment is purchased from Dupuis Sports Inc., a board member's company, without following a proper tender process. Marc Dupuis is a member of the Academy's board of directors and the sole owner of Dupuis Sports Inc., which has been the Academy's exclusive supplier of gymnasium equipment for 6 years, with annual purchases of $35,000. No competitive bidding process has ever been conducted for this contract. Marc Dupuis was present at the board meeting and voted in favour of renewing the supplier contract with his own company. This constitutes a conflict of interest. A board member must disclose any personal or financial interest in a matter before the board and must abstain from the related discussion and vote. This did not happen. The Academy has been paying $35,000 per year to a company owned by one of its own directors, without any independent verification that this represents fair market value.

The board should immediately adopt a formal conflict-of-interest policy requiring all directors to disclose, on an annual basis, any personal or financial relationships that could give rise to a conflict. Any director with a conflict on a specific matter must recuse themselves from the related discussion and vote, and this must be documented in the minutes.

With respect to Marc Dupuis specifically, the board should commission an independent review to determine whether the prices paid to Dupuis Sports Inc. over the past years were consistent with fair market value. Depending on the findings, the board may need to consider whether Marc Dupuis's continued service on the board is appropriate. The wire transfer entry in the donation log (Appendix IV, DON-141) must be investigated and fully explained before the next board meeting. In addition, we'll need to consider the financial reporting implications of these non-arm's length transactions. The board should not allow this item to remain unresolved.

Additional note

This incident is part of a broader context. When considered alongside the other findings in this report (i.e., Ginette's manual and unsupervised donation tracking, the internal controls weaknesses identified, the wire transfer recorded as a donation to a board member (Marc Dupuis), the concentration of large donations from a single individual, and the accounting errors that went undetected), there is building evidence that the Academy's control environment is weak. The board may need to implement additional controls to fulfill its oversight role effectively. For example, the board should establish an audit or finance committee composed of independent directors with financial literacy, which would be responsible for overseeing the Academy's financial reporting, internal controls, and external audit relationship. This committee should meet regularly, review the controls, and report to the full board.

To: Robert

From: CPA

Subject: Tax Advice

Date: August 10, 2026

Robert, I'm sorry to hear about your mother's passing. Below is my analysis of the tax implications for each of the 3 assets you highlighted in your email.

Under the Income Tax Act (ITA), a taxpayer is deemed to have disposed of all capital property at fair market value immediately before death. This deemed disposition may trigger capital gains and, for depreciable property, a terminal loss or recapture of CCA, all of which must be reported on your mother's final tax return. An important exception applies when property is transferred to a surviving spouse, in which case the spousal rollover provisions of the ITA automatically defer any accrued gain.

Publicly Traded Share Portfolio (To Mont-Bellevue Academy)

You are considering 2 options to benefit the Academy: Option A, which is to sell the shares on the open market and donate the cash proceeds of $85,000 to the Academy, or Option B, which is to transfer the shares directly to the Academy in kind. The 2 options carry different tax consequences for the estate.

A donation of capital property is considered a disposition for tax purposes and would normally trigger a capital gain. However, when eligible property is donated directly to a qualified donee such as a registered charity, the taxable portion of the capital gain is reduced from 50% to nil. As such, the disposition is fully exempt from tax. Eligible property generally includes securities, such as shares and bonds, that are listed on a designated stock exchange, as well as mutual fund units.

For this exemption to apply, the Academy would have to be a registered charity. Also, it would be available only if the shares were transferred directly to the Academy (Option B). If the shares are sold first and the cash proceeds are donated instead (Option A), the exemption does not apply, and the estate will be subject to tax on the resulting capital gain.

	Option A	**Option B**
Value of the shares	$85,000	$85,000
Less: Cost of the shares	($30,000)	($30,000)
Capital gain	$55,000	$55,000
Capital gain inclusion rate	50%	0%
Taxable capital gain	$27,500	$ NIL

In the year of death, the donation limit for purposes of claiming the non-refundable donations tax credit is equal to 100% of the deceased individual's net income for the year. The deemed disposition of the cottage and the resulting recapture and taxable capital gains provide sufficient net income for claiming the entire $85,000 donation as a non-refundable tax credit in the year of death. The non-refundable donation credit for either Option A or B is $24,620 (equal to 14% on the first $200 and 29% on the excess of $84,800).

Under option A, the sale of the shares would result in a taxable capital gain of $27,500 and, assuming a marginal tax rate of 50%, an additional tax payable of $13,750 for the estate.

With option B, the shares are transferred to the Academy at FMV, and the estate pays no capital gains tax while still receiving a charitable donation receipt for the full FMV at the date of donation. However, it is important to note that the Academy would then be the owner of the shares and would need to liquidate them in order to access the cash value. If the Academy decides to continue holding the shares, it assumes the risk of the investment either gaining or losing value.

Given the value of what is received is the same for the Academy in both cases, assuming the Academy can manage the ownership and eventual liquidation of shares, option B is preferable, as it will create a smaller tax burden for the estate. Both options generate the same $85,000 donation receipt and the same donation tax credit on your mother's final return. However, option B eliminates approximately $13,750 in capital gains tax that would otherwise be payable under option A.

Family Home (To Henri, Spouse)

Because the family home is being transferred to your father as a consequence of your mother's passing, the spousal rollover provisions apply under ITA paragraph 70(6). Your mother is deemed to have disposed of the home at its adjusted cost base (ACB) of $160,000, resulting in no capital gain on her final return. Your father assumes your mother's ACB of $160,000 and takes over her tax position entirely.

The gain on the family home is only deferred, not eliminated. When your father eventually sells the home, he will recognize a capital gain based on his ACB of $160,000. At that time, the principal residence exemption (PRE) will be available to shelter some or all of the gain for the years the property can be designated as his principal residence.

Critically, a family unit can only designate one property per year as a principal residence. Because the cottage was designated as the principal residence for the years 1985 to 2004, those years are no longer available for the family home. The home was owned from 1990 to 2026 (37 years), but the years 1990 to 2004 (15 years) were already used on the cottage. Only the years 2005 to 2026 (22 years) remain available for designation to the family home.

If your father were to sell the home today at $520,000, the principal residence exemption (PRE) calculation would be as follows:

Proceeds of disposition (FMV)	$520,000
ACB (inherited from Marie)	($160,000)
Capital gain	$360,000
PRE fraction: (22+1) / 37	× 23/37
PRE exemption	($223,784)
Capital gain	**$136,216**
Taxable capital gain (50% inclusion)	$68,108

The spousal rollover is beneficial here because it defers any immediate tax on your mother's final return. You should be aware, however, that your father will have a taxable capital gain when he eventually sells the home, since the PRE cannot fully shelter the gain given the years already consumed by the cottage.

Lakeside Cottage (To You, Son)

Depreciable property received by a beneficiary, other than a spouse or common-law partner, is deemed to be disposed of at fair market value immediate before death (70(5)(a)). Any resulting terminal loss, recapture, and capital gains must be reported on your mother's final return.

In this case, there will be recapture on the building (depreciable asset) equal to the UCC at death reduced by the lessor of the proceeds of $230,000 (FMV) and the capital cost of $90,000 (which originated from the 2005 conversion to a rental unit).

UCC at death	$55,000
Less : Capital cost	($90,000)
Recapture of CCA	**($35,000)**

The $35,000 is added to your mother's income on her final return as regular income.

Proceeds of disposition (FMV)	$230,000
Less: Capital cost	($90,000)
Capital gain	$140,000
Taxable capital gain (50%)	$70,000

The capital gain on the building is the difference between the proceeds of disposition of $230,000 (FMV) and the capital cost of $90,000:

A similar capital gain will apply to the land as follows:

Proceeds of disposition (FMV)	$120,000
Less: Capital cost	($60,000)
Capital gain	$60,000
Taxable capital gain (50%)	$30,000

The overall $100,000 of taxable capital gain on the building and land is added to your mother's income on her final return.

Your Cost Base

Under ITA paragraph 70(5)(b), you will be deemed to have acquired the cottage (both the building and land) at fair market value at the date of death:

Land	$120,000
Building	$230,000

Your future capital gains and CCA calculations will be based on these amounts.

Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

Mont-Bellevue Academy (Academy)

Assessment Mapping

The required in the case represent assessment opportunities for candidates to demonstrate their Decision Competencies (DCs) and Specific Competencies (SCs) within the context of the different topic areas.

The following is a summary of the Decision Competencies assessed on this case.

	AO#1 FR	AO#2 FR	AO#3 ASSU	AO#4 ASSU	AO#5 DATA	AO#6 NFR	AO#7 ASSU	AO#8 TAX
DC1								
DC2								
DC3								
DC4								
DC5								
DC6								
DC7								
DC8								
DC9								
DC10								
DC11								
DC12								

DC13								
DC14								
DC15								
DC16								
DC17								
DC18								
DC19								
DC20								
DC21								
DC22								
DC23								
DC24								

Academy is a 120-minute case. We estimate candidates will need 25 minutes to read and plan their response. We have provided suggested response times per Assessment Opportunity below. These response times reflect the relative weighting of each Assessment Opportunity.

The Specific Competencies assessed are described below.

***Assessment Opportunity #1** – The candidate explains the Academy's reporting options for program-level presentation of financial information under ASNPO and recommends the most appropriate approach (Financial Reporting – 12 minutes).*

FD-V-1.2 Apply appropriate financial reporting standards for routine transactions, considering varied transaction-specific and/or entity-specific information (e.g., where multiple facts, conditions, or policy choices interact and must be weighed to arrive at the treatment). 2

FD-V-1.3 Explain appropriate financial reporting standards for routine transactions, considering interested party needs. 2

***Assessment Opportunity #2** – The candidate explains and analyzes the accounting issues under ASNPO/ASPE (Financial Reporting – 12 minutes).*

FD-V-1.2 Apply appropriate financial reporting standards for routine transactions. considering varied transaction-specific and/or entity-specific information (e.g., where multiple facts, conditions, or policy choices interact and must be weighed to arrive at the treatment). 2

FD-V-1.3 Explain appropriate financial reporting standards for routine transactions, considering interested party needs. 2

FD-V-3.1 Analyze routine transactions to determine appropriate measurement, including evaluating alternative measurement options where they exist, and analyze the measurement results with professional skepticism. 3

***Assessment Opportunity #3** – The candidate prepares the audit procedures the external auditors will perform for the accounting issues (Assurance and Trust – 12 minutes).*

FD-I-1.3 Prepare applicable procedures to address risks. Consider the nature, timing, and extent of the procedures based on factors such as knowledge of the entity. 2

***Assessment Opportunity #4** – The candidate analyzes the internal control weaknesses and recommends remediation (Assurance and Trust – 12 minutes).*

FD-I-3.2 Analyze the key internal controls that form part of the entity's financial reporting and operational infrastructure. 3

Assessment Opportunity #5 *– The candidate reviews the donations spreadsheet, identifies anomalies and trends, and recommends next steps to the board (Big Data and Data Analytics – 15 minutes).*

CC-II-3.4 Assess the accuracy and dependability of results yielded by the analysis. 4

Assessment Opportunity #6 *– The candidate recommends the metrics the Academy should track and explains why (Non-financial Reporting – 12 minutes).*

CC-VII-3.3 Analyze the correlation between financial and non-financial metrics (including sustainability metrics) to identify trends and impacts on organizational performance. 3

CC-VII-3.4 Analyze appropriateness of reporting options (including sustainability reporting frameworks) to meet organizational and interested-party needs. 3

Assessment Opportunity #7 *– The candidate analyzes a conflict of interest involving a board member's company and recommends measures to strengthen the Academy's governance and control environment (Assurance and Trust – 5 minutes).*

CC-I-3.1 Analyze inconsistencies, unexpected circumstances, unexpected findings, or findings that indicate possible fraud, error, or illegal acts to determine more pervasive implications. 3

FD-I-3.2 Analyze the key internal controls that form part of the entity's financial reporting and operational infrastructure. 3

Assessment Opportunity #8 *– The candidate measures the tax implications of settling an estate and recommends the optimal approach for donating a share portfolio to the Academy (Tax – 15 minutes).*

CC-IX-1.1 Explain routine tax-planning opportunities and their impact. 2

CC-IX-3.1 Measure the impact of routine tax-planning opportunities. 4